

FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, DC 20429

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2005

OR

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

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

FIRST BANK OF DELAWARE

(Exact name of registrant as specified in charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

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

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

19803
(Zip Code)

Issuer's telephone number, including area code: (302) 529-5984

Securities registered pursuant to Section 12(b) of the Act: None.

Securities registered pursuant to Section 12(g) of the Act:

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

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

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

YES X NO

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

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

State Registrant's revenues for the most recent fiscal year. \$13,534,140

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average of the bid and asked prices of such stock, as of February 23, 2006. The aggregate market value of \$17,132,649 was based on the average of the bid and asked prices on the National Association of Securities Dealers Automated Quotation System on February 23, 2006.

APPLICABLE ONLY TO CORPORATE REGISTRANTS

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

Common Stock \$0.05 Par Value
Title of Class

7,590,258
Number of Shares Outstanding as of February 23, 2006

Documents incorporated by reference

Part III incorporates certain information by reference from the Registrant's Proxy Statement for the 2006 Annual Meeting of Shareholders to be held on April 18, 2006.

FIRST BANK OF DELAWARE

Form 10-KSB

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PART I

ITEM 1: DESCRIPTION OF BUSINESS

First Bank of Delaware (“FBD”)

We are a commercial bank chartered pursuant to the laws of the State of Delaware. Our principal office is located at Brandywine Commons II, Concord Pike, Wilmington, Delaware, and our telephone number is (302) 529-5984. As a Delaware chartered bank, we are subject to the regulation and examination of the Delaware State Banking Commissioner. As a state chartered bank which is not a member of the Federal Reserve System, we are also subject to examination and comprehensive regulation by the Federal Deposit Insurance Corporation (“FDIC”). The deposits which are held by us are insured up to applicable limits by the Bank Insurance Fund of the FDIC. We presently conduct our principal business banking activities through our two offices in Wilmington, Delaware. We offer a variety of credit and depository banking services. Our commercial loan services are primarily offered to individuals and businesses in the Delaware area through two offices in New Castle County, Delaware; however, we also make a substantial number of short term consumer loans (112-140 day installment and payday loans) through third party servicers in various states and via the Internet, and we offer tax refund anticipation loans in numerous states. Credit and prepaid card products are also offered nationally, beginning in the third quarter of 2005.

The majority of loan balances resulting from these national products are sold. FBD has one subsidiary, BSC Services Corp. That subsidiary provides operations, accounting, compliance and human resources staffing to FBD and Republic First Bank.

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

As of December 31, 2005, we had total assets of approximately \$82.2 million, total shareholders' equity of approximately \$14.3 million, total deposits of approximately \$62.5 million and net loans receivable of approximately \$51.2 million. Our net income for the year ended December 31, 2005 was \$2.8 million.

Products and Services Offered

General

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

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

We offer a broad range of loan and credit facilities to the businesses and residents of our service area, including secured and unsecured commercial loans and commercial real estate and construction loans. We also have the ability to offer automobile loans, home improvement loans, home equity and overdraft lines of credit, and other products. However, activity in these categories has been minimal, as we have emphasized commercial relationships. We also nationally offer installment loans with terms of 112-140 days, tax refund anticipation loans, and credit and prepaid cards to the underbanked market. We manage credit risk through loan application evaluation and monitoring for adherence with credit policies. Since our inception, we have had a senior officer monitor compliance with our lending policies and procedures.

We also maintain an investment securities portfolio. Investment securities are purchased within standards of our Investment Policies, which are approved annually by our Board of Directors. The Investment Policies address such issues as permissible investment categories, credit quality, maturities, and concentrations. At December 31, 2005, substantially all of the aggregate dollar amount of the investment securities consisted of U.S. Government Agency issued mortgage-backed securities. Credit risk associated with these U.S. Government Agency securities is minimal, with risk-based capital weighting factors of 20%.

Traditional Banking Products and Services

We offer a range of competitively priced commercial and other banking services, including secured and unsecured commercial real estate loans, construction and land development and other commercial loans. We offer both commercial and consumer deposit accounts, including checking accounts, interest-bearing demand accounts, money market accounts, certificates of deposit, savings accounts, sweep accounts, lockbox services and individual retirement accounts (and other traditional banking services). Our commercial loans typically range between \$100,000 and \$1.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit to one borrower of approximately \$4.0 million. Also, individual customers may have several loans often secured by different collateral, which are in total subject to that lending limit.

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

Our lending activities generally are focused on small and medium-sized businesses within the professional community. Commercial and construction loans are the most significant category of our outstanding loans, representing 94.2% of total loans outstanding at December 31, 2005. Repayment of these loans is, in part, dependent on general economic conditions affecting the community and the various businesses within the community. Although our management continues to follow established underwriting policies and monitors loans through our loan review officer, credit risk is still inherent in the portfolio.

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

National Consumer Products

FBD offers a variety of products on a national basis to the un-banked and under-banked segment of the population. These products include subprime loan products, tax refund products and prepaid cards. Until June 30, 2006, our products will be generally offered through unaffiliated third party marketers and servicers. By June 30, 2006, FBD will cease offering payday loans and will primarily offer its subprime products directly through the internet. As in the past, we will sell substantially all such loans on a non-recourse basis in the secondary market.

Prepaid Cards

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

Credit Card Products

In 2005, FBD became an issuing bank for certain credit card programs targeted principally to the subprime market. FBD originates credit card receivables and sells the majority of such receivables into the secondary market. FBD has partnered with unaffiliated third party marketers and servicers who perform customer service, marketing, processing services and collections related to the accounts. FBD earns a monthly fee for each active account. At December 31, 2005 FBD had \$226,000 of credit card receivables on its books.

Tax Refund Anticipation Products

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

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

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

In 2005, these two products generated approximately \$1.6 million of revenue for FBD. While we are attempting to increase market penetration of these products, there can be no assurance that revenue levels will increase significantly in 2006 or thereafter.

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

FBD currently offers two types of short-term unsecured consumer loans, payday loans and installment loans.

Payday loans are small-denomination unsecured advances of \$1,500 or less, typically payable on the consumer's next pay date (approximately 2 weeks). Our customers are typically middle-income individuals who are employed. A customer with an active checking account, valid identification and a regular source of income will supply a personal check for the advance amount plus a fee. After executing a loan agreement, the customer is then provided a check or voucher for the loan proceeds. At the end of the loan term, the customer's check is deposited or the customer returns with cash to reclaim the check. We charge a fixed fee that approximates 17% per \$100 borrowed. A two-week loan carries an annual percentage rate of approximately 440%. We announced on February 21, 2006 that we intend to cease making payday loans at a date which will be determined.

Installment loans are fully amortizing unsecured loans of \$2,000 or less with a term of approximately 112 to 140 days and have anywhere between 4 and 10 schedule repayments. Customers must have an active checking account, valid identification and a regular source of income. In addition, customer must meet additional credit underwriting criteria which include FICO and debt to income thresholds. Upon approval, a customer is then provided a loan agreement, which he or she signs, and is then provided a check or voucher for the loan proceeds. Principal and interest payments are due approximately every two weeks. Customers may repay their loans at the store where the loan was obtained or in some cases may repay via ACH from their bank account. These loans carry an interest rate of approximately 390%.

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

Until June 30, 2006, short term consumer loans will be offered through unaffiliated third party marketers and servicers with whom we contract and who own the stores at which the loans are marketed. These marketers and servicers process applications and also provide customer service. However, we make all credit decisions prior to our making the loan. We contract with these marketers and servicers after we perform our due diligence with respect to them. By June 30, 2006, FBD will cease offering payday loans and will primarily offer its subprime products directly through the internet. As in the past, we will sell substantially all such loans on a non-recourse basis in the secondary market.

We sell the majority of our short term consumer loans or interests therein to third party investors. These third party buyers are investors or investment groups familiar with the industry. These loans are sold on a non-recourse basis and the investors bear the risk of loss for any defaults on these loans. We retain most of the income on these sold loans, which is recorded as non-interest income. We also retain some of the loans we originate. Income on these retained loans is recorded as interest income. Per our internal guidelines, we hold up to 25% of our capital in these loans at any one time. We currently originate loans in various states, and via the Internet/Telephone, which are mostly sold to third parties. At December 31, 2005, there were approximately \$20.0 million of such loans outstanding of which \$2.8 million was retained on the bank's books.

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

Service Area/Market Overview

Our primary business banking service area consists of northern Delaware. Additionally, we make short-term loans in Washington, Michigan, California, Ohio, Texas, Arkansas, Pennsylvania and other states, and via the Internet. Credit and prepaid card products are offered nationally. We also make tax refund loans in numerous states.

Competition

There is substantial competition among financial institutions in our business banking service area. We compete with new and established local commercial banks, as well as numerous regionally based and super-regional commercial banks. In addition to competing with new and established commercial banking institutions for both deposits and loan customers, we compete directly with savings banks, savings and loan associations, finance companies, credit unions, factors, mortgage brokers, insurance companies, securities brokerage firms, mutual funds, money market funds, private lenders and other institutions for deposits, commercial loans, mortgages and consumer loans, as well as other services.

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

Many of the banks with which we compete have greater financial resources than we do and offer a wider range of deposit and lending instruments with higher legal lending limits. Our legal lending limit was approximately \$2.4 million for unsecured loans and \$4.0 million for adequately secured loans, at December 31, 2005. As a result, we sell participations in larger loans. We are subject to potential intensified competition from new branches of established banks in the area as well as new banks that could open in our market area. New banks with business strategies similar to those of FBD represent potentially additional competitor Banks. There are banks and other financial institutions, which serve surrounding areas, and additional out-of-state financial institutions, which currently, or in the future, may compete in our market.

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

Operating Strategy for Business Banking

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

Providing Attentive and Personalized Service

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

Attracting and Retaining Highly Experienced Personnel

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

Operating Strategy

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

Branch Expansion Plans

We have not made any specific commitments for expansion of our branch network.

Supervision and Regulation

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

General

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

The FDIC is the only federal banking agency that currently permits depository institutions under its supervision to be involved in payday lending. While it has issued guidelines articulating its position that state banks may engage in payday lending, subject to specified constraints designed to preserve the safety and soundness of their activities, there can be no guarantee that the FDIC will continue to permit state banks to engage in payday and short term installment lending and/or that the FDIC will not tighten its guidelines to a point where it is not economically or practically feasible to continue participating in such lending. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Development”.

Gramm-Leach-Bliley Act

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

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

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

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

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

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

Sarbanes-Oxley Act of 2002

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

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

Boards of directors are now required to have a majority of independent directors, and audit committees are required to be wholly independent, with greater financial expertise. Such independent directors are not allowed to receive compensation from the company on whose board they serve except for directors’ fees. Additionally, requirements for auditing standards and independence of external auditors were increased and included independent audit partner review, audit partner rotation, and limitations over non-audit services. Penalties for non-compliance with existing and new requirements were established or increased.

In addition, Section 404 of SOX currently requires that by the end of 2006, our management perform a detailed assessment of internal controls and report thereon as follows:

- (1) We must state that we accept the responsibility for maintaining an adequate internal control structure and procedures for financial reporting;
- (2) We must present an assessment, as of the end of the December 31, 2006 fiscal year, of the effectiveness of the internal control structure and procedure for our financial reporting; and
- (3) We must have our auditors attest to, and report on, the assessment made by management. The attestation must be made in accordance with standards for attestation engagements issued or adopted by the Public Company Accounting Oversight Board.

We have taken necessary steps with respect to achieving compliance.

Regulatory Restrictions on Dividends

Dividend payments are limited by the FDIC and the Delaware State Banking Commissioner. Under the Federal Deposit Insurance Act, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, we would be limited to \$9.0 million of dividends, plus an additional amount equal to our net profit for 2006, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios since state and federal regulatory authorities have adopted standards for the maintenance of adequate levels of capital by banks. State and Federal regulatory authorities have additional standards for the maintenance of capital levels. Adherence to such standards further limit our ability to pay dividends

Dividend Policy

We have not paid any cash dividends but may consider dividend payments in 2006.

FDIC Insurance Assessments

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

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

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

Capital Adequacy

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

In addition to the risk-based capital guidelines, the FDIC has established minimum leverage ratio (Tier 1 capital to average total assets) guidelines for banks under its supervision. These guidelines provide for a minimum leverage ratio of 3% for those banks that have the highest regulatory examination ratings and are not contemplating or experiencing significant growth or expansion. All other banks are required to maintain a leverage ratio of at least 1% to 2% above the 3% stated minimum. We are in compliance with these guidelines.

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

Interstate Banking

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

Interstate bank mergers and branch purchase and assumption transactions were allowed effective September 1, 1998; however, states may "opt-out" of the merger and purchase and assumption provisions by enacting a law that specifically prohibits such interstate transactions. States could, in the alternative, enact legislation to allow interstate merger and purchase and assumption transactions prior to September 1, 1999. States could also enact legislation to allow for de novo

interstate branching by out of state banks but such branching is not allowed absent express state authorization. Pennsylvania allows de novo interstate branching on a reciprocal basis and Delaware does not allow de novo interstate branching.

Profitability, Monetary Policy and Economic Conditions

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

ITEM 2: DESCRIPTION OF PROPERTIES

We have a land lease on approximately 2,000 sq. feet of ground at Concord Pike and Rocky Run Pkwy, Brandywine Hundred, Delaware for our branch operations and headquarters. We opened for business on June 1, 1999. The initial ten-year term of the lease expires in December 2008 and contains two five-year options to renew the lease. The annual rent for such location is \$79,942, payable in monthly installments.

We have a lease for approximately 2,850 square feet on the first floor of the Stoney Batter Office Complex located at 5301 Limestone Road, Suite 106, Wilmington, Delaware. This space contains a loan production office, administrative offices, and a branch, which opened on September 27, 2004. The lease is for an initial seven-year term with options to renew for three additional five-year terms. The annual rent for the location is \$68,484, payable in monthly installments.

ITEM 3: LEGAL PROCEEDINGS

We are currently a defendant in a lawsuit, which, if successful, will not adversely affect our financial condition. We were named as a cross defendant in a lawsuit against Santa Barbara Bank. The case, *Canieva Hood v. Santa Barbara Bank & Trust*, was filed on October 12, 2004 in the Superior Court of the State of California for the County of Santa Barbara. Santa Barbara Bank was sued in a class action lawsuit concerning the cross collection agreements between various lenders who participate in tax refund anticipation loans.

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

Available Information

We maintain a website at www.fbdel.com. We will make available free of charge any reports we file with the FDIC on our website as soon as practicable after such reports are filed with the FDIC.

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

Not applicable.

PART II

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

Market Information

We were spun-off by Republic effective January 31, 2005. Since the spin-off, our common stock has been quoted on the Over-the-Counter ("OTC") Bulletin Board under the symbol "FBOD.OB." Until January 31, 2005 and for all prior years, all of our stock was held by Republic and was not listed for trade on any securities exchange. On February 24, 2006, the closing price of our common stock was \$2.50 per share.

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

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

As of February 24, 2006, we had approximately 1,586 shareholders on record.

Dividend Policy

We have not paid any cash dividends on our common stock. We may consider paying dividends in 2006; however, the payment of dividends in the future will depend upon earnings, capital levels, cash requirements, our financial condition, applicable government regulations and policies and other factors deemed relevant by our Board of Directors. See "Description of our Business—Supervision and Regulation—Regulatory Restrictions on Dividends."

SELECTED FINANCIAL DATA

The following table sets forth certain selected financial data of FBD, which have been derived from the consolidated financial statements of FBD for each of the five years in the period ended December 31, 2005. The historical information may not be indicative of our future performance as an independent company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Results of Operations and Financial Condition," the financial statements and the notes thereto and the pro forma financial information included elsewhere in this document.

(Dollars in thousands, except per share data)	As of or for the Years Ended December 31,				
	2005	2004	2003	2002	2001
INCOME STATEMENT DATA:					
Total interest income	\$6,681	\$3,994	\$2,677	\$2,539	\$2,542
Total interest expense	1,090	444	504	857	1,366
Net interest income	5,591	3,550	2,173	1,682	1,176
Provision for loan losses	1,858	1,463	937	260	192
Non-interest income	6,853	8,184	6,812	2,849	2,108
Non-interest expenses	6,368	5,211	4,608	3,009	2,176
Federal income taxes	1,449	1,710	1,217	462	302
Net income	\$2,769	\$3,350	\$ 2,223	\$800	\$614
PER SHARE DATA (1)					
Basic earnings per share	\$ 0.38	\$ 0.46	\$ 0.31	\$ 0.12	\$ 0.09
Diluted earnings per share	0.36	0.44	0.30	0.11	0.09
Book value per share	1.90	1.57	1.12	0.86	0.74
BALANCE SHEET DATA					
Total assets	\$82,176	\$58,608	\$44,537	\$43,765	\$37,826
Total loans, net	51,238	39,914	27,032	28,630	24,588
Total investment securities	807	1,207	1,852	2,578	142
Total deposits	62,543	37,713	33,247	34,727	29,857
Total shareholders' equity	14,301	11,396	8,060	5,864	5,001
PERFORMANCE RATIOS					
Return on average assets	3.80%	6.15%	4.12%	1.90%	1.78%
Return on average shareholders' equity	20.65	33.93	33.01	13.86	12.25
Net interest margin	8.58	7.75	5.42	4.35	3.90
Total non-interest expenses as a percentage of average assets	8.74	9.57	8.54	7.17	6.31
ASSET QUALITY RATIOS					
Allowance for loan losses as a percentage of loans	3.18%	2.56%	4.75%	1.93%	1.46%
Allowance for loan losses as a percentage of non-performing loans	850.5	686.27	250.09	334.91	228.05
Non-performing loans as a percentage of total loans	0.37	0.37	1.90	0.57	0.64
Non-performing assets as a percentage of total assets	0.24	0.26	1.22	0.38	0.43
Net charge-offs as a percentage of average loans, net	2.55	5.21	0.45	0.26	0.34
LIQUIDITY AND CAPITAL RATIOS					
Average equity to average assets	18.41%	18.14%	12.49%	13.76%	14.55%
Leverage ratio	18.69	20.56	16.55	13.94	12.74
Tier 1 capital to risk-weighted assets	25.11	25.01	27.76	21.33	21.87
Total capital to risk-weighted assets	26.38	26.27	29.06	22.59	23.13

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

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

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

Certain statements in this document may be considered to be "forward-looking statements" as that term is defined in the U.S. Private Securities Litigation Reform Act of 1995, such as statements that include the words "may," "could," "will," "likely," "believes," "expect," "estimate," "project," "anticipate," "should," "would," "intend," "probability," "risk," "target," "objective" and similar expressions or variations on such expressions. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. For example, risks and uncertainties can arise with changes in: general economic conditions, including their impact on capital expenditures; business conditions in the financial services industry; the regulatory and litigation environment, including additional restrictions on short term consumer loans and other products and evolving banking industry standards; rapidly changing technology and competition with community, regional and national financial institutions; new service and product offerings by competitors, price pressures; and similar items. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We undertake no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances that arise after the date hereof. Readers should carefully review the risk factors described in other documents filed by us from time to time with the FDIC, including the companies annual report on Form 10KSB for the year ended December 31, 2005, quarterly reports on Form 10QSB and current reports on Form 8KSB.

Critical Accounting Policies

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

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

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

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

We account for income taxes under the liability method of accounting. Deferred tax assets and liabilities are established for the temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at the tax rates expected to be in effect when the temporary differences are realized or settled. In addition, a deferred tax asset is recorded to reflect the future benefit of net operating loss carry forwards. The deferred tax assets may be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fees earned on payday loans that are not sold are recorded as interest income. By the end of loan terms, which are generally two weeks, the full amount of the related interest income is earned. Because of the relatively short terms, such loans and related interest are charged off sixty days after the due date, if the loan is delinquent, precluding the need to place such loans on non-accrual status. At December 31, 2005, there were approximately \$817,000 of these loans outstanding.

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

The majority of short term consumer loans (both payday and installment loans) are sold to third parties. We record fees on sold loans as non-interest income. We had total short-term loan participations sold of \$17.2 million at December 31, 2005, which consisted of payday loans of \$2.3 million and installment loans of \$14.9 million. We evaluated these sales and determined that they qualified as such under SFAS No. 140.

Recent Developments

FDIC Payday Guidelines

FBD ceased offering payday loans in California, Ohio, and Arizona and significantly reduced its volumes in Texas in the third quarter of 2005 reflecting a change in FDIC guidelines. The cessation of such loans in these states materially adversely impacted earnings. As previously announced, revised guidelines for payday lending issued by the FDIC became effective July 1, 2005. Among other provisions, the revised guidelines limit each payday loan borrower to have payday loans outstanding for no more than three months in a twelve month period. As a result of these guidelines, First Bank of Delaware stopped offering payday loans to customers who have had payday loans outstanding for three months or more in any twelve month period.

FBD began offering installment loans in Texas, Arkansas and Pennsylvania through new marketers in the third quarter of 2005. FBD also began offering installment loans through existing marketers in California, Pennsylvania, Ohio, Washington and North Carolina in the third quarter and fourth quarter of 2005.

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

The revised guidelines issued by the FDIC have had a material adverse effect on the financial results of FBD.

On February 17, 2006 FBD received a letter from the FDIC indicating that the Agency in its examination of banks using third parties to service payday and installment loans had found deficiencies in their expectations concerning oversight of those loan products by FBD. The letter further indicated that because of perceived reputational, compliance and legal risks FBD should exit payday loan and installment loan businesses. The letter further stated that if FBD determines to continue the loan program we should notify the FDIC and provide it with information as to how we can correct identified problems.

On February 21, 2006, FBD issued a press release stating that we have determined to cease offering payday loans on a date to be determined. FBD also advised that it will be meeting with the FDIC to address the problems identified in the FDIC's letter and changes in the installment loan program which the Board of Directors believes will satisfy all matters raised in the letter. There can, however, be no assurance that FBD will be able to offer installment loans in a manner acceptable to the FDIC.

Until June 30, 2006, short term consumer loans will be offered through unaffiliated third party marketers and servicers with whom we contract and who own the stores at which the loans are marketed. These marketers and servicers process applications and also provide customer service. However, we make all credit decisions prior to our making the loan. We contract with these marketers and servicers after we perform our due diligence with respect to them. By June 30, 2006, FBD will cease offering payday loans and will primarily offer its subprime products directly through the internet. As in the past, we will sell substantially all such loans on a non-recourse basis in the secondary market.

Results of Operations for the years ended December 31, 2005 and 2004

Overview

Our net income decreased \$581,000, or 17.34%, to \$2.8 million for the year ended December 31, 2005, compared to \$3.4 million for the prior year. The decrease reflected a \$1.8 million decrease in fee income resulting from the decrease in volume of payday loans sold (see "Recent Developments" above). Additionally, non-interest expenses grew by \$1.2 million, reflecting increased costs of the national consumer products, including costs associated with the new loan and card products. Partially, offsetting those amounts was a \$1.1 million increase in payday and installment loan interest in income reflecting higher balances of loans retained. Commercial loan interest income increased \$1.2 million, reflecting higher average balances and the higher rate environment. Interest expense increased only approximately \$646,000. Reflecting the above changes, diluted earnings per share decreased to \$.36 in 2005 from \$.44 in 2004.

Analysis of Net Interest Income

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

Analysis of Net Interest Income

	Interest			Interest			Interest		
	Average	Income/	Yield/	Average	Income/	Yield/	Average	Income/	Yield/
	Balance	Expense	Rate (1)	Balance	Expense	Rate (1)	Balance	Expense	Rate (1)
	For the Year			For the Year			For the Year		
	Ended			Ended			Ended		
	December 31, 2005			December 31, 2004			December 31, 2003		
(Dollars in thousands)									
Interest-earning assets:									
Federal funds sold and other									
interest-earning assets.....	\$16,261	\$481	2.96%	\$10,215	\$119	1.17%	\$6,635	\$78	1.18%
Investment securities	986	55	5.58%	1,509	85	5.64%	2,281	123	5.40%
Loans receivable	47,916	6,145	12.83%	34,089	3,790	11.12%	31,110	2,476	7.96%
Total interest-earning assets.....	<u>65,163</u>	<u>6,681</u>	<u>10.26%</u>	<u>45,813</u>	<u>3,994</u>	<u>8.72%</u>	<u>40,026</u>	<u>2,677</u>	<u>6.69%</u>
Other assets.....	7,663			8,621			13,877		
Total assets	<u>\$72,826</u>			<u>\$54,434</u>			<u>\$53,903</u>		
Interest-bearing liabilities:									
Demand – non-interest									
Bearing	\$13,987	-	-	\$11,407	-	-	\$12,386	-	-
Demand – interest-bearing.....	385	1	0.26%	849	2	0.24%	861	4	0.47%
Money market & savings.....	23,031	568	2.47%	20,431	290	1.42%	14,356	127	0.89%
Time deposits.....	<u>15,592</u>	<u>521</u>	<u>3.35%</u>	<u>6,953</u>	<u>152</u>	<u>2.19%</u>	<u>12,884</u>	<u>368</u>	<u>2.86%</u>
Total deposits	<u>52,995</u>	<u>1,090</u>	<u>2.06%</u>	<u>39,640</u>	<u>444</u>	<u>1.12%</u>	<u>40,487</u>	<u>499</u>	<u>1.24%</u>
Total interest-									
bearing deposits	<u>39,008</u>	<u>1,090</u>	<u>2.80%</u>	<u>28,233</u>	<u>444</u>	<u>1.58%</u>	<u>28,101</u>	<u>499</u>	<u>1.78%</u>
Other borrowings.....	<u>2</u>	<u>-</u>	<u>-</u>	<u>26</u>	<u>-</u>	<u>-</u>	<u>563</u>	<u>5</u>	<u>0.89%</u>
Total interest-bearing									
liabilities	<u>39,010</u>	<u>1,090</u>	<u>2.80%</u>	<u>28,259</u>	<u>444</u>	<u>1.58%</u>	<u>28,664</u>	<u>504</u>	<u>1.76%</u>
Total deposits and									
other borrowings.....	<u>52,997</u>	<u>1,090</u>	<u>2.06%</u>	<u>39,666</u>	<u>444</u>	<u>1.12%</u>	<u>41,050</u>	<u>504</u>	<u>1.23%</u>
Non-interest-bearing									
Other liabilities	6,421			4,896			6,119		
Shareholders' equity	<u>13,408</u>			<u>9,872</u>			<u>6,734</u>		
Total liabilities and									
Shareholders' equity.....	<u>\$72,826</u>			<u>\$54,434</u>			<u>\$53,903</u>		
Net interest income		<u>\$5,591</u>			<u>\$3,550</u>			<u>\$2,173</u>	
Net interest spread			<u>7.46%</u>			<u>7.14%</u>			<u>4.93%</u>
Net interest margin (2).....			<u>8.58%</u>			<u>7.75%</u>			<u>5.42%</u>

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

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

Rate/Volume Analysis of Changes in Net Interest Income

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

(Dollars in thousands)	Year ended December 31, 2005 vs. 2004			Year ended December 31, 2004 vs. 2003		
	Change due to			Change due to		
	Average Volume	Average Rate	Total	Average Volume	Average Rate	Total
Interest earned on:						
Federal funds sold and other Interest-earning assets	\$ 179	\$ 184	\$ 363	\$ 42	\$ (1)	\$ 41
Securities	(29)	(2)	(31)	(43)	5	(38)
Loans	1,773	582	2,355	331	983	1,314
Total interest earning assets	\$ 1,923	\$ 764	\$ 2,687	\$ 330	\$ 987	\$ 1,317
Interest expense of						
Deposits						
Interest-bearing demand deposits	\$ -	\$ 1	\$ 1	\$ -	\$ 2	\$ 2
Money market and savings	(64)	(214)	(278)	(86)	(77)	(163)
Time deposits	(289)	(80)	(369)	130	86	216
Total deposit interest expense	(353)	(293)	(646)	44	11	55
Other borrowings	-	-	-	-	5	5
Total interest expense	(353)	(293)	(646)	44	16	60
Net interest income	\$ 1,570	\$ 471	\$ 2,041	\$ 374	\$ 1,003	\$ 1,377

Net Interest Income

Our net interest margin increased from 7.75% to 8.58% for the year ended December 31, 2005, versus the prior year. The improvement reflected increased balances of higher rate installment and payday loans and increased core deposits. In 2005, short-term consumer loans contributed 4.46% of the total 8.58% net interest margin, compared to 3.48% in 2004. Accordingly, margins excluding short-term loans were 4.12% in 2005 and 4.27% in 2004. The decrease reflected an increase in yields on interest bearing deposits which exceeded the increase in loan yields. Also, in 2005 there was a higher proportion of higher rate time deposits than the previous year.

Our total interest income increased \$2.7 million, or 67.3%, to \$6.7 million for the year ended December 31, 2005, from \$4.0 million for the prior year. As shown in the Rate Volume table above, the increase in net interest income reflected the \$1.8 million positive effect of increased loan volume.

Interest on loans increased \$2.3 million or 62.1% to \$6.1 million in 2005 from \$3.8 million in 2004. The \$2.3 million increase in interest on loans reflected an increase in commercial loan interest of \$1.2 million to \$3.0 million in 2005 from \$1.8 million in 2004. As a result of more retained short term consumer loans, related interest income increased \$1.1 million between those periods. Average loans increased to \$47.9 million in 2005 from \$34.1 million in 2004. The \$13.8 million increase primarily represented an increase in commercial loans. Average short-term consumer loans outstanding increased to \$2.6 million in 2005 from \$1.6 million in 2004. Yields on commercial loans rose in 2005, due to the rising rate environment that existed for the majority of that year.

Interest and dividend income on investment securities decreased \$30,000, or 35.3%, to \$55,000 for 2005, from \$85,000 for the prior year. This decline was due principally to the \$523,000, or 34.6%, decrease in average investment securities outstanding to \$986,000 at December 31, 2005 from \$1.5 million in 2004.

Interest income on federal funds sold and other interest-earning assets increased \$362,000, or 304.2%, as average federal funds sold outstanding increased \$6.0 million in 2005 to \$16.3 million. In addition, the average rate earned on these balances increased 179 basis points to 2.96% reflecting the higher interest rate environment.

Our total interest expense increased \$646,000, or 145.5%, to \$1.1 million for the year ended December 31, 2005, from \$444,000 for the prior year. The increase reflected the \$10.8 million or 38.2% growth in 2005 of interest bearing deposits. It also reflected the higher rate environment as a result of which the average rate on interest bearing deposits increased to 2.80% from 1.58%. Interest-bearing liabilities averaged \$39.0 million for the year ended December 31, 2005, versus \$28.3 million for the prior year. The average rate paid on interest-bearing was comparable to that of interest bearing deposits, as borrowings continue to be de minimus.

Interest expense on time deposits (certificates of deposit) increased \$369,000, or 242.8%, to \$521,000 for 2005, from \$152,000 for the prior year. The majority of the increase resulted from average certificates of deposit increasing \$8.6 million, or 124.3%, to \$15.6 million, for 2005, from \$7.0 million in the prior year. This increase also reflected the higher interest rate environment which existed for the majority of the year, as the average rate on certificates of deposit increased to 3.35% in 2005 from 2.19% in 2004.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses increased \$395,000 to \$1.9 million for the year ended December 31, 2005, from \$1.5 million for the prior year. The majority of this increase resulted from additional provisions for short term consumer loans, as greater balances were retained in 2005, compared to the prior year.

Non-Interest Income

Total non-interest income decreased \$1.3 million, or 16.3%, to \$6.9 million for the year ended December 31, 2005, versus \$8.2 million for the prior year due primarily to a reduction of \$1.8 million in payday loan fees reflecting lower volumes of loans originated and sold due to the new FDIC guidelines on payday loans effective July 1, 2005. A \$275,000 increase in fees on tax refund products reflected increases in volume. FBD also earned \$223,000 in revenue in 2005 from its prepaid and credit card products which were introduced in the third quarter of 2005.

Non-Interest Expenses

Total non-interest expenses increased \$1.2 million, or 22.2% to \$6.4 million for the year ended December 31, 2004, from \$5.2 million for the prior year. Salaries and employee benefits increased \$1.1 million, or 44.6%, to \$3.5 million for the year ended December 31, 2005, from \$2.4 million for the prior year. Of that increase, approximately \$258,000 represented salaries for services performed in the prior year by an affiliate, prior to FBD's spin-off. The balance of the increase reflected increases related to staffing for the payday loan products, and for the development of new products. Those products include short term installment loans, credit and prepaid cards, and other loan products.

Occupancy expense increased \$70,000 to \$296,000 in 2005 from \$226,000 in 2004, an increase of 31.0%, reflecting expansion of rental space to support growth related to new products.

Depreciation expense decreased \$124,000, or 31.7% to \$267,000 for the year ended December 31, 2005, versus \$391,000 for the prior year. Substantially all of the decrease resulted from a write-off of tax program software in 2004.

Legal fees decreased \$39,000, or 8.9% to \$401,000 for the year ended December 31, 2005, from \$440,000 for the prior year. Increases in expenses in 2005 related to the spin-off of FBD in that year, were more than offset by reductions in legal fees related to payday, installment, tax refund loans and new products.

Advertising expense increased \$25,000, or 64.1% to \$64,000 in 2005, from \$39,000 for the prior year reflecting fourth quarter 2005 newspaper advertising expense for a deposit promotion.

Data processing and operational expense decreased \$181,000, or 34.7%, in 2005, to \$341,000 from \$522,000 in the prior year. The decrease reflected lower payday and tax refund loan outsourcing expense of \$258,000 in 2005 as staff was added to FBD in that year. Related expense for such additional staff is reflected in salaries and benefits. That \$258,000 decrease was partially offset by additional expense resulting from the outsourcing of check processing.

Audit expense decreased \$33,000, or 23.9%, in 2005, to \$105,000 from \$138,000 in the prior year reflecting reduced audit fees.

Delaware franchise tax decreased \$47,000, or 17.5%, in 2005, to \$222,000 primarily as a result of decreased taxable income.

Other operating expenses increased \$396,000, or 53.4% to \$1.1 million for the year ended December 31, 2005, from \$741,000 for the prior year. That increase reflected a \$77,000 increase in insurance expense reflecting higher rates, a \$73,000 increase in travel expense related to new products and auditing of existing products and a \$63,000 increase in staff acquisition fees for the nationally offered loan and card products.

Provision for Income Taxes

The provision for income taxes decreased \$261,000 to \$1.4 million for the year ended December 31, 2005, from \$1.7 million for the prior year. This decrease was primarily the result of the decrease in pre-tax income. The effective tax rate approximated the statutory rate of 34% in both years.

Results of Operations for the years ended December 31, 2004 and 2003

Overview

Our net income increased \$1.1 million, or 50.7% to \$3.4 million for the year ended December 31, 2004, compared to \$2.2 million for the prior year. The improvement in earnings reflected increases resulting from increased balances of commercial and payday loans and lower cost core deposits loans.

As a result of an increase in short-term consumer loans retained on the balance sheet, interest income increased by \$1.3 million to \$4.0 million in 2004, from \$2.7 million in 2003. As a result primarily of increases in the volume of payday loans made and subsequently sold, related non-interest income, increased by \$450,000 to \$6.6 million in 2004, from \$6.1 million in 2003. However a significant amount of those increases in income was offset by related non-interest expense, which increased \$603,000 between those two respective years. Approximately half of that increase in non-interest expense was related to the short-term consumer loan product.

Net Interest Income

Our net interest margin increased from 5.42% to 7.75% for the year ended December 31, 2004, versus the prior year. The improvement reflected increased balances of higher rate payday loans, the repricing of certificates of deposit to lower rates and increased core deposits, which more than offset the impact of lower yields on commercial loans. In 2004, payday loans contributed 3.48% of the total 7.75% net interest margin, compared to 1.19% in 2003. Accordingly, margins excluding short-term loans were 4.27% in 2004 and 4.23% in 2003, which were comparable. Average lower rate core deposits, which are comprised of demand, money market and savings accounts, increased to \$32.7 million in 2004 from \$27.6 million in 2003, while average higher cost certificates of deposit (time deposits), decreased to \$7.0 million in 2004 from \$12.9 million in 2003. The increase in volume and rate for loans in the above Rate/Volume table reflected the expansion of our payday loan portfolio as we added several marketers and additional states compared to the prior year and retained more of these loans.

Our total interest income increased \$1.3 million, or 49.2%, to \$4.0 million for the year ended December 31, 2004, from \$2.7 million for the prior year. In the Rate Volume table above, the increase in net interest income reflected the positive effect of relatively higher rate payday loan yields.

Interest on loans increased \$1.3 million or 53.1% to \$3.8 million in 2004 from \$2.5 million in 2003. That \$1.3 million increase reflected an increase in payday loan interest of \$1.4 million to \$1.9 million in 2004 from \$477,000 in 2003. Average loans increased to \$34.1 million in 2004 from \$31.1 million in 2003. The \$3.0 million increase primarily represented an increase in commercial loans. Average payday loans outstanding increased to \$1.6 million in 2004 from \$1.1 million in 2003. Yields on commercial loans fell in 2004, due to the lower rate environment that existed for the majority of that year.

Interest and dividend income on investment securities decreased \$38,000, or 30.9%, to \$85,000 for 2004, from \$123,000 for the prior year. This decline was due principally to the \$772,000, or 33.8%, decrease in average investment securities outstanding to \$1.5 million at December 31, 2004.

Interest income on federal funds sold and other interest-earning assets increased \$41,000, or 52.6%, as average federal funds sold outstanding increased \$3.6 million in 2004 to \$10.2 million.

Our total interest expense decreased \$60,000, or 11.9%, to \$444,000 for the year ended December 31, 2004, from \$504,000 for the prior year, as we repriced certificates of deposit lower. The decrease also reflected the 18.4% growth in 2004 of lower cost average core deposits, which resulted in reductions in higher cost certificates of deposit. Interest-bearing liabilities averaged \$28.3 million for the year ended December 31, 2004, versus \$28.7 million for the prior year. The average rate paid on interest-bearing liabilities decreased to 1.58% for 2004, compared to 1.76% for the prior year, reflecting those factors.

Interest expense on time deposits (certificates of deposit) decreased \$216,000, or 58.7%, to \$152,000 for 2004, from \$368,000 for the prior year. This decline reflected the lower interest rate environment which existed for the majority of the year, as the average rate on certificates of deposit declined 0.67% to 2.19%. In addition, average certificates of deposit outstanding decreased \$5.9 million, or 46.0%, to \$7.0 million, for 2004, from \$12.9 million in the prior year, as higher cost time deposits matured and were not replaced due to the 18.4% growth in core deposits.

Provision for Loan Losses

The provision for loan losses is charged to operations in an amount necessary to bring the total allowance for loan losses to a level that reflects the known and estimated inherent losses in the portfolio. The provision for loan losses increased \$526,000 to \$1.5 million for the year ended December 31, 2004, from \$937,000 for the prior year. The majority of this increase resulted from additional provisions for payday loans, as greater balances were held in 2004.

Non-Interest Income

Total non-interest income increased \$1.4 million, or 20.1%, to \$8.2 million for the year ended December 31, 2004, versus \$6.8 million for the prior year due primarily to increased fees on tax refund products and payday loans sold to third parties. That \$1.4 million increase resulted primarily from increases in tax refund and payday loan fees. An \$885,000 increase in fees on tax refund products reflected increases in volume. A \$450,000 increase in payday fees also reflected increased volume for additional loans generated in Texas, Michigan, Arizona, California, Ohio and other states, and via the Internet, which were subsequently sold.

Non-Interest Expenses

Total non-interest expenses increased \$603,000, or 13.1% to \$5.2 million for the year ended December 31, 2004, from \$4.6 million for the prior year. Salaries and employee benefits increased \$128,000, or 5.5%, to \$2.4 million for the year ended December 31, 2004, from \$2.3 million for the prior year. That increase reflected annual merit increases targeted at 3% and staffing increases related to payday and tax refund products.

Occupancy expense increased \$36,000 to \$226,000 in 2004 from \$190,000 in 2003, an increase of 18.9%, reflecting expansion of rental space to support growth related to the payday and tax refund loan products.

Depreciation expense increased \$76,000, or 24.1% to \$391,000 for the year ended December 31, 2004, versus \$315,000 for the prior year. The increase reflected higher depreciation on computer software for the tax refund anticipation loan product.

Legal fees increased \$227,000, or 106.6% to \$440,000 for the year ended December 31, 2004, from \$213,000 for the prior year. This increase reflected expenses incurred as a result of our spin-off from Republic.

Advertising expense was maintained at modest levels and amounted to \$39,000 in 2004.

Data processing and operational expense decreased \$210,000, or 28.7%, in 2004, to \$522,000. The decrease reflected lower tax refund and payday related outsourcing expense, as staff was added to FBD. Related expense for such additional staff is reflected in salaries and employee benefits.

Audit expense increased \$11,000, or 8.7%, to 2004, to \$138,000 reflecting audit services related to the payday loan product.

Delaware franchise tax increased \$96,000, or 55.5%, in 2004, to \$269,000 primarily as a result of increased taxable income.

Other operating expenses increased \$229,000, or 44.7% to \$741,000 for the year ended December 31, 2004, from \$512,000 for the prior year. That increase reflected \$78,000 more in directors' fees resulting from the increased number of

meetings and rates reflecting changes in regulations. It also reflected a \$55,000 increase related to strategic planning including the payday loan product.

Provision for Income Taxes

The provision for income taxes increased \$493,000 to \$1.7 million for the year ended December 31, 2004, from \$1.2 million for the prior year. This increase was primarily the result of the increase in pre-tax income.

Financial Condition

December 31, 2005 Compared to December 31, 2004

Total assets increased \$23.6 million to \$82.2 million at December 31, 2005, versus \$58.6 million at December 31, 2004. The majority of total assets were comprised of commercial loans, and growth in that portfolio resulted in the majority of that \$23.6 million increase.

Loans:

Our loan portfolio, which represents our largest asset, is our most significant source of interest income. Our commercial loan lending strategy is to focus on small and medium sized businesses and professionals that seek highly personalized banking services. We also offer installment, payday, credit card, and tax refund loans. Total loans increased \$12.0 million, or 29.2%, to \$52.9 million at December 31, 2005, versus \$41.0 million at December 31, 2004. The loan portfolio consists of commercial real estate, construction and other commercial loans as well as short term consumer loans. Commercial real estate and construction loans comprise the majority of our loan portfolio. Commercial real estate loans amounted to \$36.3 million at December 31, 2005 compared to \$29.4 million at the prior year-end. Construction and land development loans amounted to \$13.6 million and \$9.9 million respectively, at those dates. At December 31, 2005, we had \$2.8 million in short term consumer loans outstanding versus \$1.6 million at December 31, 2004.

Investment Securities:

Investment securities available-for-sale are investments, which may be sold in response to changing market and interest rate conditions and for liquidity and other purposes. Our investment securities available-for-sale consist primarily of U.S. Government agency issued mortgage backed securities. Available-for-sale securities totaled \$807,000 at December 31, 2005, a decrease of \$400,000, or 33.1%, from year-end 2004. This decrease resulted primarily from historically high principal repayments on mortgage-backed securities. Long-term securities purchases continued to be deferred in light of the low interest rate environment. At December 31, 2005, and December 31, 2004, our portfolio had net unrealized gains of \$33,000 and \$55,000, respectively.

Investment securities held-to-maturity are investments for which there is the intent and ability to hold the investment to maturity. These investments are carried at amortized cost. The Delaware Bank did not have any held-to-maturity securities as of December 31, 2005 or 2004.

Cash and Due From Banks:

Cash and due from banks, interest bearing deposits and federal funds sold comprise this category, which consists of our most liquid assets. The aggregate amount in these three categories increased by \$11.5 million, to \$22.8 million at December 31, 2005, from \$11.3 million at December 31, 2004. Federal funds sold increased by \$13.2 million to \$19.1 million at year-end 2005, reflecting inflows from a fourth quarter 2005 certificate of deposit promotion.

Fixed Assets:

Bank premises and equipment, net of accumulated depreciation was \$1.3 million and \$1.4 million at December 31, 2005 and 2004, respectively.

Bank Owned Life Insurance:

In the second quarter of 2003, we purchased \$1.5 million of business owned life insurance. The income earned on these policies is reflected in non-interest income. This income was \$49,000 and \$55,000 for the years ending December 31, 2005 and 2004, respectively.

Other Assets:

Other assets increased by \$1.1 million at December 31, 2005, compared to the prior year end, as a result of amounts receivable which were subsequently collected.

Deposits:

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

Total deposits increased by \$24.8 million to \$62.5 million at December 31, 2005, from \$37.7 million at December 31, 2004. Average core deposits increased 14.4% or \$4.7 million more than the prior year end to \$37.4 million in 2005. Time deposits increased \$22.8 million, or 334.2% to \$29.7 million at December 31, 2005, versus \$6.8 million at the prior year-end, reflecting the results of a fourth quarter deposit promotion. Core deposit growth benefited from our business development efforts.

Due to Short Term Consumer Loan Servicers and Purchasers:

Due to short term consumer loan servicers and purchasers decreased \$2.9 million to \$4.1 million at December 31, 2005 from \$7.1 million at December 31, 2004 due to lower volumes of sales.

Shareholders' Equity:

Total shareholders' equity increased \$2.9 million to \$14.3 million at December 31, 2005, versus \$11.4 million at December 31, 2004. This increase was the result of 2005 net income of \$2.8 million.

Risks and Uncertainties and Certain Significant Estimates

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

Short term consumer loans were first offered through us in 2001 and until July 2005, primarily consisted of payday loans. At December 31, 2005, there were approximately \$2.8 million in short term consumer loans outstanding on the balance sheet, \$2.0 million of which represented short term installment loans. We also originate loans in various states, and via the Internet, which are sold to third parties. The participations sold at December 31, 2005 were \$17.2 million. Legislation eliminating, or limiting interest rates upon short term consumer loans, has from time to time been proposed, primarily as a result of fee levels which approximate 17% per \$100 borrowed, for two week terms for payday loans and 390% for up to 140 day terms for installments. New guidelines issued regarding payday loans by the FDIC had a material adverse impact on the Bank's financial results in 2005. The guidelines may adversely affect our business and operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments".

We began offering two tax refund products in 2001 with Liberty Tax Service. Liberty Tax Service is a nationwide professional tax service provider, which prepares and electronically files federal and state income tax returns ("Tax Refund Products"). The Tax Refund Products consist of electronic refund check ("ERCs"), and refund anticipation loans ("RALs"). There can be no assurance that revenue levels will increase significantly in future periods.

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, and income taxes. Consideration is given to a variety of factors in establishing these estimates. In estimating the allowance for loan losses, management considers current economic conditions, diversification of the loan portfolio, delinquency statistics, results of internal loan reviews, borrowers' perceived financial and managerial strengths, the

adequacy of underlying collateral, if collateral dependent, or present value of future cash flows and other relevant factors. Since the allowance for loan losses and carrying value of real estate owned are dependent, to a great extent, on the general economy and other conditions that may be beyond our control, it is at least reasonably possible that the estimates of the allowance for loan losses and the carrying values of the real estate owned could differ materially in the near term.

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

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

Commitments, Contingencies and Concentrations

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

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$7.5 million and \$9.1 million and standby letters of credit of approximately \$73,000 and \$339,000 at December 31, 2005 and 2004, respectively. Commitments may often expire without being drawn upon. The commitments to extend credit at December 31, 2005, were substantially all variable rate commitments.

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

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

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

Contractual Obligations and Other Commitments

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2005:

(Dollars in thousands)	<u>Total</u>	<u>Less than One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>After Five Years</u>
Minimum annual rentals or non-cancelable operating leases	\$ 3,097	\$ 148	\$ 310	\$ 329	\$ 2,310
Remaining contractual maturities of time deposits	29,685	28,938	737	10	-
Employment Agreement	693	330	363	-	-
Loan commitments	7,460	2,839	3,575	1,042	4
Standby letters of credit	73	73	-	-	-
Total	<u>\$ 41,008</u>	<u>\$ 32,328</u>	<u>\$ 4,985</u>	<u>\$ 1,381</u>	<u>\$ 2,314</u>

We have entered into non-cancelable lease agreements for two retail branches, expiring in 2026, including options to renew. The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are \$3,097,000 through the year 2026.

We are currently a defendant in a lawsuit, which, if successful, will not adversely affect our financial condition. We were named as a cross defendant in a lawsuit against Santa Barbara Bank. The case, Canieva Hood v. Santa Barbara Bank & Trust, was filed on October 12, 2004 in the Superior Court of the State of California for the County of Santa Barbara. Santa Barbara Bank was sued in a class action lawsuit concerning the cross collection agreements between various lenders who participate in tax refund anticipation loans.

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

At December 31, 2005, we had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$15.8 million, which represented 29.9% of gross loans receivable at December 31, 2005. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family, and others. Loan concentrations are considered to exist when there is amounts loaned to a multiple number of borrowers engaged in similar activities that Management believes would cause them to be similarly impacted by economic or other conditions.

Interest Rate Risk Management

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

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

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

Mortgage backed securities and amortizing loans are scheduled based on their anticipated cash flow, including prepayments based on historical data and current market trends. Savings, money market, and interest bearing demand

accounts do not have a stated maturity or re-pricing term and can be withdrawn or re-priced at any time. Management estimates the re-pricing characteristics of these accounts based on historical performance and other deposit behavior assumptions. These deposits may re-price simultaneously, and accordingly, a portion of the deposits may be moved into time brackets exceeding one year. Management may choose not to re-price liabilities proportionally to changes in market interest rates, for competitive or other reasons.

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

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

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

The following tables present a summary of our interest rate sensitivity GAP at December 31, 2005. For purposes of these tables, we used assumptions based on industry data and historical experience to calculate the expected maturity of loans because, statistically, certain categories of loans are prepaid before their maturity date, even without regard to interest rate fluctuations. Additionally, certain prepayment assumptions were made with regard to investment securities based upon the expected prepayment of the underlying collateral of the mortgage-backed securities. The interest rate on the trust preferred securities is variable and adjusts semi-annually.

**Interest Sensitivity Gap
at December 31, 2005
(Dollars in thousands)**

	0-90 Days	91-180 Days	181-365 Days	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 Years	Financial Statement Total	Fair Value
Interest Sensitive Assets:										
Investment securities and other interest-bearing balances	\$ 19,178	\$ 59	\$ 105	\$ 169	\$ 124	\$ 91	\$ 66	\$ 131	\$ 19,923	\$ 19,923
Average interest rate	4.30%	5.55%	5.55%	5.55%	5.55%	5.55%	5.55%	5.55%	-	-
Loans receivable.....	32,927	715	2,221	6,257	4,611	2,761	2,679	751	52,922	52,624
Average interest rate	7.51%	6.69%	6.83%	6.86%	6.40%	6.58%	6.52%	6.37%	-	-
Total.....	52,105	774	2,326	6,426	4,735	2,852	2,745	882	72,845	72,547
Cumulative Totals	\$ 52,105	\$ 52,879	\$ 55,205	\$ 61,631	\$ 66,366	\$ 69,218	\$ 71,963	\$ 72,845		
Interest Sensitive Liabilities:										
Demand Interest Bearing.....	\$ 46	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46	\$ 46
Average interest rate	0.07%	-	-	-	-	-	-	-	-	-
Money Market and Savings	11,718	-	-	11,592	-	-	-	-	23,310	23,310
Average interest rate	2.72%	-	-	2.72%	-	-	-	-	-	-
Time Deposits.....	7,599	8,604	12,735	714	23	-	10	-	29,685	29,487
Average interest rate	3.72%	4.17%	4.37%	2.89%	2.95%	-	2.75%	-	-	-
Total.....	19,363	8,604	12,735	12,306	23	-	10	-	53,041	52,843
Cumulative Totals	\$ 19,363	\$ 27,967	\$ 40,702	\$ 53,008	\$53,031	\$ 53,031	\$ 53,041	\$ 53,041		
Interest Rate										
Sensitivity GAP.....	32,742	(7,830)	(10,409)	(5,880)	4,712	2,852	2,735	882		
Cumulative GAP	32,742	24,912	14,503	8,623	13,335	16,187	18,922	19,804		
Interest Sensitive Assets/ Interest Sensitive										
Liabilities.....	269.09%	189.08%	135.64%	116.27%	125.15%	130.53%	135.67%	137.34%		
Cumulative GAP/ Total Earning Assets										
	45%	34%	20%	12%	18%	22%	26%	27%		

In addition to the GAP analysis, we utilize income simulation modeling in measuring our interest rate risk and managing our interest rate sensitivity. Income simulation considers not only the impact of changing market interest rates on forecasted net interest income, but also other factors such as yield curve relationships, the volume and mix of assets and liabilities and general market conditions.

Through the use of income simulation modeling, we have estimated net interest income for the year ended December 31, 2006, based upon the assets, liabilities and off-balance sheet financial instruments at December 31, 2005. We have also estimated changes to that estimated net interest income based upon immediate and sustained changes in interest rates ("rate shocks"). Rate shocks assume that all of the interest rate increases or decreases occur on the first day of the period modeled and remain at that level for the entire period.

The following table reflects the estimated percentage change in estimated net interest income for the years ending December 31, excluding the impact of short-term consumer loans and tax refund anticipation loans:

<u>Rate shocks to interest rates</u>	<u>2006</u>	<u>Percent change</u>	<u>2005</u>
+2%	17.0%		13.5%
+1%	8.4		7.0
-1%	(9.7)		(9.0)
-2%	(19.4)		(23.6)

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

Capital Resources

We are required to comply with certain “risk-based” capital adequacy guidelines issued by the FDIC. The risk-based capital guidelines assign varying risk weights to the individual assets held by a bank. The guidelines also assign weights to the “credit-equivalent” amounts of certain off-balance sheet items, such as letters of credit and interest rate and currency swap contracts. Under these guidelines, banks are expected to meet a minimum target ratio for “qualifying total capital” to weighted risk assets of 8%, at least one-half of which is to be in the form of “Tier 1 capital”. Qualifying total capital is divided into two separate categories or “tiers”. “Tier 1 capital” includes common stockholders’ equity, certain qualifying perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill, “Tier 2 capital” components (limited in the aggregate to one-half of total qualifying capital) includes allowances for credit losses (within limits), certain excess levels of perpetual preferred stock and certain types of “hybrid” capital instruments, subordinated debt and other preferred stock. Applying the federal guidelines, the ratio of qualifying total capital to weighted-risk assets, was 26.38% and 26.27% at December 31, 2005 and 2004, respectively, and as required by the guidelines, at least one-half of the qualifying total capital consisted of Tier I capital elements. Tier I risk-based capital ratios on December 31, 2005 and 2004 were 25.11% and 25.01%, respectively. At December 31, 2005 and 2004, we exceeded the requirements for risk-based capital adequacy under both federal and Delaware state guidelines, both of which may vary in the future.

Under FDIC regulations, a bank is deemed to be “well capitalized” when it has a “leverage ratio” (“Tier 1 capital to total assets”) of at least 5%, a Tier I capital to weighted-risk assets ratio of at least 6%, and a total capital to weighted-risk assets ratio of at least 10%. At December 31, 2005 and 2004, our leverage ratio was 18.69% and 20.56%, respectively. Accordingly, at December 31, 2005 and 2004, we were considered “well capitalized” under Federal Reserve Board and FDIC regulations.

Our shareholders’ equity as of December 31, 2005, totaled approximately \$14.3 million compared to approximately \$11.4 million as of December 31, 2004. This increase of \$2.9 million reflected 2005 net income of \$2.8 million. That net income also increased the book value per share of our common stock, which increased from \$1.57 as of December 31, 2004, based upon 7,236,389 shares outstanding, to \$1.90 as of December 31, 2005, based upon 7,518,362 shares outstanding.

Regulatory Capital Requirements

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

The following table presents our regulatory capital ratios at December 31, 2005 and 2004:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2005						
Total risk based capital	\$ 15,021	26.38%	\$ 4,555	8.00%	\$ 5,694	10.00%
Tier one risk based capital	14,297	25.11%	2,277	4.00%	3,416	6.00%
Tier one leverage capital	14,297	18.69%	3,826	5.00%	3,826	5.00%
At December 31, 2004						
Total risk based capital	11,948	26.27%	3,638	8.00%	4,548	10.00%
Tier one risk based capital	11,374	25.01%	1,819	4.00%	2,729	6.00%
Tier one leverage capital	11,374	20.56%	2,766	5.00%	2,766	5.00%

We believe that we met, as of December 31, 2005 and 2004, all capital adequacy requirements to which we are subject. As of December 31, 2005, the FDIC categorized us as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification, which management believes would have changed our category.

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

In addition to the above minimum capital requirements, the FDIC approved a rule, implementing a statutory requirement that federal banking regulators specified "prompt corrective action" when an insured institution's capital level falls below certain levels. The rule defines five capital categories based on several of the above capital ratios. We currently exceed the levels required for a bank to be classified as "well capitalized". However, the FDIC may consider other criteria when determining such classifications, which criteria could result in a downgrading in such classifications.

Our equity to assets ratio decreased from 19.44% as of December 31, 2004, to 17.40% as of December 31, 2005. The decrease at year-end 2005 was primarily a result of commercial loan growth and increased liquidity at year end 2005. Our average return on equity for 2005, 2004 and 2003 was 20.65%, 33.93% and 33.01%, respectively; and our average return on assets for these respective years, was 3.80%, 6.15% and 4.12%, respectively.

Liquidity

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

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

Our most liquid assets comprised of cash and cash equivalents on the balance sheet, totaled \$22.8 million and \$11.3 million at December 31, 2005 and 2004, respectively. The increase in liquidity at December 31, 2005 reflected certificate of deposit growth of \$22.8 million, only a portion of which was utilized to fund 2005 commercial loan growth of approximately \$12.0 million. Loan maturities and repayments are another source of asset liquidity. Management estimates that \$4.5 million of loans will mature in the six month period ending June 30, 2006.

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

At December 31, 2005, we had outstanding commitments (including unused lines of credit and letters of credit) of \$7.5 million. Certificates of deposit scheduled to mature in one year totaled \$28.9 million at December 31, 2005. We anticipate that we will have sufficient funds available to meet our current commitments.

Our target and actual liquidity levels are determined by comparisons of the estimated repayment and marketability of our interest-earning assets with projected future outflows of deposits and other liabilities. We have established a rarely used contingency line of credit with a correspondent bank to assist in managing our liquidity position. That line of credit at a correspondent bank totaled \$4.0 million at December 31, 2005. As of December 31, 2005, we had no related outstanding balances. Investment decisions generally reflect liquidity over other considerations.

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

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

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

Investment Securities Portfolio

Our investment securities portfolio is intended to provide liquidity and contribute to earnings while diversifying credit risk. We attempt to maximize earnings while minimizing our exposure to interest rate risk. The securities portfolio consists primarily of U.S. Government agency, mortgage backed securities. Our ALCO monitors and approves all security purchases. The decline in securities in 2005 and 2004 was a result of our strategy to reduce the amount of the investment securities by not replacing mortgage backed securities prepayments in the lower interest rate environment. There was no investment securities held to maturity at December 31, 2005, 2004 and 2003.

A summary of investment securities available-for-sale at December 31, 2005, 2004 and 2003 are as follows.

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

	2005	2004	2003
Mortgage backed Securities	\$ 801	\$ 1,174	\$ 1,797
Total amortized cost of securities	\$ 801	\$ 1,174	\$ 1,797
Total fair value of investment securities.....	\$ 807	\$ 1,207	\$ 1,852

The following table presents our contractual maturity distribution and weighted average yield of our securities portfolio at December 31, 2005 and 2004. Mortgage backed securities are presented without consideration of amortization or prepayments.

Investment Securities Available for Sale at December 31, 2005

	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Cost	Yield
(Dollars in thousands)											
Mortgage backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 801	5.55%	\$ 807	\$ 801	5.55%
Total Available for sale securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 801	5.55%	\$ 807	\$ 801	5.55%

Investment Securities Available for Sale at December 31, 2004

	Within One Year		One to Five Years		Five to Ten Years		Past 10 Years		Total		
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Fair value	Cost	Yield
(Dollars in thousands)											
Mortgage backed securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,174	5.89%	\$ 1,207	\$ 1,174	5.89%
Total Available for sale securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,174	5.89%	\$ 1,207	\$ 1,174	5.89%

Loan Portfolio

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

Our commercial loans typically range between \$100,000 and \$1.0 million but customers may borrow significantly larger amounts up to our secured legal lending limit of approximately \$4.0 million at December 31, 2005. Individual customers may have several loans often secured by different collateral. The majority of short term consumer loans and credit card receivables are sold, as internal guidelines limit retention of such loans to 25% of capital.

Our total loans increased \$12.0 million, or 29.2%, to \$52.9 million at December 31, 2005, from \$41.0 million at December 31, 2004.

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

	At December 31, (Dollars in thousands)				
	2005	2004	2003	2002	2001
Commercial:					
Real estate secured	\$ 36,273	\$ 29,411	\$ 21,529	\$ 22,824	\$ 22,445
Construction and land development	13,590	9,926	5,680	5,728	2,516
Total commercial	49,863	39,337	27,209	28,552	24,961
Consumer and other	3,059	1,627	1,436	644	498
Total loans, net of unearned income	<u>\$ 52,922</u>	<u>\$ 40,964</u>	<u>\$ 28,645</u>	<u>\$ 29,196</u>	<u>\$ 25,459</u>

Loan Maturity and Interest Rate Sensitivity

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

	At December 31, 2005 (Dollars in thousands)			
	One Year or Less	One Year Through Five Years	Over Five Years	Total Loans
Commercial and Commercial Real Estate	\$ 8,372	\$ 22,725	\$ 5,176	\$ 36,273
Construction and Land Development	4,909	8,368	313	13,590
Consumer and Other	3,059	-	-	3,059
Total	<u>16,340</u>	<u>31,093</u>	<u>5,489</u>	<u>52,922</u>
Loans with Fixed Rates	3,995	19,103	1,359	24,457
Loans with Floating Rates	12,345	11,990	4,130	28,465
Total	<u>\$ 16,340</u>	<u>\$ 31,093</u>	<u>\$ 5,489</u>	<u>\$ 52,922</u>
Percent Composition by Maturity	30.88%	58.75%	10.37%	100%
Fixed Rate Loans as Percent of Total	7.55%	36.10%	2.57%	46.22%
Floating Rate Loans as Percent of Total	23.33%	22.65%	7.80%	53.78%

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

Credit Quality

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

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

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

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

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

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

	At December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands)				
Loans accruing, but past due 90 days or more	\$ -	\$ -	\$ 156	\$ 42	\$ 93
Restructured loans	-	-	-	-	-
Non-accrual loans	198	153	389	127	71
Total non-performing loans	198	153	545	169	164
Other real estate owned.....	-	-	-	-	-
Total non-performing assets (1).....	<u>\$ 198</u>	<u>\$ 153</u>	<u>\$ 545</u>	<u>\$ 169</u>	<u>\$ 164</u>
Non-performing loans as a percentage of total loans net of unearned income (1).....	0.37%	0.37%	1.90%	0.57%	0.64%
Non-performing assets as a percentage of total assets	0.24%	0.26%	1.22%	0.38%	0.43%

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

Problem loans consist of loans that are included in performing loans, but for which potential credit problems of the borrowers have caused management to have serious doubts as to the ability of such borrowers to continue to comply with present repayment terms. At December 31, 2005, all identified problem loans are included in the preceding table, or are classified as substandard or doubtful, with a reserve allocation in the allowance for loan losses (see “—Allowance for Loan Losses”). Management believes that the appraisals and other estimates of the value of the collateral pledged against the non-accrual loans generally exceed the amount of related balances.

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

	For the Year Ended December 31,				
	2005	2004	2003	2002	2001
Interest income that would have been recorded had the loans been in accordance with their original terms	\$17,400	\$ 8,200	\$ 32,000	\$ 12,000	\$ 8,300
Interest income included in net income	-	-	-	-	-

Allowance for Loan Losses

A detailed analysis of our allowance for loan losses for the years ended December 31, 2005, 2004, 2003, 2002 and 2001 is as follows:

	For the Year Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in thousands)				
Balance at beginning of period	\$ 1,050	\$ 1,363	\$ 566	\$ 374	\$ 261
Charge-offs:					
Commercial	-	376	-	68	96
Consumer	18	-	-	-	-
Short-term loans	1,619	1,404	140	-	-
Total charge-offs	<u>1,637</u>	<u>1,780</u>	<u>140</u>	<u>68</u>	<u>96</u>
Recoveries:					
Commercial	10	-	-	-	-
Consumer	3	4	-	-	17
Short-term loans	400	-	-	-	-
Total recoveries	<u>413</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>17</u>
Net charge-offs	<u>1,224</u>	<u>1,776</u>	<u>140</u>	<u>68</u>	<u>79</u>
Provision for loan losses	1,858	1,463	937	260	192
Balance at end of period	<u>\$ 1,684</u>	<u>\$ 1,050</u>	<u>\$ 1,363</u>	<u>\$ 566</u>	<u>\$ 374</u>
Average loans outstanding (1)	\$ 47,916	\$ 34,089	\$ 31,110	\$ 26,286	\$ 23,424
As a percent of average loans (1):					
Net charge-offs (recoveries)	2.56%	5.21%	0.45%	0.26%	0.34%
Provision for loan losses	3.88	4.29	3.01	0.99	0.82
Allowance for loan losses	3.52	3.08	4.38	2.15	1.60
Allowance for loan losses to:					
Total loans, net of unearned income	3.18%	2.56%	4.75%	1.93%	1.46%
Total non-performing loans	850.50%	686.27%	250.09%	334.91%	228.05%

(1) Includes non-accruing loans.

Charge-offs of short term loans in 2005 and 2004 increased over their respective prior year periods as FBD increased the amounts of such loans retained. Management makes at least a quarterly determination as to an appropriate provision from earnings to maintain an allowance for loan losses that is management's best estimate of known and inherent losses. Our Board of Directors periodically reviews the status of all non-accrual and impaired loans and loans classified by our regulators or internal loan review officer, who reviews both the loan portfolio and overall adequacy of the allowance for loan losses. The Board of Directors also considers specific loans, pools of similar loans, historical charge-off activity, economic conditions, and other relevant factors in reviewing the adequacy of the loan loss reserve. Any additions deemed necessary to the allowance for loan losses are charged to operating expenses.

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

Estimating the appropriate level of the allowance for loan losses at any given date is difficult, particularly in a continually changing economy. In management's opinion, the allowance for loan losses was appropriate at December 31, 2005. However, there can be no assurance that, if asset quality deteriorates in future periods, additions to the allowance for loan losses will not be required.

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

Allocation of the allowance for loan losses (1):	At December 31,									
	(Dollars in thousands)									
	2005		2004		2003		2002		2001	
	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
Commercial	\$ 289	68.5%	\$ 309	71.8%	\$ 284	75.2%	\$ 362	78.2%	\$ 183	88.2%
Construction	152	25.7%	78	24.2%	75	19.8%	91	19.6%	20	9.9%
Short-term consumer	1,091	5.8%	563	4.0%	883	5.0%	97	2.2%	103	1.9%
Unallocated	152	-	100	-	121	-	16	-	68	-
Total	<u>\$1,684</u>	<u>100%</u>	<u>\$1,050</u>	<u>100%</u>	<u>\$1,363</u>	<u>100%</u>	<u>\$566</u>	<u>100%</u>	<u>\$374</u>	<u>100%</u>

(1) Gross loans net of unearned income.

The methodology utilized to estimate the amount of the allowance for loan losses is as follows: We first apply an estimated loss percentage against all loan categories outstanding. While such loss percentages have exceeded the percentages suggested by historical experience, we maintained those percentages in 2005. We applied historical loss percentages for short-term consumer loans and added additional reserves based on industry experience, which in some cases is significantly greater than our experience. We will continue to evaluate these percentages and may adjust these estimates on the basis of charge-off history, economic conditions or other relevant factors. We also provide specific reserves for impaired loans to the extent the estimated realizable value of the underlying collateral is less than the loan balance, when the collateral is the only source of repayment.

Also, we may estimate and recognize reserve allocations above these regulatory reserve percentages based upon any factor that might impact the loss estimates. Those factors include but are not limited to the impact of economic conditions on the borrower and management's potential alternative strategies for loan or collateral disposition. At year end 2005 compared to 2004, the unallocated component increased \$52,000 to \$152,000, while year end loans increased \$12.0 million to \$52.9 million from \$40.9 million. The unallocated allowance is established for losses that have not been identified through the formulae and other specific components of the allowance as described above. The unallocated portion is more subjective and requires a high degree of management judgment and experience. Management has identified several factors that impact credit losses that are not considered in either the formula or the specific allowance segments. These factors consist of macro and micro economic conditions, industry and geographic loan concentrations, changes in the composition of the loan portfolio, changes in underwriting processes and trends in problem loan and loss recovery rates. The impact of the above is considered in light of management's conclusions as to the overall adequacy of underlying collateral and other factors.

The majority of our loan portfolio represents loans made for commercial and commercial real estate purposes, while significant amounts of residential property may serve as collateral for such loans. We attempt to evaluate larger loans individually, on the basis of our loan review process, which scrutinizes loans on a selective basis; and other available information. Even if all commercial purpose loans could be reviewed, there is no assurance that information on potential problems would be available. Different types of short-term consumer loans are evaluated separately. At December 31, 2005, commercial and construction loans totaled \$49.8 million and short term consumer loans totaled \$2.8 million.

The recorded investment in loans that are impaired in accordance with SFAS No. 114 totaled \$198,000, \$153,000 and \$389,000 at December 31, 2005, 2004 and 2003, respectively. The amounts of related valuation allowances were \$53,000, \$48,000 and \$77,000, respectively, at those dates. For the years ended December 31, 2005, 2004 and 2003 the average recorded investment in impaired loans was approximately \$150,000, \$271,000 and \$258,000, respectively. We did not recognize any interest income on impaired loans during 2005, 2004 or 2003. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

At December 31, 2005 and 2004, accruing substandard loans totaled approximately \$0 and \$1.7 million respectively. Doubtful loans at those respective dates totaled \$99,000 and \$49,000. We had delinquent loans as follows: (i) 30 to 59 days past due, at December 31, 2005 and 2004, in the aggregate principal amount of \$219,000 and \$1.3 million respectively; and (ii) 60 to 89 days past due, at December 31, 2005 and 2004 in the aggregate principal amount of \$0 and \$47,000 respectively.

We did not have any other real estate owned for the years ended December 31, 2005 and 2004.

Deposit Structure

Of the total daily average deposits of approximately \$53.0 million held by us during the year ended December 31, 2005, approximately \$14.0 million, or 26.4%, represented non-interest bearing demand deposits, compared to approximately \$11.4 million, or 28.8%, of total daily average deposits during 2004. Total deposits at December 31, 2005, consisted of \$9.5 million in non-interest-bearing demand deposits, \$46,000 in interest-bearing demand deposits, \$23.3 million in savings and money market accounts, \$16.2 million in time deposits under \$100,000 and \$13.5 million in time deposits greater than \$100,000. In general, FBD pays higher interest rates on time deposits compared to other deposit categories. Our various deposit liabilities may fluctuate from period-to-period, reflecting customer behavior and strategies to optimize net interest income.

The following table is a distribution of the average balances of our deposits and the average rates paid thereon, for the years ended December 31, 2005, 2004 and 2003.

	For the Years Ended December 31,					
	(Dollars in thousands)					
	2005		2004		2003	
Average Balance	Rate	Average Balance	Rate	Average Balance	Rate	
Demand deposits, non-interest-bearing.....	\$13,987	—%	\$11,407	—%	\$12,386	—%
Demand deposits, interest-bearing	385	0.15%	849	0.24%	861	0.35%
Money market & savings deposits	23,031	2.47%	20,431	1.42%	14,356	0.89%
Time deposits.....	15,592	3.34%	6,953	2.19%	12,884	2.86%
Total deposits.....	<u>\$52,995</u>	<u>2.06%</u>	<u>\$39,640</u>	<u>1.12%</u>	<u>\$40,487</u>	<u>1.23%</u>

The following is a breakdown by contractual maturity, of our time certificates of deposit issued in denominations of \$100,000 or more as of December 31, 2005.

	Certificates of Deposit (Dollars in thousands) 2005
Maturing in:	
Three months or less.....	\$3,391
Over three months through six months.....	2,337
Over six months through twelve months.....	7,174
Over twelve months.....	600
Total.....	<u>\$13,502</u>

The following is a breakdown, by contractual maturities of our time certificates of deposit for the years 2006 through 2010 and beyond (dollars in thousands).

	2006	2007	2008	2009	2010	Thereafter	Totals
	(Dollars in thousands)						
Time certificates of deposit.....	<u>\$ 28,938</u>	<u>\$ 714</u>	<u>\$ 23</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 29,685</u>

Recent Accounting Pronouncements

In March 2004, the EITF reached a consensus on Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In November 2005, the FASB approved the issuance of FASB Staff Position FAS No. 115-1 and FAS 124-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” The FSP addresses when an investment is considered impaired, whether the impairment is other-than-temporary and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary. The FSP is effective for reporting periods beginning after December 15, 2005 with earlier application permitted. For the Company, the effective date will be the first quarter of fiscal 2006. The adoption of this accounting principle is not expected to have a significant impact on our consolidated financial position or results of operations.

In June 2005, the SEC issued Staff Accounting Bulletin No. 107 (“SAB No. 107”), *Share-Based Payment*, providing guidance on option valuation methods, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, and the disclosures in MD&A subsequent to the adoption. The Company has provided SAB No. 107 required disclosures.

The FASB published SFAS No. 123 (Revised 2004), *Share-Based Payment* (“SFAS 123R”). SFAS 123R is effective January 1, 2006 and requires that compensation cost related to share-based payment transactions, including stock options, be recognized in the consolidated financial statements. In 2005, FBD vested all previously issued, unvested options. The impact on operations in future periods will be the value imputed on future option grants using the methods prescribed in SFAS No. 123 (R). There is no impact on cash flow.

Effects of Inflation

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

Quantitative and Qualitative Disclosure about Market Risk (Item 305 of Reg S-K)

See “Management Discussion and Analysis of Financial Condition and Results of Operations–Interest Rate Risk Management,” which is incorporated by reference into this Item.

Item 7: Consolidated Financial Statements and Supplementary Data

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

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

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

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

Item 8A: Controls and Procedures

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

Item 8B: Other Information

Not Applicable.

PART III

Item 9: Directors and Executive Officers of the Registrant

Code of Ethics

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

The other information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2006 annual meeting of shareholders scheduled for April 18, 2006.

Item 10: Executive Compensation

The information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2006 annual meeting of shareholders scheduled for April 18, 2006.

Item 11: Security Ownership of Certain Beneficial Owners and Management

Equity Compensation Plan Information

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

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,052,968	\$2.11	205,059
Equity compensation plans not approved by security holders	-	-	-
Total	<u>1,052,968</u>	<u>\$2.11</u>	<u>205,059</u>

The information required by Item 403 of Regulation S-B is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2006 annual meeting of shareholders scheduled for April 18, 2006.

Item 12: Certain Relationships and Related Transactions

The information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2006 annual meeting of shareholders scheduled for April 18, 2006.

Item 14: Principal Accountant Fees and Services

The information required by this Item is incorporated by reference from the definitive proxy materials of FBD to be filed with the FDIC in connection with our 2006 annual meeting of shareholders scheduled for April 18, 2006.

PART IV

Item 13: Exhibits and Financial Statements

A. Financial Statements

- (1) 2005 Report of Independent Registered Public Accounting Firm-Beard Miller Company LLP
- (1b) 2004 and 2003 Independent Auditors Report-Parente Randolph, LLP
- (2) Consolidated Balance Sheets as of December 31, 2005 and 2004
- (3) Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003
- (4) Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003
- (5) Consolidated Statements of Changes in Shareholder's Equity for the years ended December 31, 2005, 2004 and 2003
- (6) Notes to Consolidated Financial Statements

B. Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>	<u>Manner of Filing</u>
3.1	Amended Articles of Association	Incorporated by reference to Exhibit 3.1 to Form 8-K dated January 31, 2005
3.2	By-Laws	Incorporated by reference to Exhibit 3.2 to Form 10 filed December 9, 2004
10.1	Employment Agreement Between First Bank of Delaware and Harry D. Madonna*	Incorporated by reference to Exhibit 10.3 to Form 8-K dated January 31, 2005
10.2	First Bank of Delaware Change of Control Policy*	Incorporated by reference to Exhibit A of Exhibit 10.3 to Form 8-K dated January 31, 2005
10.3	First Bank of Delaware Deferred Compensation Plan*	Incorporated by reference to Exhibit 10.3 to Form 10 filed January 11, 2005
10.4	Stock Option Plan and Restricted Stock Plan of First Bank of Delaware*	Incorporated by reference to Exhibit 10.2 to Form 10 filed January 11, 2005
10.5	Separation and Distribution Agreement between Republic First Bancorp, Inc. and First Bank of Delaware dated January 31, 2005	Incorporated by reference to Exhibit 10.1 to Form 8-K dated January 31, 2005
10.6	Tax Disaffiliation Agreement between Republic First Bancorp, Inc. and First Bank of Delaware dated January 31, 2005	Incorporated by reference to Exhibit 10.2 to Form 8-K dated January 31, 2005
10.7	Master Sale, Participation, Servicing and Indemnification Agreement between Republic First Bancorp, Inc. and First Bank of Delaware	Incorporated by reference to Exhibit 10.4 to Form 10 filed January 11, 2005

10.8	Human Resources and Payroll Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.8 to Form 10-K filed March 31, 2005
10.9	Operation and Data Processing Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.9 to Form 10-K filed March 31, 2005
10.10	Compliance Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.10 to Form 10-K filed March 31, 2005
10.11	Financial Accounting and Reporting Services Agreement between First Bank of Delaware and its wholly owned subsidiary BSC Services Corporation dated January 1, 2005	Incorporated by reference to Exhibit 10.11 to Form 10-K filed March 31, 2005
14.1	First Bank of Delaware Code of Ethics	Incorporated by reference to Exhibit 10.11 to Form 10-K filed March 31, 2005
21.1	Subsidiaries of First Bank of Delaware	Filed Herewith
31.1	Certification of Chairman and Chief Executive Officer of First Bank of Delaware pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Executive Vice President and Chief Financial Officer of First Bank of Delaware pursuant to Commission Rule 13a-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32.1	Certification under Section 906 of the Sarbanes Oxley Act of Harry D. Madonna.	Filed Herewith
32.2	Certification under Section 906 of the Sarbanes Oxley Act of Paul Frenkiel.	Filed Herewith

* Constitutes a compensation agreement or arrangement.

SIGNATURES

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

FIRST BANK OF DELAWARE [registrant]

Date: March 9, 2006

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

Date: March 9, 2006

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

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

Date: March 9, 2006

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

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

/s/ William Batoff
William Batoff, Director

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

/s/ Alonzo J. Primus, CPA
Alonzo J. Primus, CPA, Director
and Executive Vice President
National Consumer Products

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
OF
FIRST BANK OF DELAWARE

Reports of Independent Registered Public Accounting Firms

Consolidated Balance Sheets as of December 31, 2005 and 2004

Consolidated Statements of Income for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003

Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2005, 2004 and 2003

Notes to Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

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

We have audited the consolidated balance sheet of First Bank of Delaware and its subsidiary as of December 31, 2005, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of First Bank of Delaware for the years ended December 31, 2004 and 2003 were audited by other auditors, whose report, dated March 9, 2005, expressed an unqualified opinion on those statements.

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

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

Beard Miller Company LLP

Beard Miller Company LLP
Reading, Pennsylvania
March 6, 2006

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
First Bank of Delaware

We have audited the consolidated balance sheet of First Bank of Delaware as of December 31, 2004, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Bank of Delaware as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years ended December 31, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
March 9, 2005

FIRST BANK OF DELAWARE
CONSOLIDATED BALANCE SHEETS
December 31, 2005 and 2004
(Dollars in thousands, except per share data)

	2005	2004
ASSETS:		
Cash and due from banks	\$3,722	\$5,414
Interest-bearing deposits with banks	52	22
Federal funds sold	19,064	5,868
Total cash and cash equivalents	22,838	11,304
Investment securities available for sale, at fair value	807	1,207
Loans receivable, (net of allowance for loan losses of \$1,684 and \$1,050, respectively)	51,238	39,914
Premises and equipment, net	1,304	1,401
Accrued interest receivable	270	198
Bank owned life insurance	1,638	1,589
Other assets	4,081	2,995
Total Assets	\$82,176	\$58,608
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Demand — non-interest-bearing	\$9,502	\$7,133
Demand — interest-bearing	46	457
Money market and savings	23,310	23,286
Time less than \$100,000	16,183	2,322
Time over \$100,000	13,502	4,515
Total Deposits	62,543	37,713
Accrued interest payable	227	20
Due to short term consumer loan servicers and purchasers	4,130	7,061
Accrued expenses	715	1,809
Other liabilities	260	609
Total Liabilities	67,875	47,212
Commitments and contingencies		
Shareholders' Equity:		
Common stock, par value \$.05 per share; 10,000,000 shares authorized; shares issued 7,518,362 as of December 31, 2005 and par value \$1 per share; 500,000 shares authorized and issued as of December 31, 2004	376	500
Additional paid in capital	5,084	4,657
Retained earnings	8,986	6,217
Stock held by deferred compensation plan	(149)	-
Accumulated other comprehensive income	4	22
Total Shareholders' Equity	14,301	11,396
Total Liabilities and Shareholders' Equity	\$82,176	\$58,608

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands, except per share data)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest income:			
Interest and fees on loans	\$6,145	\$3,790	\$2,476
Interest on federal funds sold and other interest-earning assets	481	119	78
Interest and dividends on investment securities	55	85	123
	<u>6,681</u>	<u>3,994</u>	<u>2,677</u>
Interest expense:			
Demand – interest bearing	1	2	4
Money market and savings	568	290	127
Time less than \$100,000	266	76	283
Time over \$100,000	255	76	85
Other borrowings	-	-	5
	<u>1,090</u>	<u>444</u>	<u>504</u>
Net interest income	5,591	3,550	2,173
Provision for loan losses	1,858	1,463	937
Net interest income after provision for loan losses	<u>3,733</u>	<u>2,087</u>	<u>1,236</u>
Non-interest income:			
Loan advisory and servicing fees	20	27	33
Service fees on deposit accounts	126	110	111
Short-term loan fee income	4,788	6,597	6,147
Card products	223	-	-
Tax refund products	1,647	1,372	487
Other income	49	78	34
	<u>6,853</u>	<u>8,184</u>	<u>6,812</u>
Non-interest expenses:			
Salaries and employee benefits	3,535	2,445	2,317
Occupancy	296	226	190
Depreciation	267	391	315
Legal	401	440	213
Advertising	64	39	29
Data processing and operational expense	341	522	732
Audit expense	105	138	127
Delaware franchise tax	222	269	173
Other operating expenses	1,137	741	512
	<u>6,368</u>	<u>5,211</u>	<u>4,608</u>
Income before income taxes	4,218	5,060	3,440
Provision for income taxes	1,449	1,710	1,217
Net Income	<u>\$2,769</u>	<u>\$3,350</u>	<u>\$2,223</u>
Earnings per share (1):			
Basic	<u>\$0.38</u>	<u>\$0.46</u>	<u>\$0.31</u>
Diluted	<u>\$0.36</u>	<u>\$0.44</u>	<u>\$0.30</u>

(1) For the years ended December 31, 2004 and 2003, earnings per share is based upon the equity structure of the Company's former sole shareholder, Republic First Bancorp, Inc.

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:			
Net income.....	\$ 2,769	\$ 3,350	\$ 2,223
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for loan losses.....	1,858	1,463	937
Stock purchases for deferred compensation plan.....	(149)	-	-
Depreciation	267	391	315
Amortization of securities	2	3	13
Increase in value of bank owned life insurance	(49)	(55)	(34)
Increase in other assets	(1,157)	(890)	(1,783)
(Increase)Decrease in due to short term loan servicers and purchasers....	(2,931)	5,703	(1,085)
(Decrease) Increase in accrued expenses and other liabilities	(1,237)	565	1,141
Net cash provided by (used in) operating activities	<u>(627)</u>	<u>10,530</u>	<u>1,727</u>
Cash flows from investing activities:			
Purchase of securities:			
Available for sale.....	-	-	(614)
Proceeds from sales, maturities, and calls of securities:			
Restricted.....	-	-	142
Available for sale.....	379	629	1,300
Net (increase) decrease in loans	(13,182)	(14,345)	661
Purchase of bank owned life insurance	-	-	(1,500)
Premises and equipment expenditures	(170)	(472)	(280)
Net cash used in investing activities	<u>(12,973)</u>	<u>(14,188)</u>	<u>(291)</u>
Cash flows from financing activities:			
Net proceeds from exercise of stock options	303	-	-
Net increase in demand, money market and savings deposits.....	1,983	8,039	7,121
Net increase (decrease) in time deposits	22,848	(3,573)	(8,601)
Net cash provided by (used in) financing activities	<u>25,134</u>	<u>4,466</u>	<u>(1,480)</u>
Increase (decrease) in cash and cash equivalents	11,534	808	(44)
Cash and cash equivalents, beginning of year	11,304	10,496	10,540
Cash and cash equivalents, end of year.....	<u>\$22,838</u>	<u>\$11,304</u>	<u>\$10,496</u>
Supplemental disclosures:			
Interest paid.....	<u>\$ 883</u>	<u>\$ 456</u>	<u>\$ 597</u>
Taxes paid	<u>\$ 2,065</u>	<u>\$ 1,696</u>	<u>\$ 1,069</u>

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2005, 2004 and 2003
(Dollars in thousands)

	Shares Outstanding	Comprehensive Income/(loss)	Common Stock	Additional Paid in Capital	Retained Earnings	Stock Held by Deferred Compensation Plan	Accumulated Other Comprehensive Income/(loss)	Total Shareholders' Equity
Balance January 1, 2003	500,000		\$ 500	\$ 4,657	\$ 644	\$ -	63	\$ 5,864
Total other comprehensive loss, net of reclassification adjustments and taxes	-	\$ (27)	-	-	-	-	(27)	(27)
Net income for the year	-	2,223	-	-	2,223	-	-	2,223
Total comprehensive income	-	\$ 2,196	-	-	-	-	-	-
Balance December 31, 2003	500,000		\$ 500	\$ 4,657	\$ 2,867	-	\$ 36	\$ 8,060
Total other comprehensive loss, net of reclassification adjustments and taxes	-	\$ (14)	-	-	-	-	(14)	(14)
Net income for the year	-	3,350	-	-	3,350	-	-	3,350
Total comprehensive income	-	\$ 3,336	-	-	-	-	-	-
Balance December 31, 2004	500,000	(1)	\$ 500	\$ 4,657	\$ 6,217	\$ -	\$ 22	\$ 11,396
Change in par value	7,236,389		(138)	138	-	-	-	-
Options exercised	281,973		14	289	-	-	-	303
Stock purchases for deferred compensation plan (44,043 shares)	-		-	-	-	(149)	-	(149)
Total other comprehensive loss, net of reclassification adjustments and taxes	-	\$ (18)	-	-	-	-	(18)	(18)
Net income for the year	-	2,769	-	-	2,769	-	-	2,769
Total comprehensive income	-	\$ 2,751	-	-	-	-	-	-
Balance December 31, 2005	<u>7,518,362</u>		<u>\$ 376</u>	<u>\$ 5,084</u>	<u>\$ 8,986</u>	<u>\$ (149)</u>	<u>\$ 4</u>	<u>\$ 14,301</u>

(1) Shares outstanding at December 31, 2004, which were held by the Company's sole shareholder, Republic First Bancorp, Inc. were cancelled in conjunction with the spin-off of the Company.

(See notes to consolidated financial statements)

FIRST BANK OF DELAWARE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization:

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

Prior to January 31, 2005, FDB was a wholly-owned subsidiary of Republic First Bancorp, Inc. (“Republic”). On January 31, 2005, FBD was spun off from Republic, effective as of January 1, 2005. All FDB assets, liabilities and shareholder’s equity were spun off, and new stock was issued to Republic shareholders. Shareholders of Republic received one share of stock in FBD for each share of Republic stock they owned. The newly issued FBD shares trade on the Over-the-Counter (OTC) Bulletin Board, and a total of 7,236,389 shares were issued. Additionally, option holders of Republic were issued one stock option in FBD for each stock option outstanding at the spin off date. A total of 826,707 options were issued at an average exercise price of \$1.40 and a weighted average remaining life of 5.86 years, of which 793,293 of the options were exercisable at January 1, 2005.

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

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

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

2. Summary of Significant Accounting Policies:

Basis of Presentation:

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

Risks and Uncertainties and Certain Significant Estimates:

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

Short term consumer loans were first offered through us in 2001 and until July 2005, primarily consisted of payday loans. At December 31, 2005, there were approximately \$2.8 million in short term consumer loans outstanding on the balance sheet, \$2.0 million of which represented short term installment loans. We also originate loans in various states, and via the Internet, which are sold to third parties. The participations sold at December 31, 2005 were \$17.2 million. Legislation eliminating, or limiting interest rates upon short term consumer loans, has from time to time been proposed, primarily as a result of fee levels which approximate 17% per \$100 borrowed, for two week terms for payday loans and 390% for up to 140 day terms for installments. New guidelines issued regarding payday loans by the FDIC had a material adverse impact on the Bank’s financial results in 2005. The guidelines may adversely affect our business and operations. See “Note 11”.

We began offering two tax refund products in 2001 with Liberty Tax Service. Liberty Tax Service is a nationwide professional tax service provider, which prepares and electronically files federal and state income tax returns (“Tax Refund Products”). The Tax Refund Products consist of electronic refund check (“ERCs”), and refund anticipation loans (“RALs”). There can be no assurance that revenue levels will increase significantly in future periods.

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

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

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

Cash and Cash Equivalents:

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

Restrictions on Cash:

FBD is required to maintain certain average reserve balances as established by the Federal Reserve Board. The amounts of those balances for the reserve computation periods that include December 31, 2005 and 2004 were \$50,000 at each of those dates. These requirements were satisfied through the restriction of vault cash and a balance at the Federal Reserve Bank of Philadelphia.

Investment Securities:

Debt and equity investment securities are classified in one of three categories, as applicable, and accounted for as follows: debt securities which FBD has the positive intent and ability to hold to maturity are classified as "securities held to maturity" and are reported at amortized cost; debt and equity securities that are bought and sold in the near term are classified as "trading" and are reported at fair value with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held to maturity or trading securities are classified as "investment securities available for sale" and are reported at fair value with net unrealized gains and losses, net of tax, reported as a separate component of shareholder's equity. Gains or losses on disposition are based on the net proceeds and cost of securities sold, adjusted for amortization of premiums and accretion of discounts, using the specific identification method. FBD did not have any investment securities designated as held to maturity or trading during 2005 and 2004. Restricted investment securities are carried at cost, which approximates fair value.

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

Loans and Allowance for Loan Losses:

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

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

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

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

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

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

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

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

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

The majority of short term consumer loans are sold to third parties. FBD records fees on sold loans as non-interest income. FBD had total short term consumer loan participations sold of \$17.2 million at December 31, 2005 and \$26.0 million at December 31, 2004. FBD evaluated these sales and determined that they qualified as such under SFAS No. 140.

FBD accounts for guarantees in accordance with FIN 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. FIN 45 requires a guarantor entity, at the inception of a guarantee covered by the measurement provisions of the interpretation, to record a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company has financial and performance letters of credit. Financial letters of credit require the Company to make payment if the customer's financial condition deteriorates, as defined in the agreements. Performance letters of credit require the Company to make payments if the customer fails to perform certain

non-financial contractual obligation. The maximum potential undiscounted amount of future payments of these letters of credit as of December 31, 2005 is \$73,000 and they expire in 2006. Amounts due under these letters of credit would be reduced by any proceeds that the Company would be able to obtain in liquidating the collateral for the loans, which varies depending on the customer.

Fees earned on short term consumer loans which are not sold are recorded as interest income. At December 31, 2005, there were approximately \$2.8 million of these loans outstanding.

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

Premises and Equipment:

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

Bank Owned Life Insurance:

FBD invests in bank owned life insurance (“BOLI”) as a source of funding to purchase life insurance on certain employees. The Company is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the increase in cash surrender value of the policies is included in other income on the income statement. At December 31, 2005 and 2004, the Company owned \$1.6 million and \$1.6 million, respectively in BOLI. In 2005, 2004, and 2003, FBD respectively recognized \$49,000, \$55,000, and \$34,000, in related income.

Advertising Costs:

It is FBD’s policy to expense advertising costs in the period in which they are incurred.

Income Taxes:

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

Earnings Per Share:

Earnings per share (“EPS”) consists of two separate components, basic EPS and diluted EPS. Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted EPS is calculated by dividing net income by the weighted average number of common shares outstanding plus dilutive common stock equivalents (“CSE”). Common stock equivalents consist of dilutive stock options granted through FBD’s stock option plan. The following table is a reconciliation of the numerator and denominator used in calculating basic and diluted EPS. Common stock equivalents, which are antidilutive are not included for purposes of this calculation. At December 31, 2005, 2004 and 2003, there were no stock options excluded from the computation of earnings per share because the option price was greater than the average market price, respectively.

Until January 31, 2005, Republic was the sole shareholder of FBD. Shareholders of Republic received one share of stock in FBD, for every share they owned in Republic. Accordingly, for December 31, 2004 and 2003, EPS is based upon the equity structure of Republic.

(Dollars in thousands, except per share data)

	<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>	<u>Shares</u>	<u>Per Share</u>
Income (numerator for basic and diluted earnings per share)		\$2,769		\$3,350		\$2,223
Weighted average shares outstanding for the period						
(denominator for basic earnings per share).....	7,328,699		7,216,067		7,075,849	
Earnings per share — basic		\$0.38		\$0.46		\$0.31
Effect of dilutive stock options.....	376,645		356,431		325,645	
Effect on basic earnings per share of CSE.....		(0.02)		(0.02)		(0.01)
Weighted average shares outstanding- diluted	<u>7,705,344</u>		<u>7,572,498</u>		<u>7,401,494</u>	
Earnings per share — diluted		<u>\$0.36</u>		<u>\$0.44</u>		<u>\$0.30</u>

Stock Based Compensation:

At December 31, 2005, FBD had a stock-based employee compensation plan, which is more fully described in Note 14. FBD accounts for stock options under the provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, which contains a fair valued-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue accounting for employee stock options and similar equity instruments under Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*. Entities that continue to account for stock options using APB Opinion 25 are required to make pro forma disclosures of net income and earnings per share, as if the fair value-based method of accounting defined in SFAS No. 123 had been applied.

The following table illustrates the effect on net income and earnings per share if FBD had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation (in thousands, except per share amounts).

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income as reported	\$2,769	\$3,350	\$2,223
Less : Stock based compensation costs determined under fair value based method for all awards, net of tax ...	(389)	(50)	(88)
Net income, pro-forma	<u>\$2,380</u>	<u>\$3,300</u>	<u>\$2,135</u>
Earnings per common share- basic: As reported	<u>\$0.38</u>	<u>\$0.46</u>	<u>\$0.31</u>
Pro-forma	<u>\$0.32</u>	<u>\$0.46</u>	<u>\$0.30</u>
Earnings per common share- diluted: As reported	<u>\$0.36</u>	<u>\$0.44</u>	<u>\$0.30</u>
Pro-forma	<u>\$0.31</u>	<u>\$0.44</u>	<u>\$0.29</u>

The pro-forma compensation expense is based upon the fair value of the option at grant date. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2005, 2004, and 2003, respectively; dividend yields of 0% for all three periods; expected volatility of 22% for 2005, 35% for 2004, and 34% for 2003; risk-free interest rates of 4.03%, 3.48%, and 3.48% respectively and expected lives of 9.0, 5.0, and 5.0 years respectively. As a result of the spin-off, related stock option expense for 2004 and 2003 was allocated between FBD and Republic on the basis of their respective stock prices as of the date of the spin-off.

Reclassifications:

Certain items in the 2004 and 2003 financial statements and the accompanying notes have been reclassified to conform to the 2005 presentation format. There was no effect on net income for the periods presented herein as a result of reclassifications.

Comprehensive Income:

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

For the year ended December 31, 2005

(Dollars in thousands)

	<u>Before Tax Amount</u>	<u>Tax Benefit</u>	<u>Net of Tax Amount</u>
Unrealized losses on securities:			
Unrealized holding losses arising during the period	\$ (27)	\$ 9	\$ (18)
Other comprehensive loss	<u>\$ (27)</u>	<u>\$ 9</u>	<u>\$ (18)</u>

For the year ended December 31, 2004

(Dollars in thousands)

Unrealized losses on securities:			
Unrealized holding losses arising during the period	\$ (21)	\$ 7	\$ (14)
Other comprehensive loss	<u>\$ (21)</u>	<u>\$ 7</u>	<u>\$ (14)</u>

For the year ended December 31, 2003

(Dollars in thousands)

Unrealized losses on securities:			
Unrealized holding losses arising during the period	\$ (40)	\$ 13	\$ (27)
Other comprehensive loss	<u>\$ (40)</u>	<u>\$ 13</u>	<u>\$ (27)</u>

Recent Accounting Pronouncements:

In March 2004, the EITF reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidance on other-than-temporary impairment models for marketable debt and equity securities accounted for under SFAS 115 and non-marketable equity securities accounted for under the cost method. The EITF developed a basic three-step model to evaluate whether an investment is other-than-temporarily impaired. In November 2005, the FASB approved the issuance of FASB Staff Position FAS No. 115-1 and FAS 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The FSP addresses when an investment is considered impaired, whether the impairment is other-than-temporary and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary. The FSP is effective for reporting periods beginning after December 15, 2005 with earlier application permitted. For FBD, the effective date will be the first quarter of fiscal 2006. The adoption of this accounting principle is not expected to have a significant impact on our consolidated financial position or results of operations.

In June 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB No. 107"), *Share-Based Payment*, providing guidance on option valuation methods, the accounting for income tax effects of share-based payment arrangements upon adoption of SFAS No. 123R, and the disclosures in MD&A subsequent to the adoption.

The FASB published SFAS No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R is effective January 1, 2006 and requires that compensation cost related to share-based payment transactions, including stock options, be recognized in the consolidated financial statements. In 2005, FBD vested all previously issued, unvested options. The impact on operations in future periods will be the value imputed on future option grants using the methods prescribed in SFAS No. 123 (R). There is no impact on cash flow.

3. Investment Securities:

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

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

Investment securities available for sale as of December 31, 2004 are as follows:

<i>(Dollars in thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage Backed Securities.....	\$ 1,174	\$ 33	\$ -	\$ 1,207
Total	\$ 1,174	\$ 33	\$ -	\$ 1,207

The securities portfolio consists primarily of mortgage backed securities. FBD's Asset/Liability Committee (ALCO) reviews all security purchases to ensure compliance with security policy guidelines.

The maturity distribution of the amortized cost and estimated fair value of investment securities by contractual maturity at December 31, 2005, is as follows:

<i>(Dollars in thousands)</i>	Available for Sale	
	Amortized Cost	Estimated Fair Value
After 10 years.....	\$ 801	\$ 807
Total	<u>\$ 801</u>	<u>\$ 807</u>

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

FBD did not realize any gains or losses on the sale of securities during 2005, 2004 or 2003.

There were no pledged securities as of December 31, 2005 and 2004. Also, there were no other than temporarily impaired securities as of those dates.

4. Loans Receivable:

Loans receivable consist of the following at December 31,

<i>(Dollars in thousands)</i>	<u>2005</u>	<u>2004</u>
Real Estate – commercial.....	\$ 36,324	\$ 29,411
Construction and land development.....	13,590	9,926
Consumer and other	<u>3,059</u>	<u>1,616</u>
Loans receivable.....	52,973	40,953
Less net deferred loan fees (costs)	(51)	11
Less allowance for loan losses	<u>(1,684)</u>	<u>(1,050)</u>
Total loans receivable, net	<u>\$ 51,238</u>	<u>\$ 39,914</u>

The recorded investment in loans, which are impaired in accordance with SFAS No. 114, totaled \$198,000 and \$153,000 at December 31, 2005 and 2004 respectively. The amounts of related valuation allowances were \$53,000 and \$48,000 respectively at those dates. For the years ended December 31, 2005 and 2004, the average recorded investment in impaired loans was approximately \$150,000 and \$271,000, respectively. FBD did not realize any interest on impaired loans during 2005, 2004, or 2003. There were no commitments to extend credit to any borrowers with impaired loans as of the end of the periods presented herein.

As of December 31, 2005 and 2004, there were loans of approximately \$198,000 and \$153,000 respectively, which were classified as non-accrual. If these loans were performing under their original contractual rate, interest income on such loans would have increased approximately \$17,000, \$8,000, and \$32,000, for 2005, 2004, and 2003 respectively. Loans past due 90 days and accruing totaled \$0 and \$0 respectively, at December 31, 2005 and December 31, 2004.

The majority of loans outstanding are with borrowers in FBD's marketplace, New Castle County Delaware. In addition FBD has loans to customers whose assets and businesses are concentrated in real estate. Repayment of FBD's loans is in part dependent upon general economic conditions affecting FBD's market place and specific industries. FBD evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral varies but primarily includes residential, commercial and income-producing properties. At December 31, 2005, FBD had no foreign loans and no loan concentrations exceeding 10% of total loans except for credits extended to real estate operators and lessors in the aggregate amount of \$15.8 million, which represented 29.9% of gross loans receivable at December 31, 2005. Various types of real estate are included in this category, including industrial, retail shopping centers, office space, residential multi-family and others. Loan concentrations are considered to exist when their amounts loaned to a multiple number of borrowers engaged in similar activities that management believes would cause them to be similarly impacted by economic or other conditions.

Included in loans are loans due from directors and other related parties of \$2.0 million and \$0 at December 31, 2005 and 2004, respectively. All loans made to directors and other related parties have substantially the same terms and interest rates as other bank borrowers. The Board of Directors can approve loans to individual directors if collateral requirements, terms and rates are comparable to other borrowers and are in compliance with underwriting policies.

The Chief Executive Officer of FBD, is of counsel to a law firm effective January 2, 2002 until June 30, 2005. In 2005, 2004 and 2003, FBD paid \$13,720, \$50,741 and \$0, respectively in legal fees to that firm for a variety of legal matters.

5. Allowance for Loan Losses:

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

<i>(Dollars in thousands)</i>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Balance at beginning of year.....	\$1,050	\$1,363	\$566
Charge-offs	(1,637)	(1,780)	(145)
Recoveries.....	413	4	5
Provision for loan losses	<u>1,858</u>	<u>1,463</u>	<u>937</u>
Balance at end of year	<u><u>\$1,684</u></u>	<u><u>\$1,050</u></u>	<u><u>\$1,363</u></u>

6. Premises and Equipment:

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

<i>(Dollars in thousands)</i>	<u>Useful lives</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Furniture and equipment.....	3 to 10 years	\$1,505	\$1,314	\$1,161
Banking building.....	40 years	917	917	917
Leasehold improvements.....	20 years	<u>316</u>	<u>337</u>	<u>17</u>
		2,738	2,568	2,095
Less accumulated depreciation.....		<u>(1,434)</u>	<u>(1,167)</u>	<u>(775)</u>
Net premises and equipment.....		<u><u>\$1,304</u></u>	<u><u>\$1,401</u></u>	<u><u>\$1,320</u></u>

Depreciation expense on premises, equipment and leasehold improvements amounted to \$267,000, \$391,000, and \$315,000 in 2005, 2004 and 2003 respectively.

7. Deposits:

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

<i>(Dollars in thousands)</i>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Totals</u>
Time certificates of deposit....	<u>\$28,938</u>	<u>\$714</u>	<u>\$23</u>	<u>-</u>	<u>\$10</u>	<u>\$29,685</u>

8. Income Taxes:

The following represents the components of income tax expense (benefit) for the years ended December 31, 2005, 2004 and 2003, respectively.

<i>(Dollars in thousands)</i>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current provision			
Federal:			
Current	\$ 1,663	\$ 1,639	\$ 1,470
Deferred	(214)	71	(253)
Total provision for income taxes.....	<u>\$ 1,449</u>	<u>\$ 1,710</u>	<u>\$ 1,217</u>

The following table accounts for the difference between the actual tax provision and the amount obtained by applying the statutory federal income tax rate of 34.0% to income before income taxes for the years ended December 31, 2005, 2004 and 2003.

<i>(Dollars in thousands)</i>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Tax provision computed at statutory rate.....	\$ 1,434	\$ 1,720	\$ 1,170
Bank owned life insurance	(17)	(22)	(11)
Other	<u>32</u>	<u>12</u>	<u>58</u>
Total provision for income taxes.....	<u>\$ 1,449</u>	<u>\$ 1,710</u>	<u>\$ 1,217</u>

The approximate tax effect of each type of temporary difference that gives rise to net deferred tax assets included in the other assets in FBD balance sheets at December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Allowance for loan losses	\$ 573	\$ 357
Depreciation	(7)	(3)
Deferred loan costs.....	(42)	(44)
Unrealized (gains) on investments	<u>(2)</u>	<u>(11)</u>
Net deferred tax asset.....	<u>\$ 522</u>	<u>\$ 299</u>

The realizability of the deferred tax asset is dependent upon a variety of factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities and tax planning strategies. Based upon these and other factors, management believes that it is more likely than not that FBD will realize the benefits of these deferred tax assets.

9. Financial Instruments with Off-Balance Sheet Risk:

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

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

Financial instruments whose contract amounts represent potential credit risk are commitments to extend credit of approximately \$7.5 million and \$9.1 million and standby letters of credit of approximately \$73,000 and \$339,000 at December 31, 2005 and 2004, respectively. However, commitments may often expire without being drawn upon. Of the \$7.5 million of commitments to extend credit at December 31, 2005, substantially all were variable rate commitments.

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

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

Standby letters of credit are conditional commitments issued that guarantee the performance of a customer to a third party. The credit risk and collateral policy involved in issuing letters of credit is essentially the same as that involved in extending loan commitments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include real estate, marketable securities, pledged deposits, equipment and accounts receivable. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of December 31, 2005 and 2004 for quarantees under standby letters of credit issued is not material.

10. Commitments:

Lease Arrangements:

As of December 31, 2005, FBD had entered into non-cancelable leases expiring through September 30, 2016 (including options to renew). The leases are accounted for as operating leases. The minimum annual rental payments required under these leases are as follows:

<i>(Dollars in thousands)</i>	
Year Ended	Amount
2006	\$ 148
2007	153
2008	157
2009	162
2010	167
Thereafter	<u>2,310</u>
Total	<u><u>\$3,097</u></u>

FBD incurred rent expense of \$187,000, \$174,000, and \$153,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Other:

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

Employment Agreements:

FBD has entered into an employment agreement with the Chief Executive Officer of FBD, which provides for the payment of base salary and certain benefits through the year 2007. The aggregate commitment for future salaries and benefits under this employment agreement at December 31, 2005 is approximately \$693,000.

11. Regulatory Considerations:

Dividend payments by FBD are subject to regulation by the Delaware Banking Commissioner and the Federal Deposit Insurance Act (the "FDIA"). Generally, no dividends may be paid except from "accumulated net earnings" (generally, retained earnings). Under the FDIA, an insured bank may pay no dividends if the bank is in arrears in the payment of any insurance assessment due to the FDIC. Under current banking laws, FBD would be limited to \$9.0 million of dividends plus an additional amount equal to its net profit for 2006, up to the date of any such dividend declaration. However, dividends would be further limited in order to maintain capital ratios, requirements for which may vary. FBD has not paid dividends, since its inception.

As part of the transition, FBD entered into a Memorandum of Understanding ("MOU") with the FDIC and the Office of the State Bank Commissioner ("Delaware Commissioner") which requires, among other things that in the event the FDIC and the Delaware Commissioner determine that the payday loan program of FBD is not operated in a safe and sound manner and request in writing that FBD cease making such payday loans. After management discussions with the FDIC and the Delaware Commissioner, the Board of Directors of FBD had determined to continue the payday loan program in accordance with the provisions of the guidelines issued by the FDIC and the laws and regulations of the State of Delaware. Management believes that it is in compliance with the MOU at December 31, 2005. However, on February 17, 2006 FBD received a letter from the FDIC indicating that the Agency in its examination of banks using third parties to service payday and installment loans had found deficiencies in their expectations concerning oversight of those loan products by FBD. The letter further indicated that because of perceived reputational, compliance, and legal risks FBD should exit payday loan and installment loan businesses. The letter further stated that if FBD determines to continue the loan program we should notify the FDIC and provide it with information as to how we can correct identified problems.

On February 21, 2006, FBD issued a press release stating that we have determined to cease offering payday loans on a date to be determined. FBD also advised that it will be meeting with the FDIC to address the problems identified in the FDIC's letter and changes in the installment loan program which the Board of Directors believes will satisfy all matters raised in the letter. There can, however, be no assurance that FBD will be able to offer installment loans in a manner acceptable to the FDIC.

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

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

Management believes that FBD meets, as of December 31, 2005, all capital adequacy requirements to which it is subject. As of December 31, 2005, the FDIC categorized FBD as well capitalized under the regulatory framework for prompt corrective action provisions of the Federal Deposit Insurance Act. There are no calculations or events since that notification that management believes have changed FBD's category.

The following table presents FBD's capital regulatory ratios at December 31, 2005 and 2004:

<i>(Dollars in thousands)</i>	Actual		For Capital Adequacy Purposes		To be well capitalized under regulatory capital guidelines	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
At December 31, 2005						
Total risk based capital	\$15,021	26.38%	\$4,555	8.00%	\$5,694	10.00%
Tier one risk based capital	14,297	25.11	2,277	4.00	3,416	6.00
Tier one leverage capital.....	14,297	18.69	3,826	5.00	3,826	5.00
At December 31, 2004						
Total risk based capital	\$11,948	26.27%	\$3,638	8.00%	\$4,548	10.00%
Tier one risk based capital	11,374	25.01	1,819	4.00	2,729	6.00
Tier one leverage capital.....	11,374	20.56	2,766	5.00	2,766	5.00

12. Fair Value of Financial Instruments:

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

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

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

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

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

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

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

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

At December 31, 2005 and December 31, 2004, the carrying amount and the estimated fair value of FBD's financial instruments are as follows:

<i>(Dollars in Thousands)</i>	December 31, 2005		December 31, 2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance Sheet Data:				
Financial Assets:				
Cash and cash equivalents	\$ 22,838	\$ 22,838	\$ 11,304	\$ 11,304
Investment securities available for sale	807	807	1,207	1,207
Loans receivable, net	51,238	50,940	39,914	40,064
Bank owned life insurance.....	1,638	1,638	1,589	1,589
Accrued interest receivable.....	270	270	198	198
Financial Liabilities:				
Deposits:				
Demand, savings and money market	\$ 32,858	\$ 32,858	\$ 30,875	\$ 30,875
Time.....	29,685	29,487	6,837	6,887
Accrued interest payable.....	227	227	20	20

<i>(Dollars in Thousands)</i>	December 31, 2005		December 31, 2004	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Off Balance Sheet Financial Instruments:				
Commitments to extend credit	\$ —	\$ —	\$ —	\$ —
Letters of credit	—	—	—	—

13. Benefit Plans:

Defined Contribution Plan:

BSC sponsors a defined contribution plan pursuant to the provision of 401(k) of the Internal Revenue Code. The Plan covers all full-time employees of FBD and Republic who meet age and service requirements. The plan provides for elective employee contributions with a matching contribution from BSC up to 4%. The total expense charged to FBD, and included in salaries and employee benefits was \$79,000 in 2005, \$33,000 in 2004 and \$27,000 in 2003.

Directors' and Officers' Plans:

FBD maintains a deferred compensation plan for certain officers, wherein a percentage of base salary is contributed to the plan, and utilized to buy stock of FBD. To promote officer retention, a three year vesting period applies for each contribution. As of December 31, 2005 no amounts were vested. Expense for 2005, 2004, and 2003 was \$128,000, \$108,000, and \$0, respectively.

14. Stock Based Compensation:

FBD maintains a Stock Option Plan (the "Plan") under which the Company grants options to its employees and directors. Under the terms of the plan, 1.5 million shares of common stock, plus an annual increase equal to the number of shares needed to restore the maximum number of shares that may be available for grant under the plan to 1.5 million shares, 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 option granted vests within one to five years and has a maximum term of ten years.

**For the Year Ended December 31,
(Dollars in thousands)
2005**

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year (1)	826,707	\$ 1.40
Granted	516,000	2.70
Exercised	(281,973)	1.07
Forfeited	(7,766)	2.68
Outstanding, end of year	<u>1,052,968</u>	<u>2.11</u>
Options exercisable at year-end	<u>1,052,968</u>	<u>2.11</u>
Weighted average fair value of options granted during the year		<u>\$ 1.09</u>

(1) On January 31, 2005, in conjunction with the spin-off, option holders of Republic were issued one stock option in FBD for each stock option of Republic outstanding. No options were issued or outstanding prior to the spin-off.

The following table summarizes information about options outstanding at December 31, 2005.

<u>Options outstanding and exercisable</u>			
Range of exercise Prices	Number outstanding at December 31, 2005	Weighted Average remaining contractual life (years)	Weighted Average exercise price
\$0.78 to \$1.00	132,550	4.99	\$0.78
\$1.01 to \$1.50	220,946	4.67	1.20
\$1.51 to \$1.99	30,052	5.05	1.67
\$2.00 to \$2.69	127,820	7.91	2.66
\$2.70 to \$2.92	541,600	9.25	2.71
	<u>1,052,968</u>		<u>\$ 2.11</u>

15. Segment Reporting:

FBD's reportable segments represent strategic businesses that offer different products and services. The segments are managed separately because each segment has unique operating characteristics, management requirements and marketing strategies. FBD has four reportable segments: its community-banking segment; tax refund products; card products and short-term consumer loans. The community-banking segment is primarily comprised of the results of operations and financial condition of its Delaware commercial and consumer loans. FBD additionally offers national consumer products to the underbanked consumer including tax refund products and short-term consumer loans. Tax refund products are comprised of accelerated check refunds and refund anticipation loans offered by FBD on a national basis to customers of Liberty Tax Services, an unaffiliated national tax preparation firm. Short-term consumer loans are loans made to customers offered by FBD, with principal amounts of \$2,000 or less and terms ranging from two weeks to 140 days. These products consist of payday (loans due in approximately 2 weeks) and installment loans (loans up to 140 days). These loans typically are made in states that are outside of Delaware through a small number of marketers and involve rates and fees significantly different from other loan products. FBD also offers card products, which consist of prepaid and credit cards, on a national basis to the un-banked and under-banked market.

Segment information for the years ended December 31, 2005, 2004 and 2003 is as follows:

December 31, 2005

(Dollars in thousands)

	First Bank of Delaware	Tax Refund Products	Card Products	Short- term Consumer Loans	Total
Net interest income	\$ 2,422	\$ 137	\$ 20	\$ 3,012	\$ 5,591
Provision for loan losses	204	-	-	1,654	1,858
Non-interest income.....	195	1,647	223	4,788	6,853
Non-interest expenses.....	1,956	798	710	2,904	6,368
Net income (loss).....	\$ 302	\$ 651	\$ (308)	\$ 2,124	\$ 2,769

Selected Balance Sheet Amounts:

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

December 31, 2004

(Dollars in thousands)

	First Bank of Delaware	Tax Refund Products	Card Products	Short- term Consumer Loans	Total
Net interest income	\$ 1,779	\$ 108	\$ -	\$ 1,663	\$ 3,550
Provision for loan losses	70	-	-	1,393	1,463
Non-interest income.....	192	1,174	-	6,818	8,184
Non-interest expenses.....	1,614	894	-	2,703	5,211
Net income.....	\$ 192	\$ 256	\$ -	\$ 2,902	\$ 3,350

Selected Balance Sheet Amounts:

Total assets.....	\$ 55,081	\$ -	\$ -	\$ 3,527	\$ 58,608
Total loans, net.....	39,025	-	-	889	39,914
Total deposits.....	37,713	-	-	-	37,713

15. Segment Reporting(continued):

December 31, 2003
(Dollars in thousands)

	First Bank of Delaware	Tax Refund Products	Card Products	Short-term Consumer Loans	Total
Net interest income.....	\$ 1,588	\$ 108	\$ —	\$ 477	\$ 2,173
Provision for loan losses.....	121	—	—	816	937
Non-interest income	178	487	—	6,147	6,812
Non-interest expenses.....	1,572	633	—	2,403	4,608
Net income (loss).....	\$ 46	\$ (25)	\$ —	\$ 2,202	\$ 2,223

Selected Balance Sheet Amounts:

Total assets	\$ 38,564	\$ —	\$ —	\$ 5,973	\$ 44,537
Total loans, net	26,357	—	—	675	27,032
Total deposits	33,247	—	—	—	33,247

16. Transactions with Affiliate:

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

At December 31, 2005 and 2004, First Bank of Delaware had outstanding balances of \$41.5 million and \$28.6 million, respectively, of commercial loans, which had been participated to Republic First Bank (“RFB”). FBD also sold its tax refund loans to RFB. Such loans are repaid by U.S. Treasury-issued tax refunds paid directly to FBD in the first and second quarters of the year. Accordingly, there were no such loans outstanding at December 31, 2005 and 2004. As of December 31, 2005 and 2004 FBD had outstanding balances of \$24.2 and \$11.5 million of commercial loan balances it had purchased from Republic First Bank. The above loan participations and sales were made at arms length. They are made as a result of lending limit and other regulatory requirements. FBD also maintained a correspondent bank deposit account with Republic First Bank. At December 31, 2005 and 2004, balances amounted to \$0 and \$0 respectively.

FBD employees were allowed to participate in a 401(k) plan sponsored by RFB. The expense related to this plan was \$33,000 and \$27,000 for the years ended December 31, 2004, and 2003, respectively. In 2005, the plan sponsor was changed to BSC and all eligible FBD participants continued to participate. The plan expense for 2005 was \$79,000. The plan was not materially modified. FBD and RFB maintain a deferred compensation plan for certain officers, wherein a percentage of base salary is contributed to the plan and utilized to buy stock of the company. To promote officer retention, a three year vesting period applies for each contribution. As of December 31, 2005, no amounts were vested. Expense for 2005, 2004, and 2003 was \$128,000, \$108,000, and \$0, respectively.

SUBSIDIARIES OF FIRST BANK OF DELAWARE

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

(1) Formed in January 2006.

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

CERTIFICATION

I, Harry D. Madonna, certify that:

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

Date: March 9, 2006

/s/ Harry D. Madonna
Chairman, President and Chief Executive Officer

CERTIFICATION

I, Paul Frenkiel, certify that:

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

Date: March 9, 2006

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

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

In connection with the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005, 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: March 9, 2006

By: /s/ Harry D. Madonna
Harry D. Madonna
Chairman, President and
Chief Executive Officer

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

In connection with the Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005, 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: March 9, 2006

By: /s/ Paul Frenkiel

Paul Frenkiel,
Executive Vice President and
Chief Financial Officer