

# 1 First Resource Bank



# 1 First Resource Bank



**FRed™ – First Resource Easy Deposit™**  
*Remote Deposit Capture System*  
Deposit checks from *any* business location

Branch Office:  
**Exton**  
101 Marchwood Road  
Exton, PA 19341

Future Office:  
**Downingtown**  
Route 322/Horseshoe Pike  
Downingtown, PA 19335

Remote Banking Center:  
**Coatesville**  
356 W. Lincoln Highway  
Coatesville, PA 19320



Dear Shareholder:

Since First Resource Bank opened in May 2005, we have consistently exceeded our original projections for both balance sheet growth and profitability. In our 2006 annual report, the Bank reported a preservation of \$600,000 of shareholders' capital through the reduction of projected operating losses and the achievement of our first profitable quarter for the fourth quarter of 2006. Now First Resource Bank is pleased to present our 2007 Annual Report which includes a profitable year, in an environment where larger financial institutions have garnered a great deal of negative publicity. The Bank has achieved profitability in all four quarters of 2007 without using any of the widely publicized, risky, high interest rate lending products and other quick fix products that have come to burden so many other financial institutions.

First Resource Bank is pleased to announce net income of \$650,973 for the year ended December 31, 2007. Included in net income for the year ended December 31, 2007 is a net tax benefit of \$528,411 due to the reversal of a valuation allowance previously recorded against the Bank's deferred tax asset. Pre-tax income for the year ended December 31, 2007 was \$122,562 which favorably compares to a pre-tax net loss of \$347,169 for the year ended December 31, 2006.

First Resource Bank has previously expressed to its shareholders that the business of a community bank can be far less exciting than large banks with their exotic financial transactions. Properly executed however, a sound community banking strategy can provide solid profitability and long term growth at a reduced level of risk for the bank investor. First Resource Bank continues to build and grow quality lending and deposit relationships throughout Chester County. There are, without question, credit issues surfacing around the country in specific geographic areas and within specific lending products. We continually monitor our loan portfolio for signs of changes and advise our customers to make adjustments as needed. Quality underwriting and strong customer relationships have always been the key to building a solid foundation for the Bank. In 2008 we will continue to focus on consistent profitability, smart growth of the Bank's footprint in the community, management of overhead expenses, and management of our net interest margin through the use of cost efficient funding sources coupled with profitable growth in the loan portfolio. This strategy will create a community bank that will weather the current economic climate, as well as future economic cycles.

We would like to thank the Board of Directors, the Advisory Board and the FRB Employee Team for their continued hard work in 2007. We continue to thank our shareholders for the use of their capital and for those who have moved their accounts to the Bank and permitted us to assist them with their financing needs. We thank our strong local customer base for their support in our growth. If you have any questions about First Resource Bank or any of our available bank services, please feel free to contact Glenn at his office at 610-561-6013 or on his cell at 610-996-6661.

Sincerely,

A handwritten signature in black ink that reads 'Glenn B. Marshall'.

Glenn B. Marshall  
President & CEO

A handwritten signature in black ink that reads 'James B. Griffin'.

James B. Griffin  
Chairman of the Board

# *First Resource Bank*

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**December 31, 2007 and 2006**

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## Independent Auditor's Report

To the Board of Directors  
First Resource Bank  
Exton, Pennsylvania

We have audited the accompanying balance sheets of First Resource Bank as of December 31, 2007 and 2006, and the related statements of income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's 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 financial position of First Resource Bank as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Beard Miller Company LLP*

Beard Miller Company LLP  
Allentown, Pennsylvania  
January 21, 2008

# *First Resource Bank*

## Balance Sheets

December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Cash and due from banks	\$ 1,506,236	\$ 488,399
Federal funds sold	26,000	6,453,000
	<u>1,532,236</u>	6,941,399
Cash and Cash Equivalents		
	1,532,236	6,941,399
Time deposits at other banks	100,000	100,000
Securities available for sale	12,247,759	7,990,332
Loans, net of allowance for loan losses 2007 \$908,342; 2006 \$677,892	80,586,581	60,472,875
Restricted investment in bank stock	937,900	112,000
Bank premises and equipment, net	381,200	446,235
Accrued interest receivable	373,837	269,437
Other assets	1,142,523	140,202
	<u>1,142,523</u>	<u>140,202</u>
<b>Total Assets</b>	<b><u>\$97,302,036</u></b>	<b><u>\$76,472,480</u></b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Non-interest bearing	\$ 2,500,698	\$ 3,098,554
Interest-bearing	67,176,370	64,649,171
	<u>67,176,370</u>	<u>64,649,171</u>
Total Deposits	69,677,068	67,747,725
Short-term borrowings	14,120,700	-
Long-term borrowings	4,000,000	-
Accrued interest payable	196,692	124,425
Other liabilities	158,979	201,181
	<u>158,979</u>	<u>201,181</u>
<b>Total Liabilities</b>	<b><u>88,153,439</u></b>	<b><u>68,073,331</u></b>
<b>Stockholders' Equity</b>		
Preferred stock; authorized 500,000 shares; none issued and outstanding	-	-
Common stock, \$1 par value; authorized 5,000,000 shares; issued and outstanding 1,197,994 and 1,086,111 shares, respectively	1,197,994	1,086,111
Surplus	9,012,240	9,033,840
Accumulated other comprehensive income (loss)	478	(7,714)
Accumulated deficit	(1,062,115)	(1,713,088)
	<u>(1,062,115)</u>	<u>(1,713,088)</u>
<b>Total Stockholders' Equity</b>	<b><u>9,148,597</u></b>	<b><u>8,399,149</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$97,302,036</u></b>	<b><u>\$76,472,480</u></b>

See notes to financial statements.

# ***First Resource Bank***

## **Statements of Income**

**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Interest Income</b>		
Loans, including fees	\$5,922,339	\$3,878,869
Securities	236,659	97,025
Federal funds sold	181,310	129,443
Other	2,030	2,570
<b>Total Interest Income</b>	<u>6,342,338</u>	<u>4,107,907</u>
<b>Interest Expense</b>		
Deposits	3,353,402	1,825,818
Borrowings	59,234	77,932
<b>Total Interest Expense</b>	<u>3,412,636</u>	<u>1,903,750</u>
<b>Net Interest Income</b>	2,929,702	2,204,157
<b>Provision for Loan Losses</b>	<u>330,691</u>	<u>351,570</u>
<b>Net Interest Income after Provision for Loan Losses</b>	<u>2,599,011</u>	<u>1,852,587</u>
<b>Non-Interest Income</b>	<u>88,395</u>	<u>47,477</u>
<b>Non-Interest Expenses</b>		
Salaries and employee benefits	1,323,031	1,128,823
Occupancy and equipment	343,894	321,000
Professional fees	219,683	208,100
Advertising and promotion	98,542	105,022
Data processing	179,330	163,728
Other	400,364	320,560
<b>Total Non-Interest Expenses</b>	<u>2,564,844</u>	<u>2,247,233</u>
<b>Income (Loss) before Income Taxes</b>	122,562	(347,169)
<b>Federal Income Tax Benefit</b>	<u>528,411</u>	<u>-</u>
<b>Net Income (Loss)</b>	<u>\$ 650,973</u>	<u>\$ (347,169)</u>

*See notes to financial statements.*

# First Resource Bank

## Statements of Stockholders' Equity Years Ended December 31, 2007 and 2006

	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
<b>Balance - December 31, 2005</b>	\$1,034,386	\$9,010,750	\$ -	\$(1,365,919)	\$8,679,217
Comprehensive loss:					
Net loss	-	-	-	(347,169)	(347,169)
Unrealized losses on available for sale securities	-	-	(7,714)	-	(7,714)
<b>Total Comprehensive Loss</b>					<u>(354,883)</u>
Stock-based compensation	-	74,815	-	-	74,815
5% common stock distribution	51,725	(51,725)	-	-	-
<b>Balance - December 31, 2006</b>	1,086,111	9,033,840	(7,714)	(1,713,088)	8,399,149
Comprehensive income:					
Net income	-	-	-	650,973	650,973
Unrealized gains on available for sale securities, net of tax	-	-	8,192	-	8,192
<b>Total Comprehensive Income</b>					<u>659,165</u>
Stock-based compensation	-	89,389	-	-	89,389
Sale of common stock	271	623	-	-	894
5% common stock distribution	54,406	(54,406)	-	-	-
5% common stock distribution	57,206	(57,206)	-	-	-
<b>Balance - December 31, 2007</b>	<u>\$1,197,994</u>	<u>\$9,012,240</u>	<u>\$ 478</u>	<u>\$(1,062,115)</u>	<u>\$9,148,597</u>

See notes to financial statements.

# ***First Resource Bank***

## **Statements of Cash Flows**

**Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 650,973	\$ (347,169)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	330,691	351,570
Depreciation	172,443	160,571
Stock-based compensation	89,389	74,815
Deferred tax provision	(528,411)	-
Increase in accrued interest receivable	(104,400)	(162,232)
Increase in other assets	(53,533)	(31,556)
Increase in accrued interest payable	72,267	55,439
Increase (decrease) in other liabilities	(42,202)	22,320
<b>Net Cash Provided by Operating Activities</b>	<u>587,217</u>	<u>123,758</u>
<b>Cash Flows from Investing Activities</b>		
Net increase in loans	(20,864,774)	(32,218,258)
Purchases of securities available for sale and restricted bank stock	(27,825,135)	(7,998,046)
Maturities and redemptions of securities available for sale and restricted bank stock	22,750,000	24,988,108
Purchase of time deposit in another bank	(198,000)	(100,000)
Maturity of time deposit in another bank	198,000	250,000
Purchases of premises and equipment	(107,408)	(95,137)
<b>Net Cash Used in Investing Activities</b>	<u>(26,047,317)</u>	<u>(15,173,333)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	1,929,343	45,138,913
Increase (decrease) in short-term borrowings	14,120,700	(23,656,500)
Proceeds from long-term borrowings	4,000,000	-
Proceeds from sale of common stock	894	-
<b>Net Cash Provided by Financing Activities</b>	<u>20,050,937</u>	<u>21,482,413</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(5,409,163)	6,432,838
<b>Cash and Cash Equivalents - Beginning</b>	<u>6,941,399</u>	<u>508,561</u>
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 1,532,236</u>	<u>\$ 6,941,399</u>
<b>Supplementary Cash Flows Information</b>		
Interest paid	<u>\$ 3,340,369</u>	<u>\$ 1,848,311</u>
Other real estate acquired in settlement of loans	<u>\$ 420,377</u>	<u>\$ -</u>

*See notes to financial statements.*

# ***First Resource Bank***

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## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 1 - Summary of Significant Accounting Policies**

#### **Organization and Nature of Operations**

First Resource Bank (the “Bank”) was incorporated on January 10, 2005 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered bank. The Bank commenced operations on May 2, 2005 and is a full service bank providing personal and business lending and deposit services. As a state chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and the Federal Deposit Insurance Corporation. The area served by the Bank is the southeastern area of Pennsylvania.

#### **Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

#### **Significant Group Concentrations of Credit Risk**

Most of the Bank’s activities are with customers located within Chester County, Pennsylvania. Note 3 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its debtors’ ability to honor their contracts is influenced by the region’s economy. The Bank does not have any significant concentrations to any one industry or customer.

#### **Presentation of Cash Flows**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased or sold for one day periods.

#### **Securities**

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank’s assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains and losses are reported as increases or decreases in other comprehensive income. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

# ***First Resource Bank***

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## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Securities (Continued)**

Securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities. At December 31, 2007 and 2006, the Bank had no securities classified as held to maturity.

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 the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

#### **Loans**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is amortizing these amounts over the contractual life of the loan.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

#### **Allowance for Loan Losses**

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance is based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revisions as more information becomes available.

# ***First Resource Bank***

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## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Allowance for Loan Losses (Continued)**

The allowance consists of specific and general 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank 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 all of 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 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 Bank does not separately identify individual consumer and home equity loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

#### **Transfers of Financial Assets**

Transfers of financial assets, including loan and loan participation sales, 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 Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

#### **Restricted Investment in Bank Stock**

Restricted stock is comprised of stock in the Federal Home Loan Bank of Pittsburgh and Atlantic Central Bankers Bank. Federal law requires a member institution of the Federal Home Loan Bank to hold stock according to a predetermined formula. All restricted stock is recorded at cost.

# ***First Resource Bank***

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## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Foreclosed Assets**

Foreclosed assets are comprised of property acquired through a foreclosure proceeding or acceptance of a deed-in-lieu of foreclosure and loans classified as in-substance foreclosure. The Bank includes such properties in other assets. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal proceedings take place. Foreclosed assets initially are recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. In addition, any gain or loss realized upon disposal is included in other income or expense. The Bank had foreclosed assets of \$420,377 and \$-0- at December 31, 2007 and 2006, respectively. Such assets are recorded in other assets in the accompanying balance sheet.

#### **Bank Premises and Equipment**

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

#### **Advertising Costs**

The Bank follows the policy of charging the costs of advertising to expense as incurred.

#### **Employee Benefit Plan**

During 2005, the Bank established a 401(k) Plan (the "Plan"). All employees are eligible to participate after they have attained the age of 18. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan. The Bank has elected to make a 3% safe harbor contribution for all employees. This contribution is vested immediately. The Bank's contribution to the Plan for the years ended December 31, 2007 and 2006 was \$35,315 and \$28,075, respectively.

#### **Income Taxes**

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

# ***First Resource Bank***

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## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Stock-Based Compensation**

Prior to January 1, 2006, the Bank's stock option plan was accounted for under the recognition and measurement provisions of APB Opinion No. 25 (Opinion 25), "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by FASB Statement No. 123, "Accounting for Stock Based Compensation." No stock-based employee compensation cost was recognized in the Bank's statement of income through December 31, 2005, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. In December 2004, FASB issued Statement No. 123(R), "Share-Based Payment," which was required for periods beginning after December 15, 2005. Statement No. 123(R) replaces Statement No. 123, supersedes APB Opinion No. 25 and requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. Effective January 1, 2006, the Bank adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment," using the modified-prospective transition method. Under that transition method, compensation cost recognized after January 1, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested, as of January 1, 2006 based on the grant-date fair value calculated in accordance with the provision of Statement No. 123, and (b) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant-date fair value calculated in accordance with the provision of Statement 123(R).

For the years ended December 31, 2007 and 2006, there was compensation expense of \$89,389 and \$74,815, respectively, included in salaries and employee benefits related to share-based payments granted prior to January 1, 2007 which vested in 2007 and 2006. There were no share-based payments granted in 2007. There was a \$30,392 tax benefit recognized in 2007, but no tax benefit recognized in 2006 due to the valuation allowance recorded for the Bank's net deferred tax asset for the year ended December 31, 2006. Therefore, as a result of adopting Statement No. 123(R), the Bank's net income for the year ended December 31, 2007 was \$58,997 lower and the Bank's net loss for the year ended December 31, 2006 was \$74,815 higher than if the Bank had continued to account for stock-based compensation under APB Opinion No. 25.

#### **Comprehensive Income**

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. Other comprehensive income as of and for the year ended December 31, 2007 consisted of unrealized holding gains on available for sale securities of \$8,192, net of tax. Other comprehensive loss as of and for the year ended December 31, 2006 consisted of unrealized holding losses on available for sales securities of \$7,714.

#### **Off-Balance Sheet Financial Instruments**

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the balance sheet when they are funded.

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

#### **Stock Distributions**

On December 19, 2007, the Bank declared a stock distribution in the form of a 5% stock dividend. If the Bank had accumulated profits (retained earnings), the Bank would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Bank currently has an accumulated deficit, it transferred the par value of the shares issued from surplus to common stock.

On January 26, 2007, the Bank declared a stock distribution in the form of a 5% stock dividend. If the Bank had accumulated profits (retained earnings), the Bank would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Bank currently has an accumulated deficit, it transferred the par value of the shares issued from surplus to common stock.

On January 30, 2006, the Bank declared a stock distribution in the form of a 5% stock dividend. If the Bank had accumulated profits (retained earnings), the Bank would have transferred the fair market value of the shares issued from retained earnings to common stock and additional paid-in capital. Since the Bank currently has an accumulated deficit, it transferred the par value of the shares issued from surplus to common stock.

### **Note 2 - Securities Available for Sale**

The amortized cost and approximate fair value of securities available for sale at December 31, 2007 and 2006 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>December 31, 2007:</b>				
U. S. Government Agency Securities	<u>\$12,247,036</u>	<u>\$723</u>	<u>\$ -</u>	<u>\$12,247,759</u>
<b>December 31, 2006:</b>				
U. S. Government Agency Securities	<u>\$ 7,998,046</u>	<u>\$</u>	<u>\$(7,714)</u>	<u>\$ 7,990,332</u>

As of December 31, 2006, two securities were in unrealized loss positions due to interest rate fluctuations. There were no unrealized losses in the portfolio at December 31, 2006 that exceeded 12 months. No securities were deemed to be other-than-temporarily impaired. There were no sales of securities in 2007 and 2006.

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 2 - Securities Available for Sale (Continued)**

The amortized cost and fair value of securities available for sale as of December 31, 2007, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in less than one year	\$ 9,997,036	\$ 9,997,036
Due after one year through five years	1,750,000	1,750,638
Due after five years through ten years	500,000	500,085
	<u>\$12,247,036</u>	<u>\$12,247,759</u>

### **Note 3 - Loans Receivable**

The composition of loans receivable at December 31, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Commercial	\$ 7,168,494	\$ 4,217,848
Commercial real estate	42,497,043	29,807,902
Commercial construction	14,442,069	10,877,807
Consumer home equity	16,848,259	15,876,520
All other consumer	651,307	462,423
<b>Total Loans</b>	<b>81,607,172</b>	<b>61,242,500</b>
Unearned net loan origination fees and costs	(112,249)	(91,733)
Allowance for loan losses	(908,342)	(677,892)
<b>Net Loans</b>	<b>\$80,586,581</b>	<b>\$60,472,875</b>

### **Note 4 - Allowance for Loan Losses**

The changes in the allowance for loan losses for the years ended December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning	\$677,892	\$326,322
Charge-offs	(100,241)	-
Provision for loan losses	330,691	351,570
Balance, ending	<u>\$908,342</u>	<u>\$677,892</u>

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 4 - Allowance for Loan Losses (Continued)**

Total recorded investment in impaired loans was \$1,026,925 at December 31, 2007. Impaired loans of \$394,359 required an allowance for loan losses of \$82,708 at December 31, 2007. Impaired loans of \$632,566 did not require an allowance for loan losses at December 31, 2007. For the year ended December 31, 2007, the average recorded investment of impaired loans was \$469,088. Approximately \$9,000 of interest income was recognized for the time the loans were impaired during 2007. Nonaccrual loans at December 31, 2007 were \$394,359. The Bank had no loans past due 90 days or more and still accruing.

As of December 31, 2006, the Bank had no impaired loans, no nonaccrual loans, and no loans past due 90 days or more and still accruing.

### **Note 5 - Bank Premises and Equipment**

The components of premises and equipment at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Leasehold improvements	<b>\$381,295</b>	\$325,012
Furniture, fixtures and equipment	<b>232,287</b>	217,442
Computer equipment and data processing software	<b>193,767</b>	157,487
	<b>807,349</b>	699,941
Accumulated depreciation	<b>(426,149)</b>	(253,706)
	<b><u>\$381,200</u></b>	<b><u>\$446,235</u></b>

### **Note 6 - Deposits**

The components of deposits at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Demand, non-interest bearing	<b>\$ 2,500,698</b>	\$ 3,098,554
Demand, interest-bearing	<b>1,368,086</b>	760,794
Money market accounts	<b>16,656,631</b>	16,696,159
Time, \$100,000 and over	<b>16,547,025</b>	13,073,228
Time, other	<b>32,604,628</b>	34,118,990
	<b><u>\$69,677,068</u></b>	<b><u>\$67,747,725</u></b>

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

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### **Note 6 - Deposits (Continued)**

At December 31, 2007, the scheduled maturities of time deposits are as follows:

2008	<b>\$40,026,269</b>
2009	<b>6,766,305</b>
2010	<b>808,199</b>
2011	<b>730,965</b>
2012	<b>819,915</b>
	<hr/>
	<b>\$49,151,653</b>

At December 31, 2007 and 2006, the Bank had brokered deposits of \$3,954,000 and \$6,196,000, respectively.

### **Note 7 - Borrowings**

Short-term borrowings at December 31, 2007 consists of an advance from the Federal Home Loan Bank (FHLB) of \$14,120,700, due January 2, 2008 with interest at 3.83%.

Long-term borrowings at December 31, 2007 consist of FHLB borrowings with the following maturity dates and interest rates:

Fixed note at 4.39%, maturing on November 2, 2009	<b>\$2,000,000</b>
Fixed note at 3.95%, maturing on November 27, 2009	<b>1,000,000</b>
Fixed note at 3.86%, maturing on December 3, 2010	<b>1,000,000</b>
	<hr/>
	<b>\$4,000,000</b>

Contractual maturities of long-term debt at December 31, 2007 were as follows:

2009	<b>\$3,000,000</b>
2010	<b>1,000,000</b>
	<hr/>
	<b>\$4,000,000</b>

All borrowings from the Federal Home Loan Bank of Pittsburgh are secured by a blanket lien against investment securities, real estate mortgages and home equity loans. The Company is required to maintain stock in the Federal Home Loan Bank of Pittsburgh of \$887,900 and \$62,000 as of December 31, 2007 and 2006, respectively. The Bank has a maximum borrowing capacity with the Federal Home Loan Bank (FHLB) of Pittsburgh of approximately \$39,196,000 at December 31, 2007, of which \$18,120,700 was outstanding.

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 8 - Lease Commitments**

In 2005, the Bank entered into an operating lease agreement with a related party for its main banking office. The lease terms are comparable to similarly outfitted office space in the Bank's market. This building was sold in 2007 to an unrelated party and the lease terms were unchanged. This lease commenced January 2005 during organization of the Bank and has a five-year term with an additional five-year option period. Rent expense for the years ended December 31, 2007 and 2006 was \$90,000 for both years.

In 2006, the Bank entered into an operating lease agreement with a different related party for office space and a remote banking center which houses an ATM machine and an after hours depository. The lease terms are comparable to similarly outfitted space in the Bank's market. The lease commenced May 1, 2006 and has a three year term. Rent expense for the years ended December 31, 2007 and 2006 totaled \$2,400 and \$1,800, respectively.

In 2007, the Bank entered into an operating lease agreement with a different related party for office space for the operations department. The lease terms are comparable to similarly outfitted space in the Bank's market. The lease will commence on February 1, 2008 and has a seven year term. There was no rent expense for this lease in the years ended December 31, 2007 or 2006.

In 2007, the Bank entered into an operating lease agreement for ground for the Bank's second branch location in East Brandywine Township, PA. The lease will commence at the earlier of six months after the landlord has received all appropriate township and other governmental approvals and permits or the day that branch opens for business. As of December 31, 2007, the lease commencement date has not been established. This lease has a twenty year term with two extension options; one option for an additional five years and another option for an additional 4 years and 11 months. There was no rent expense for this lease in the years ended December 31, 2007 or 2006. Total payments for the initial twenty year term of this lease will total \$3,745,080. Future minimum lease payments for this lease have not been included in the following table due to uncertainty regarding the timing of those payments.

Future minimum lease payments by year and in the aggregate, under these lease agreements, are as follows:

2008	<b>\$115,935</b>
2009	<b>117,187</b>
2010	<b>27,165</b>
2011	<b>27,943</b>
2012	<b>28,721</b>
Thereafter	<b><u>62,305</u></b>
	<b><u><u>\$379,256</u></u></b>

### **Note 9 - Employment Agreements**

The Bank entered into employment agreements in 2005 with its chief executive officer and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. These agreements were superceded by new employment agreements with similar contractual terms entered into in 2007. In 2006, the Bank entered into change of control agreements with its chief operating officer and chief credit officer. The change in control provisions in these agreements provide that upon resignation after a change in the control of the Bank, as defined in the agreements, the individuals will receive monetary compensation in the amount set forth in the agreement.

# ***First Resource Bank***

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## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 10 - Stockholders' Equity**

During 2007, the Bank adopted the First Resource Bank Employee Stock Purchase Plan. The Plan allows employees with at least six months of service and who customarily work more than five months per calendar year to purchase shares through a payroll deduction at a price set by the Capital Committee between 85 percent and 100 percent of the fair market value of such share on each quarterly purchase date. Payroll deductions for this plan cannot exceed the lower of 5% of the employee's compensation or \$2,500 per quarter. During 2007, the Bank sold 271 shares of common stock under this Plan which resulted in net proceeds of \$894.

### **Note 11 - Stock Option Plan**

In 2005, the Bank adopted the First Resource Bank Stock Compensation Plan (the Plan). The Plan authorizes the Board of Directors to grant options and restricted stock up to an aggregate of 15% of the shares of common stock as of the effective date of the Plan to officers, other employees and directors of the Bank. For each fiscal year in which the Bank reports positive net income as determined by the Bank's audited GAAP financial statements, the number of shares of common stock available for issuance under the Plan will increase by 1% of the shares of common stock outstanding on December 31 of the immediately preceding calendar year. However, in no case can the aggregate number of shares of common stock issuable under the Plan exceed 18% of common stock outstanding as of December 31 of each applicable year. No incentive stock options may be granted on the basis of the additional shares of common stock resulting from such annual increases. Restricted stock awards cannot exceed 25% of the total shares authorized under the Plan. Incentive stock awards cannot exceed 75% of the shares initially issuable under the Plan. Awards to non-employee directors cannot exceed 35% of the shares initially issuable under the Plan.

The Plan was approved by shareholders at the April 26, 2006 Annual Shareholder's Meeting. The shares granted under the Plan to directors are non-qualified options. The shares granted under the Plan to officers and other employees can be non-qualified options or incentive stock options, subject to the limitations under Section 422 of the Internal Revenue Code.

All options granted under the Plan have a term that shall not exceed 10 years. The exercise price of the options granted shall be the fair market value of a share of common stock at the time of the grant. The vesting period is at the discretion of the Board of Directors. The 2005 stock option grants vest over 3 or 5 years. The 2006 stock option grants vest over 5 years. There were no option grants in 2007.

During 2005, 63,660 stock options were granted to certain officers and directors of the Bank as compensation for their efforts in organizing the Bank. Such options have a term of 10 years, vest over 5 years and the exercise price equaled the fair market value of a share of common stock at the time of the grant. Such options are not subject to the First Resource Bank Stock Compensation Plan.

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 11 - Stock Option Plan (Continued)**

Following is a rollforward of stock option activity through December 31, 2007 (as adjusted for the 5% stock dividends):

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding, December 31, 2005	163,086	\$8.63		
2006 grants	<u>29,161</u>	<u>8.31</u>		
Options outstanding, December 31, 2006	192,247	8.59		
2007 forfeitures	<u>1,050</u>	<u>8.90</u>		
Options outstanding, December 31, 2007	<u><u>191,197</u></u>	<u><u>\$8.59</u></u>	<u>7.7 years</u>	<u>\$ -</u>
Options exercisable, December 31, 2007	<u><u>73,015</u></u>	<u><u>\$8.61</u></u>	<u>7.6 years</u>	<u>\$ -</u>
Options exercisable, December 31, 2006	<u><u>33,696</u></u>	<u><u>\$8.63</u></u>		

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 2006: dividend yield of 0%; volatility of 20.1%; risk-free interest rate of 4.65%; and expected life of 7 years. The weighted average fair value of options granted in 2006 was \$2.90 per share, as adjusted for the two 5% stock dividends in 2007.

As of December 31, 2007, there was \$235,000 of unrecognized compensation cost related to nonvested stock options granted in 2007 and prior that is expected to be recognized through 2011.

### **Note 12 - Federal Income Taxes**

The components of the federal income tax benefit for the year ended December 31, 2007 is as follows:

Current	\$ -
Deferred	<u>(528,411)</u>
	<u><u>\$(528,411)</u></u>

# *First Resource Bank*

## Notes to Financial Statements

December 31, 2007 and 2006

### Note 12 - Federal Income Taxes (Continued)

There was no provision for income taxes for the year ended December 31, 2006 due to the net operating losses incurred.

A reconciliation of the statutory federal income tax at a rate of 34% to the income tax benefit included in the statement of income for the year ended December 31, 2007 is as follows:

Federal income tax at statutory rate	\$ 41,671
Change in valuation allowance	(574,299)
Other	4,217
	<u>4,217</u>
	<u><u>\$ (528,411)</u></u>

The components of the net deferred tax asset (liability) at December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Allowance for loan losses	\$200,889	\$194,563
Contribution carryforward	940	442
Organization and start-up costs	118,067	130,897
Depreciation on premises and equipment	28,599	13,519
Stock option compensation	55,829	25,437
Net operating loss carryforwards	325,830	316,375
	<u>730,154</u>	<u>681,233</u>
<b>Total Deferred Tax Assets</b>	<b>730,154</b>	681,233
Valuation allowance	-	(574,299)
	<u>-</u>	<u>(574,299)</u>
<b>Total Deferred Tax Assets, Net of Valuation Allowance</b>	<b>730,154</b>	106,934
Deferred tax liabilities:		
Deferred loan costs	63,088	36,364
Unrealized gains on available for sale securities	246	-
Cash basis conversion	138,655	70,570
	<u>201,989</u>	<u>106,934</u>
<b>Total Deferred Tax Liabilities</b>	<b>201,989</b>	106,934
<b>Net Deferred Tax Asset</b>	<b><u>\$528,165</u></b>	<b><u>\$ -</u></b>

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately \$954,000 which expire beginning in 2025.

# ***First Resource Bank***

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

### **Note 13 - Transactions with Executive Officers, Directors and Principal Stockholders**

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans receivable of related parties totaled \$2,314,327 at December 31, 2007 and \$2,306,861 at December 31, 2006. During 2007, \$368,379 of advances were made and repayments totaled \$360,913. Deposits of related parties totaled \$2,635,589 and \$1,989,708 at December 31, 2007 and 2006, respectively.

The Bank paid legal fees of approximately \$5,947 and \$4,948 to a law firm of a director for the years ended December 31, 2007 and 2006, respectively. The Bank leased its main office facility from a related party as described in Note 8 in 2007 and 2006. Total rent expense to the related party was \$90,000 for the years ended December 31, 2007 and 2006. The Bank leases office space and a storefront used for a remote banking center from a related party as described in Note 8. Total rent expense to the related party was \$1,200 and \$1,800 for the years ended December 31, 2007 and 2006, respectively. The Bank purchases diesel fuel for its generator from an excavating company owned by a director in 2007. Total diesel fuel expenses were \$415.

### **Note 14 - Financial Instruments with Off-Balance Sheet Risk**

The Bank 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the Bank's financial instrument commitments at December 31, 2007 and 2006 is as follows:

	<b>Contract Amount</b>	
	<b>2007</b>	<b>2006</b>
Commitments to grant loans	<b>\$ 7,843,000</b>	\$ -
Unfunded commitments under lines of credit	<b>19,408,000</b>	14,010,000

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

# *First Resource Bank*

## Notes to Financial Statements

December 31, 2007 and 2006

### Note 15 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

The Federal Deposit Insurance Corporation requires that the Bank maintain a ratio of Tier 1 leverage capital to total assets of at least 8% during the first three years of operation. Under these guidelines, the Bank is considered well capitalized as of December 31, 2007.

The Bank's actual capital amounts and ratios at December 31, 2007 and 2006 are presented below:

	Actual		For Capital Adequacy Purposes				To be Well Capitalized under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio			
(Dollar Amounts in Thousands)									
<b>As of December 31, 2007:</b>									
Total capital (to risk-weighted assets)	\$9,674	11.8	%	\$≥6,549	≥8.0	%	\$≥8,186	≥10.0	%
Tier 1 capital (to risk-weighted assets)	8,766	10.7		≥3,274	≥4.0		≥4,912	≥ 6.0	
Tier 1 capital (to total assets)	8,766	10.2		≥6,908	≥8.0		≥6,908	≥ 8.0	
<b>As of December 31, 2006:</b>									
Total capital (to risk-weighted assets)	\$9,085	14.2	%	\$≥5,107	≥8.0	%	\$≥6,384	≥10.0	%
Tier 1 capital (to risk-weighted assets)	8,407	13.2		≥2,553	≥4.0		≥3,830	≥ 6.0	
Tier 1 capital (to total assets)	8,407	13.4		≥5,022	≥8.0		≥5,022	≥ 8.0	

The Bank is subject to certain restrictions on the amount of cash dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

**1 First  
Resource  
Bank**

**1** **First**  
**Resource**  
**Bank**

## Board of Directors

**Joseph J. DiSciullo**  
President, ZEKE'S INC.

**James B. Griffin**  
President,  
JAMES B. GRIFFIN, P.C.  
& Chairman,  
FIRST RESOURCE BANK

**Christopher J. Knauer**  
Secretary & Treasurer,  
OAKLANDS BUSINESS PARKS INC.

**Glenn B. Marshall**  
President & CEO,  
FIRST RESOURCE BANK

**John P. O'Connell**  
Managing Partner,  
WEST CHESTER OFF-CAMPUS  
HOUSING, LLC

**Richard D. Orlow**  
Counsel,  
EARTH ENTERPRISES INC.

**Lauren C. Ranalli**  
Executive Vice President  
& CFO, FIRST RESOURCE BANK

**Philip J. Reilly, Jr.**  
President,  
P. J. REILLY CONTRACTING CO., INC.

## First Resource Senior Management

**Glenn B. Marshall**  
President &  
Chief Executive Officer

**Lauren C. Ranalli**  
Executive Vice President &  
Chief Financial Officer

**James A. Bleakly, Jr.**  
Senior Vice President &  
Chief Credit Officer

**Natalie M. Carrozza**  
Senior Vice President &  
Chief Operating Officer

## Annual Shareholders Meeting

**May 2, 2008**

9:00 AM

### The Sheraton - Great Valley Hotel

707 East Lancaster Avenue  
Routes 202 & 30  
Frazer, PA 19355

#### Stock Transfer Agent

**StockTrans, Inc.**

44 West Lancaster Avenue  
Ardmore, PA 19003

Phone (610)649-7300

[shareholder@stocktrans.com](mailto:shareholder@stocktrans.com)

**1 First  
Resource  
Bank**

101 Marchwood Road  
Exton, PA 19341

**610.363.9400**

A historical map of Wallace, Pennsylvania, rendered in a light blue color. The map shows a network of roads and property lines. Several post offices are labeled, including East Nantuxet P.O., West Vincent P.O., Ludwigs Corn, Font P., Glenmore P.O., Wallace P.O., Springton St., Cornog's St., Brandywine Manor P.O., and Wild Bear P.O. The name 'WALLACE' is prominently displayed in large, bold, serif letters across the center of the map. Other names like 'WALLACE' and 'WAYNE' are also visible in different orientations.

# 1 First Resource Bank

101 Marchwood Road  
Exton, PA 19341

610.363.9400

Member FDIC

[www.FirstResourceBank.com](http://www.FirstResourceBank.com)

