

*Serving the banking needs of
businesses, professionals and
individuals in Chester County,
Pennsylvania.*

1 **First
Resource
Bank**

2006 Annual Report

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

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Secretary & Treasurer,
Oaklands Business Parks Inc.

Glenn B. Marshall

President & CEO, First Resource Bank

John P. O'Connell

Managing Partner, West Chester Off
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Richard D. Orlow

Counsel, Earth Enterprises Inc.

Lauren C. Ranalli

Exec. Vice President & Chief Financial
Officer, First Resource Bank

Philip J. Reilly

President, P. J. Reilly Contracting Co., Inc.



Annual Shareholders Meeting

May 2, 2007

9:00 AM

The Sheraton – Great Valley Hotel

707 E. Lancaster Avenue

Routes 202 & 30

Frazer, PA 19355

1 First Resource Bank

Dear Shareholders:

As the founders of First Resource Bank (FRB) embarked on the journey toward the formation of a full service community bank, we established several axioms, the first of which was to be good stewards of your capital. The best course of action to adhere to this standard in 2005 and 2006 was to curtail the early stage operating losses and to achieve swift profitability. It is a pleasure to inform you that First Resource Bank generated a profit in its sixth full quarter of operations. In addition to the profitable fourth quarter of 2006, FRB exceeded its original performance projections in every quarter, which resulted in a smaller cumulative operating loss and the preservation of more than \$600,000 of your capital.

First Resource Bank is pleased to announce that it generated net income of \$2,000 in the quarter ending December 31, 2006. These results favorably compare to net losses of \$48,000, \$99,000 and \$202,000 for the third, second and first quarters of 2006, respectively. The net loss for the year ended December 31, 2006 was \$347,000, compared to a loss of \$1,366,000 in the prior year.

FRB is proud of its loan and deposit growth in 2006 which was 111% and 200%, respectively. Deposit growth was exceptionally strong in 2006 due to broadening of core relationships, generating deposits from loan customers, and creating new local customer relationships. Deposits grew from \$22.6 million at the beginning of 2006 to \$67.7 million at December 31, 2006, a \$45.1 million increase. Loan demand continued to be strong and steady resulting in an increase of \$32.2 million, from \$28.9 million to \$61.1 million at December 31, 2006.

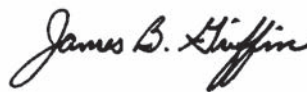
Management of deposit costs and a highly rate sensitive loan market presented challenges in 2006, and by all indications will require attention again in 2007. Maintenance of similar net interest margins coupled with growth in the loan portfolio and management of overhead expenses will continue to be the keys to FRB's success in 2007. The Board of Directors and Executive Management stand ready to face these challenges while continuing to grow the Bank's footprint in the community.

We would like to acknowledge and thank the Board of Directors, the Advisory Board and the FRB Employee Team for all of their hard work and efforts in 2006. FRB has made enormous strides over the last two years by building a customer base from our collective friends, families and business contacts. We continue to appreciate the support of those shareholders who have moved their personal and business accounts to the Bank and have permitted us to assist them with their financing needs. FRB thanks its customers for showing their confidence and support in the growth of the Bank. If you have any questions about the Bank or any of our available services, please contact Glenn Marshall at FRB by calling him in the office at (610) 561-6013 or his cell phone at (610) 996-6661.

Sincerely,



Glenn B. Marshall
President & CEO



James B. Griffin
Chairman of the Board

First Resource Bank

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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, 2006 and 2005, and the related statements of income, stockholders' equity and cash flows for the year ended December 31, 2006 and for the period from January 10, 2005 (date of inception) to December 31, 2005. 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, 2006 and 2005, and the results of its operations and its cash flows for the year ended December 31, 2006 and for the period from January 10, 2005 (date of inception) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for share-based payments in 2006.

Beard Miller Company LLP

Beard Miller Company LLP
Allentown, Pennsylvania
February 23, 2007

First Resource Bank

Balance Sheets

| | December 31, | |
|--|----------------------------|----------------------------|
| | 2006 | 2005 |
| Assets | | |
| Cash and due from banks | \$ 488,399 | \$ 508,561 |
| Federal funds sold | <u>6,453,000</u> | <u>-</u> |
| Cash and Cash Equivalents | 6,941,399 | 508,561 |
| Time deposits at other banks | 100,000 | 250,000 |
| Securities available for sale | 7,990,332 | 24,983,108 |
| Loans, net of allowance for loan losses of \$677,892 and \$326,322, respectively | 60,472,875 | 28,606,187 |
| Restricted investment in bank stock | 112,000 | 117,000 |
| Bank premises and equipment, net | 446,235 | 511,669 |
| Accrued interest receivable | 269,437 | 107,205 |
| Other assets | <u>140,202</u> | <u>108,646</u> |
| Total Assets | <u>\$76,472,480</u> | <u>\$55,192,376</u> |
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits: | | |
| Non-interest bearing | \$ 3,098,554 | \$ 1,407,109 |
| Interest-bearing | <u>64,649,171</u> | <u>21,201,703</u> |
| Total Deposits | 67,747,725 | 22,608,812 |
| Short-term borrowings | - | 23,656,500 |
| Accrued interest payable | 124,425 | 68,986 |
| Other liabilities | <u>201,181</u> | <u>178,861</u> |
| Total Liabilities | <u>68,073,331</u> | <u>46,513,159</u> |
| Stockholders' Equity | | |
| Preferred stock; authorized 500,000 shares; none issued and outstanding | - | - |
| Common stock, \$1 par value; authorized 5,000,000 shares; issued and outstanding 1,086,111 and 1,034,386 shares, respectively | 1,086,111 | 1,034,386 |
| Surplus | 9,033,840 | 9,010,750 |
| Accumulated other comprehensive loss | (7,714) | - |
| Accumulated deficit | <u>(1,713,088)</u> | <u>(1,365,919)</u> |
| Total Stockholders' Equity | <u>8,399,149</u> | <u>8,679,217</u> |
| Total Liabilities and Stockholders' Equity | <u>\$76,472,480</u> | <u>\$55,192,376</u> |

See notes to financial statements.

First Resource Bank

Statements of Income

| | Year Ended December 31, 2006 | Period from January 10, 2005 (Date of Inception) to December 31, 2005 |
|--|---|--|
| Interest Income | | |
| Loans, including fees | \$3,878,869 | \$ 820,982 |
| Securities | 97,025 | 64,377 |
| Federal funds sold | 129,443 | 84,417 |
| Other | 2,570 | 39,249 |
| Total Interest Income | 4,107,907 | 1,009,025 |
| Interest Expense | | |
| Deposits | 1,825,818 | 281,822 |
| Borrowings | 77,932 | 61,932 |
| Total Interest Expense | 1,903,750 | 343,754 |
| Net Interest Income | 2,204,157 | 665,271 |
| Provision for Loan Losses | 351,570 | 326,322 |
| Net Interest Income after Provision for Loan Losses | 1,852,587 | 338,949 |
| Non-Interest Income | 47,477 | 42,128 |
| Non-Interest Expenses | | |
| Salaries and employee benefits | 1,128,823 | 840,425 |
| Occupancy and equipment | 321,000 | 212,903 |
| Professional fees | 208,100 | 222,610 |
| Advertising and promotion | 105,022 | 106,705 |
| Data processing | 163,728 | 116,144 |
| Other | 320,560 | 248,209 |
| Total Non-Interest Expenses | 2,247,233 | 1,746,996 |
| Net Loss | \$ (347,169) | \$(1,365,919) |

See notes to financial statements.

First Resource Bank

Statements of Stockholders' Equity

Year Ended December 31, 2006 and Period from January 10, 2005 (Date of Inception)
to December 31, 2005

| | <u>Common Stock</u> | <u>Surplus</u> | <u>Accumulated Other Comprehensive Loss</u> | <u>Accumulated Deficit</u> | <u>Total</u> |
|---|---------------------------|---------------------------|---|--------------------------------|----------------------------|
| Balance - January 10, 2005 (Date of Inception) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Sale of common stock | 1,034,386 | 9,010,750 | - | - | 10,045,136 |
| Net loss | - | - | - | (1,365,919) | (1,365,919) |
| Balance - December 31, 2005 | <u>1,034,386</u> | <u>9,010,750</u> | <u>-</u> | <u>(1,365,919)</u> | <u>8,679,217</u> |
| Comprehensive loss: | | | | | |
| Net loss | - | - | - | (347,169) | (347,169) |
| Unrealized losses on available for sale securities | - | - | (7,714) | - | (7,714) |
| Total Comprehensive Loss | | | | | <u>(354,883)</u> |
| Stock-based compensation | - | 74,815 | - | - | 74,815 |
| 5% common stock distribution | <u>51,725</u> | <u>(51,725)</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Balance - December 31, 2006 | <u><u>\$1,086,111</u></u> | <u><u>\$9,033,840</u></u> | <u><u>\$(7,714)</u></u> | <u><u>\$(1,713,088)</u></u> | <u><u>\$ 8,399,149</u></u> |

See notes to financial statements.

First Resource Bank

Statements of Cash Flows

| | Year Ended December 31, 2006 | Period from January 10, 2005 (Date of Inception) to December 31, 2005 |
|---|---|--|
| Cash Flows from Operating Activities | | |
| Net loss | \$ (347,169) | \$(1,365,919) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 351,570 | 326,322 |
| Depreciation | 160,571 | 93,135 |
| Stock-based compensation | 74,815 | - |
| Increase in accrued interest receivable | (162,232) | (107,205) |
| Increase in other assets | (31,556) | (108,646) |
| Increase in accrued interest payable | 55,439 | 68,986 |
| Increase in other liabilities | 22,320 | 178,861 |
| Net Cash Provided by (Used in) Operating Activities | 123,758 | (914,466) |
| Cash Flows from Investing Activities | | |
| Net increase in loans | (32,218,258) | (28,932,509) |
| Purchases of securities available for sale and restricted bank stock | (7,998,046) | (25,100,108) |
| Maturities and redemptions of securities available for sale and restricted bank stock | 24,988,108 | - |
| Purchase of time deposit in another bank | (100,000) | (250,000) |
| Maturity of time deposit in another bank | 250,000 | - |
| Purchases of premises and equipment | (95,137) | (604,804) |
| Net Cash Used in Investing Activities | (15,173,333) | (54,887,421) |
| Cash Flows from Financing Activities | | |
| Net increase in deposits | 45,138,913 | 22,608,812 |
| Increase (decrease) in short-term borrowings | (23,656,500) | 23,656,500 |
| Proceeds from sale of common stock | - | 10,045,136 |
| Net Cash Provided by Financing Activities | 21,482,413 | 56,310,448 |
| Net Increase in Cash and Cash Equivalents | 6,432,838 | 508,561 |
| Cash and Cash Equivalents - Beginning | 508,561 | - |
| Cash and Cash Equivalents - Ending | \$ 6,941,399 | \$ 508,561 |
| Supplementary Cash Flows Information | | |
| Interest paid | \$ 1,848,311 | \$ 274,768 |

See notes to financial statements.

First Resource Bank

Notes to Financial Statements

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.

The Bank incurred \$450,000 of organization and preopening costs prior to commencing operations. These amounts are included in the statement of income in the respective expense categories for the period ended December 31, 2005. Stock offering costs of \$298,724 are netted against the proceeds from the sale of common stock.

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

Notes to Financial Statements

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, 2006 and 2005, 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

Notes to Financial Statements

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.

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.

First Resource Bank

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

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 periods ended December 31, 2006 and 2005 was \$28,075 and \$14,507, 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.

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 year ended December 31, 2006, there was compensation expense of \$74,815 included in salaries and employee benefits related to share-based payments granted prior to January 1, 2006 which vested in 2006 and for share-based payments granted in 2006 that vested in 2006. There was no tax benefit recognized. Therefore, as a result of adopting Statement No. 123(R), 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.

First Resource Bank

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation (Continued)

Had compensation cost for the Bank's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the Bank's net loss for the period ended December 31, 2005 would have been increased to the pro forma amounts indicated below:

| | |
|--|------------------------------------|
| Net loss, as reported | \$(1,365,919) |
| Total stock-based compensation expense determined under fair value based method for all awards | <u>(69,353)</u> |
| Pro forma Net Loss | <u><u>\$(1,435,272)</u></u> |

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 loss as of and for the year ended December 31, 2006 consisted of unrealized holding losses on available for sale securities of \$7,714. The Bank had no items of other comprehensive income or loss in 2005.

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.

Stock Distribution

On January 30, 2006, the Bank declared a stock distribution in the form of a 5% stock dividend. If the Bank has 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.

First Resource Bank

Notes to Financial Statements

Note 2 - Securities Available for Sale

The amortized cost and approximate fair value of securities available for sale at December 31, 2006 and 2005 are summarized as follows:

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Fair Value</u> |
|---------------------------------------|---------------------------|---------------------------------------|--|-----------------------|
| December 31, 2006: | | | | |
| U. S. Government Agency Securities | <u>\$7,998,046</u> | <u>\$ -</u> | <u>\$(7,714)</u> | <u>\$ 7,990,332</u> |
| December 31, 2005: | | | | |
| U. S. Government Agency Securities | <u>\$24,983,108</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$24,983,108</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 are deemed to be other-than-temporarily impaired. There were no sales of securities in 2006 and 2005.

The amortized cost and fair value of securities available for sale as of December 31, 2006, 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 | <u>\$6,998,046</u> | <u>\$6,998,045</u> |
| Due between 5 and 15 years | <u>1,000,000</u> | <u>992,287</u> |
| | <u>\$7,998,046</u> | <u>\$7,990,332</u> |

First Resource Bank

Notes to Financial Statements

Note 3 - Loans Receivable

The composition of loans receivable at December 31, 2006 and 2005 is as follows:

| | <u>2006</u> | <u>2005</u> |
|--|----------------------------|----------------------------|
| Commercial | \$ 4,217,848 | \$ 2,538,612 |
| Commercial real estate | 29,807,902 | 13,110,866 |
| Commercial construction | 10,877,807 | 6,064,675 |
| Consumer home equity | 15,876,520 | 6,935,686 |
| All other consumer | 462,423 | 351,650 |
| Total Loans | 61,242,500 | 29,001,489 |
| Unearned net loan origination fees and costs | (91,733) | (68,980) |
| Allowance for loan losses | (677,892) | (326,322) |
| Net Loans | <u>\$60,472,875</u> | <u>\$28,606,187</u> |

Note 4 - Allowance for Loan Losses

The changes in the allowance for loan losses for the periods ended December 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|---------------------------|-------------------------|-------------------------|
| Balance, beginning | \$326,322 | \$ - |
| Provision for loan losses | 351,570 | 326,322 |
| Balance, ending | <u>\$677,892</u> | <u>\$326,322</u> |

As of December 31, 2006 and 2005, the Bank had no impaired loans, no nonaccrual loans, and no loans past due 90 days or more.

Note 5 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|---|-------------------------|-------------------------|
| Leasehold improvements | \$325,012 | \$317,892 |
| Furniture, fixtures and equipment | 217,442 | 169,009 |
| Computer equipment and data processing software | 157,487 | 117,903 |
| | 699,941 | 604,804 |
| Accumulated depreciation | (253,706) | (93,135) |
| | <u>\$446,235</u> | <u>\$511,669</u> |

First Resource Bank

Notes to Financial Statements

Note 6 - Deposits

The components of deposits at December 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|------------------------------|---------------------|---------------------|
| Demand, non-interest bearing | \$ 3,098,554 | \$ 1,407,109 |
| Demand, interest-bearing | 760,794 | 634,189 |
| Money market accounts | 16,696,159 | 6,000,333 |
| Time, \$100,000 and over | 13,073,228 | 5,891,072 |
| Time, other | 34,118,990 | 8,676,109 |
| | <u>\$67,747,725</u> | <u>\$22,608,812</u> |

At December 31, 2006, the scheduled maturities of time deposits are as follows:

| | |
|------|---------------------|
| 2007 | \$36,212,458 |
| 2008 | 6,155,311 |
| 2009 | 3,396,115 |
| 2010 | 737,595 |
| 2011 | 690,739 |
| | <u>\$47,192,218</u> |

At December 31, 2006, the Bank had brokered deposits of \$6,196,000. At December 31, 2005, the Bank had no brokered deposits.

Note 7 - Short-Term Borrowings

The Bank's short-term borrowings generally consist of Federal funds purchased and short-term borrowings extended under reverse repurchase agreements. Federal funds purchased generally represent one-day borrowings. There were no short term borrowings outstanding at December 31, 2006. At December 31, 2005, the Bank had \$8,769,000 in Federal funds purchased with an average interest rate of 4.46% and a maturity of January 3, 2006. Other borrowings at December 31, 2005 consisted of a \$14,887,500 reverse-repurchase agreement with interest at 4.32% and a stated maturity of January 9, 2006. The reverse repurchase agreement was collateralized by \$15 million in U.S. Government Agency securities which also matured on January 9, 2006.

The Bank has a maximum borrowing capacity with the Federal Home Loan Bank (FHLB) of Pittsburgh of approximately \$12,172,000 at December 31, 2006 of which there were no borrowings outstanding.

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 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 periods ended December 31, 2006 and 2005 was \$90,000 and \$81,000, respectively.

First Resource Bank

Notes to Financial Statements

Note 8 - Lease Commitments (Continued)

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 year ended December 31, 2006 totaled \$1,800.

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

| | |
|------|------------------|
| 2007 | \$ 92,400 |
| 2008 | 92,400 |
| 2009 | 90,800 |
| | <hr/> |
| | \$275,600 |
| | <hr/> <hr/> |

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. 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.

Note 10 - Stockholders' Equity

During 2005, the Bank sold 1,034,386 shares of common stock at \$10 per share which resulted in net proceeds of \$10,045,136 (net of offering costs of \$298,724) under an initial stock offering.

The Pennsylvania Department of Banking, in issuing its charter to the Bank, required an allocation of its initial capital to an Expense Fund in the amount of \$594,000 to defray anticipated initial losses. Accordingly, \$594,000 of the Bank's surplus is reserved for this purpose until the Bank becomes profitable.

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.

First Resource Bank

Notes to Financial Statements

Note 11 - Stock Option Plan (Continued)

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.

During 2005, 57,750 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.

Following is a rollforward of stock option activity through December 31, 2006 (as adjusted for the 5% stock dividend):

| | <u>Shares</u> | <u>Weighted Average Exercise Price</u> | <u>Weighted Average Remaining Life</u> | <u>Aggregate Intrinsic Value</u> |
|---|----------------|--|--|--|
| Options outstanding, January 10, 2005 | - | \$ - | | |
| 2005 grants | 150,045 | 9.52 | | |
| 2005 forfeitures | (2,100) | 9.52 | | |
| Options outstanding, December 31, 2005 | 147,945 | 9.52 | | |
| 2006 grants | <u>26,500</u> | <u>9.16</u> | | |
| Options outstanding, December 31, 2006 | <u>174,445</u> | <u>\$9.47</u> | <u>8.7 years</u> | <u>\$3,000</u> |
| Options exercisable, December 31, 2006 | <u>30,569</u> | <u>\$9.52</u> | <u>8.5 years</u> | <u>\$ -</u> |

There were no options exercisable at December 31, 2005.

First Resource Bank

Notes to Financial Statements

Note 11 - Stock Option Plan (Continued)

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 and 2005: dividend yield of 0%; volatility of 20.1% and 12.7%; risk-free interest rate of 4.65% and 3.99%; and expected life of 7 years, respectively. The weighted average fair value of options granted in 2006 and 2005 was \$3.20 and \$2.60 per share, as adjusted for the 5% stock dividend in 2006.

As of December 31, 2006, there was \$316,000 of unrecognized compensation cost related to nonvested stock options granted in 2006 and prior that is expected to be recognized through 2011.

Note 12 - Federal Income Taxes

There is no provision for income taxes for the periods ended December 31, 2006 and 2005 due to the net operating losses incurred.

The components of the net deferred tax asset (liability) at December 31, 2006 and 2005 are as follows:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------------|--------------------|
| Deferred tax assets: | | |
| Allowance for loan losses | \$194,563 | \$110,949 |
| Contribution carryforward | 442 | 136 |
| Organization and start-up costs | 130,897 | 144,436 |
| Depreciation on premises and equipment | 13,519 | 12,086 |
| Stock option compensation | 25,437 | - |
| Net operating loss carryforwards | 316,375 | 204,888 |
| | <u>681,233</u> | <u>472,495</u> |
| Valuation allowance | <u>(574,299)</u> | <u>(459,918)</u> |
| Total Deferred Tax Assets, Net of Valuation Allowance | <u>106,934</u> | <u>12,577</u> |
| Deferred tax liabilities: | | |
| Deferred loan costs | 36,364 | - |
| Cash basis conversion | 70,570 | 12,577 |
| | <u>106,934</u> | <u>112,577</u> |
| Net Deferred Tax Asset | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately \$930,000 which expire beginning in 2025.

First Resource Bank

Notes to Financial Statements

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 \$2,306,861 at December 31, 2006 and \$2,375,731 at December 31, 2005. During 2006, \$205,357 of advances were made and repayments totaled \$274,227. Deposits of related parties totaled \$1,989,708 and \$2,184,648 at December 31, 2006 and 2005, respectively.

The Bank paid legal fees of approximately \$4,948 and \$3,719 to a law firm of a director for the years ended December 31, 2006 and 2005, respectively. The Bank leases its main office facility from a related party as described in Note 8. Total rent expense to the related party was \$90,000 and \$81,000 for the periods ended December 31, 2006 and 2005, respectively. 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 \$1,800 for the year ended December 31, 2006.

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, 2006 and 2005 is as follows:

| | Contract Amount | |
|--|------------------------|--------------|
| | 2006 | 2005 |
| Unfunded commitments under lines of credit | \$14,010,000 | \$11,589,000 |

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

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, 2006, 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, 2006.

The Bank's actual capital amounts and ratios at December 31, 2006 and 2005 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) | | | | | | | | | |
| As of December 31, 2006: | | | | | | | | | |
| 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 | |
| As of December 31, 2005: | | | | | | | | | |
| Total capital (to risk-weighted assets) | \$9,005 | 26.5 | % | \$≥2,719 | ≥8.0 | % | \$≥3,398 | ≥10.0 | % |
| Tier 1 capital (to risk-weighted assets) | 8,679 | 25.5 | | ≥1,359 | ≥4.0 | | ≥2,039 | ≥ 6.0 | |
| Tier 1 capital (to total assets) | 8,679 | 26.6 | | ≥2,612 | ≥8.0 | | ≥2,612 | ≥ 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.

Note 16 - Subsequent Event

On January 26, 2007, the Bank announced a stock distribution in the form of a 5% stock dividend would be paid to all shareholders of record on February 1, 2007 with a distribution date of February 15, 2007.

First Resource Bank

Janet M. Batten

Assistant Vice President, Operations Manager

James A. Bleakly, Jr.

Senior Vice President & Chief Credit Officer

Natalie M. Carrozza

Senior Vice President & Chief Operating Officer

Robin M. DiMattei

Assistant Vice President, Branch Manager

Lisa A. Donnon

Vice President, Commercial Lender

Marjorie Y. Freshley

Accountant/Customer Service Representative

Deborah J. Grubb

Loan Administrator

Patricia M. Hartnett

Vice President, Community Banking

Shirley D. Jardin

Teller

Jennifer L. Mannen

Vice President, Consumer Lender

Glenn B. Marshall

President & Chief Executive Officer

Scott C. McKeon

Senior Vice President, Commercial Real Estate Lender

Lauren C. Ranalli

Executive Vice President & Chief Financial Officer

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