

1 First Resource Bank

A YEAR OF EVOLUTION



2013
ANNUAL REPORT

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Glenn B. Marshall

President & CEO

Lauren C. Ranalli

Executive Vice President & CFO

Gary R. Davis

Executive Vice President & CLO

Natalie M. Carrozza

Executive Vice President & COO

Dear Shareholder:

First Resource Bank is pleased to report 2013 net income to common shareholders of \$1,004,828.

The 2013 year in review tells a story of strong growth, overhead controls, and increased income to the common shareholder. In a year when loan demand was competitive, and most banks would have been pleased to maintain a level loan portfolio, our loan growth was 8.8%. To complement the loan growth, credit quality improved in 2013. While not back to levels from prior to 2008, the tide appears to have turned as we saw our provision for loan loss expenses reduced by 43% from its peak in 2012. The Bank continues to enjoy an extremely strong Chester County market, one of the best in Pennsylvania and in the United States.

Deposits grew 6.7% within our original branch, without the projected benefits of our relocation to our new Exton branch, or the opening of the West Chester branch. The execution phase of our 2013-2014 enhanced deposit expansion is currently in progress. The physical construction of our new Exton Branch can be monitored through the Bank's Facebook page by viewing updated pictures of the building's remodeling. As previewed in our shareholder newsletter last year, by December 31, 2014, we will have rebranded the Exton location which is currently projected to open in June, and a new West Chester branch estimated to open in November. These two new free-standing branches will provide a solid foundation for the continued expansion of our core customer base. This evolution of First Resource Bank will support deposit and loan growth, while adding franchise value to the benefit of the entire shareholder base.

Pre-tax income increased 14% over 2012. We had the benefit of top line revenue growth, combined with a lower cost of funds and excellent cost controls. Overhead costs will expand over the next few years as we invest in people for the expansion of our loan and deposit portfolios, and the physical expansion of the branch network. Smart additions to overhead, careful planning and quality financial oversight by the staff and Board of Directors have been critical tactics for our strategic expansion.

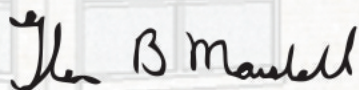
We successfully executed the opportunity to reduce our Small Business Lending Fund (SBLF) preferred stock dividend rate to 1.00% from the original 5.00% rate. This reduction in dividend rate was achieved by utilizing the amount of capital acquired to enhance lending in the community. As a result, these preferred stock dividend costs were reduced from \$340,973 in 2011 to \$50,830 in 2013, which had a material, positive impact on Net Income to Common Shareholders over the last two years.

All these factors combined to produce our record net income in excess of \$1 million to the common shareholders in 2013.

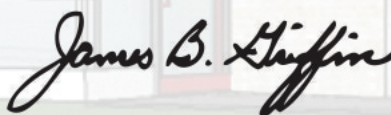
We would like to thank you, our shareholders and our customers, for your continued support and patronage. We also thank the Board of Directors and the FRB team for their service and hard work in 2013.

If you have any questions about First Resource Bank or any of our available bank services, please feel free to contact Glenn on his cell at 610-996-6661.

Sincerely,



Glenn B. Marshall
President & CEO



James B. Griffin
Chairman of the Board

First Resource Bank

Financial Statements

Years Ended December 31, 2013 and 2012

First Resource Bank

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Independent Auditor's Report

To the Board of Directors
First Resource Bank
Exton, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of First Resource Bank, which comprise the balance sheet as of December 31, 2013, and the related statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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, 2013, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of First Resource Bank for the year ended December 31, 2012 were audited by another auditor who expressed an unqualified opinion on those financial statements on February 20, 2013.

BDO USA, LLP

February 19, 2014

Financial Statements

First Resource Bank

Balance Sheets

<i>December 31,</i>	2013	2012
Assets		
Cash and due from banks	\$ 606,230	\$ 5,633,237
Time deposits at other banks	250,000	250,000
Securities available-for-sale, at fair value	14,383,199	7,999,322
Securities held-to-maturity (fair value of \$1,728,096 at December 31, 2013 and \$1,888,784 at December 31, 2012)	1,684,580	1,791,934
Loans receivable, net of allowance for loan losses of \$1,252,853 at December 31, 2013 and \$1,439,935 at December 31, 2012	138,745,608	127,232,997
Restricted investment in bank stock	668,000	647,100
Bank premises and equipment, net	3,515,038	2,671,344
Accrued interest receivable	417,101	401,482
Bank owned life insurance	3,916,982	2,817,928
Other assets	1,456,622	1,605,632
Total Assets	\$ 165,643,360	\$ 151,050,976
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	\$ 6,429,207	\$ 5,236,362
Interest-bearing	133,442,185	125,852,673
Total deposits	139,871,392	131,089,035
Short-term borrowings	2,555,000	-
Long-term borrowings	5,599,000	3,420,000
Accrued interest payable	72,944	61,434
Other liabilities	537,428	419,734
Total Liabilities	148,635,764	134,990,203
Shareholders' Equity		
Preferred stock, Series 2011A; authorized 494,852 shares; \$1,000 liquidation preference per share, 5,083 shares issued and outstanding at December 31, 2013 and 2012	5,083,000	5,083,000
Common stock, \$1 par value; authorized 20,000,000 shares; 1,608,595 shares issued and outstanding at December 31, 2013; 1,528,243 shares issued and outstanding at December 31, 2012	1,608,595	1,528,243
Surplus	9,505,069	9,565,547
Accumulated other comprehensive income	102,015	179,324
Retained earnings (accumulated deficit)	708,917	(295,341)
Total Shareholders' Equity	17,007,596	16,060,773
Total Liabilities and Shareholders' Equity	\$ 165,643,360	\$ 151,050,976

See accompanying notes to financial statements.

First Resource Bank

Statements of Income

<i>Years Ended December 31,</i>	2013	2012
Interest Income		
Loans, including fees	\$ 6,723,468	\$ 6,623,333
Securities	197,089	230,035
Other	12,142	5,902
Total Interest Income	6,932,699	6,859,270
Interest Expense		
Deposits	1,370,480	1,502,009
Borrowings	52,513	30,904
Total Interest Expense	1,422,993	1,532,913
Net interest income	5,509,706	5,326,357
Provision for Loan Losses	395,493	691,050
Net Interest Income After Provision for Loan Losses	5,114,213	4,635,307
Other Income		
Bank owned life insurance income	99,054	105,041
Other	267,962	174,319
Total Other Income	367,016	279,360
Other Expenses		
Salaries and employee benefits	1,938,876	1,748,046
Occupancy and equipment	378,400	332,920
Professional fees	298,433	291,844
Advertising and promotion	104,108	61,270
Data processing	253,775	204,276
FDIC premium expense	125,219	121,450
Other real estate	219,614	240,855
Other	617,996	560,354
Total Other Expenses	3,936,421	3,561,015
Income before income tax expense	1,544,808	1,353,652
Federal Income Tax Expense	489,150	436,095
Net Income	1,055,658	917,557
Preferred Stock Dividends	(50,830)	(167,370)
Net Income Attributed to Common Shareholders	\$ 1,004,828	\$ 750,187

See accompanying notes to financial statements.

First Resource Bank

Statements of Comprehensive Income

<i>Years Ended December 31,</i>	2013	2012
Net Income	\$ 1,055,658	\$ 917,557
Other Comprehensive (Loss) Income		
Unrealized holding (losses) gains on available-for-sale securities	(117,135)	125,985
Tax effect	39,826	(42,835)
Total other comprehensive (loss) income	(77,309)	83,150
Total Comprehensive Income	\$ 978,349	\$ 1,000,707

See accompanying notes to financial statements.

First Resource Bank

Statements of Shareholders' Equity

	Preferred Stock	Common Stock	Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings/ (Accumulated Deficit)	Total
Balance, December 31, 2011	\$ 5,083,000	\$ 1,453,094	\$ 9,629,144	\$ 96,174	\$ (1,045,113)	\$ 15,216,299
Net income	-	-	-	-	917,557	917,557
Other comprehensive income	-	-	-	83,150	-	83,150
5% common stock distribution	-	72,558	(72,558)	-	-	-
Cash in lieu of fractional shares on stock distribution	-	-	-	-	(415)	(415)
Sale of common stock	-	2,591	8,961	-	-	11,552
Preferred stock dividends	-	-	-	-	(167,370)	(167,370)
Balance, December 31, 2012	5,083,000	1,528,243	9,565,547	179,324	(295,341)	16,060,773
Net income	-	-	-	-	1,055,658	1,055,658
Other comprehensive loss	-	-	-	(77,309)	-	(77,309)
5% common stock distribution	-	76,359	(76,359)	-	-	-
Cash in lieu of fractional shares on stock distribution	-	-	-	-	(570)	(570)
Sale of common stock	-	3,993	15,881	-	-	19,874
Preferred stock dividends	-	-	-	-	(50,830)	(50,830)
Balance, December 31, 2013	\$ 5,083,000	\$ 1,608,595	\$ 9,505,069	\$ 102,015	\$ 708,917	\$ 17,007,596

See accompanying notes to financial statements.

First Resource Bank

Statements of Cash Flows

<i>Years Ended December 31,</i>	2013	2012
Cash Flows from Operating Activities		
Net income	\$ 1,055,658	\$ 917,557
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Provision for loan losses	395,493	691,050
Depreciation	124,288	88,188
Net amortization on securities	80,495	118,458
Deferred tax (benefit) provision	(15,373)	87,185
Loss recorded on other real estate owned	109,339	118,173
Earnings on bank owned life insurance	(99,054)	(105,041)
(Increase) decrease in accrued interest receivable	(15,619)	33,457
(Increase) decrease in other assets	(443,889)	50,862
Increase (decrease) in accrued interest payable	11,510	(11,627)
Increase (decrease) in other liabilities	117,694	(366,661)
Net Cash Provided by Operating Activities	1,320,542	1,621,601
Cash Flows from Investing Activities		
Net increase in loans	(11,597,578)	(11,926,618)
Purchases of securities available-for-sale	(9,069,262)	(1,543,432)
Maturities and principal repayments of securities available-for-sale	2,492,600	3,712,731
Maturities and principal repayment of securities held-to-maturity	102,509	116,964
Purchase of restricted bank stock	(20,900)	(62,300)
Purchase of bank owned life insurance	(1,000,000)	-
Proceeds from sale of other real estate owned	228,233	347,542
Purchases of premises and equipment	(967,982)	(2,597,452)
Net Cash Used in Investing Activities	(19,832,380)	(11,952,565)
Cash Flows from Financing Activities		
Net increase in deposits	8,782,357	11,145,758
Net change in short-term borrowings	2,555,000	-
Proceeds from long-term borrowings	2,179,000	3,420,000
Preferred stock dividends	(50,830)	(167,370)
Cash in lieu of fractional shares for 5% stock dividend	(570)	(415)
Sale of common stock	19,874	11,552
Net Cash Provided by Financing Activities	13,484,831	14,409,525
Net (decrease) increase in cash and cash equivalents	(5,027,007)	4,078,561
Cash and Cash Equivalents, Beginning of Year	5,633,237	1,554,676
Cash and Cash Equivalents, End of Year	\$ 606,230	\$ 5,633,237
Supplementary Cash Flows Information		
Interest paid	\$ 1,411,483	\$ 1,544,540
Federal income taxes paid	\$ 400,000	\$ 815,135
Other real estate acquired in settlement of loans	\$ 310,526	\$ -

See accompanying notes to financial statements.

First Resource Bank

Notes to Financial Statements

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 Securities and the Federal Deposit Insurance Corporation. The region 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. Time deposits at other banks are for terms of 90 days or less. Generally, federal funds are purchased or sold for one day periods. As of December 31, 2013 and 2012, the Bank had no federal funds purchased or sold.

Comprehensive Income

Accounting principles generally recognized 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.

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.

First Resource Bank

Notes to Financial Statements

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, net of the deferred tax effect. 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.

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 using the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement, and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans Receivable

Loans receivable 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 generally amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate and commercial construction. Consumer loans consist of the following classes: home equity loans and other consumer loans.

First Resource Bank

Notes to Financial Statements

For all classes of loans receivable, 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, including impaired 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 (generally six months) and the ultimate collectibility of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for loan losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. Because all identified losses are immediately charged off, no portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on the Bank's past loan loss experience, 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 revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as impaired. For loans that are 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 pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

First Resource Bank

Notes to Financial Statements

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.
6. Quality of the Bank's loan review system, and the degree of oversight by the Bank's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

A majority of the Bank's loans are loans to business owners of many types. The Bank makes commercial loans for real estate development, equipment financing, accounts receivable and inventory financing and other purposes as required by the customer base.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and finished inventory or raw material. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or the term of the loan.

Commercial loans are made to entrepreneurs, proprietors, professionals, partnerships, LLP's, LLC's and corporations. The assets financed are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets, such as accounts receivable and inventory, to cash. Commercial term loans may have maturities up to 10 years and generally have fixed interest rates for up to five years. Commercial lines of credit are renewed annually and generally carry variable interest rates. Typical collateral for commercial loans include the borrower's accounts receivable, inventory and machinery and equipment.

First Resource Bank

Notes to Financial Statements

Commercial real estate loans include long-term loans financing commercial properties, either owner occupied or rental properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial real estate loans require a loan to value ratio of not greater than 80%. Loan amortizations vary from one year to twenty-five years and terms typically do not exceed ten years. Interest rates can be either floating or adjustable periods of up to five years with either a rate reset provision or a balloon payment.

Commercial construction loans include loans to finance the construction or rehabilitation of either commercial properties or 1 to 4 family residential structures. The vast majority of the commercial construction portfolio finances 1 to 4 family residential properties. The commercial construction portfolio is focused on small spot lot builders and smaller building companies. These loans carry variable interest rates and are usually interest only loans with maturities ranging from one year to three years.

Consumer home equity loans, home equity lines of credit, residential mortgages and residential construction loans are secured by the borrower's residential real estate in either a first or second lien position. Consumer home equity loans require a loan to value ratio of not greater than 85% with limited exceptions. Home equity lines of credit have variable rates and ten year terms. Closed end home equity loans have maturities up to fifteen years and carry fixed interest rates. Residential mortgages have adjustable rates and terms up to ten years with amortizations varying from twenty to thirty years.

Other consumer loans include installment loans, car loans and overdraft lines of credit. The majority of these loans are unsecured.

All commercial and consumer loans are located in the Philadelphia tri-state area.

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 industrial loans, commercial real estate loans and commercial 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.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Bank's impaired loans are measured based on the estimated fair value of the loan's collateral.

First Resource Bank

Notes to Financial Statements

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

Loans whose terms are modified are classified as troubled debt restructurings if the Bank grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Nonaccrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, banking agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for loan losses is adequate.

First Resource Bank

Notes to Financial Statements

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.

Bank Owned Life Insurance

The Bank invests in bank owned life insurance ("BOLI") as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of officers. The Bank is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Increases in cash surrender value are recorded in other income.

Restricted Investment in Bank Stock

Restricted stock at December 31, 2013 and 2012 is comprised of stock in the Federal Home Loan Bank of Pittsburgh ("FHLB") in the amount of \$618,000 and \$597,100, respectively, and Atlantic Central Bankers Bank in the amount of \$50,000. 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. In December 2008, the FHLB announced that it would be suspending its dividend and not repurchasing excess stock from its members due to capital preservation measures. During 2013 and 2012, the FHLB allowed certain redemptions. In February 2012, the FHLB of Pittsburgh issued its first dividend payment since 2008 and quarterly dividends resumed after that date.

Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of the par value is influenced by criteria such as the following:

1. The significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted.
2. Commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB.
3. The impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge was necessary related to the restricted stock during 2013 or 2012.

First Resource Bank

Notes to Financial Statements

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. 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 \$663,000 and \$690,046 at December 31, 2013 and 2012, respectively. Such assets are recorded in other assets in the accompanying balance sheets.

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 Plans

The Bank has 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. During 2013 and 2012, 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, 2013 and 2012 was \$54,964 and \$44,511, respectively.

During 2012, the Bank implemented non-qualified Supplemental Executive Retirement Plans for certain executive officers that provide for payments upon retirement, death or disability. As of December 31, 2013 and 2012, other liabilities include \$65,324 and \$29,722 accrued under these plans, respectively. As of December 31, 2013 and 2012, salaries and employee benefits expense includes \$35,602 and \$29,722 expensed under these plans, respectively.

Income Taxes

Deferred income taxes are provided on the balance sheet 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 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

Notes to Financial Statements

Stock-Based Compensation

The Bank has a stock option plan in place for employees and directors. The Bank recognizes the cost of employee services received in exchange for an award of stock options based on the grant date fair value of the award. The cost is recognized over the vesting period.

For the years ended December 31, 2013 and 2012, there was no stock-based compensation expense. There were no stock options granted in 2013 or 2012.

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 and letters of credit. Such financial instruments are recorded in the balance sheets when they are funded.

Stock Distributions

On March 15, 2013 and April 18, 2012, the Bank declared stock distributions in the form of 5% stock dividends. If the Bank had accumulated profits (retained earnings) at the time of the declaration dates, 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 had accumulated deficits at the time both stock distributions were declared, it transferred the par value of the shares issued from surplus to common stock.

Reclassification

Prior year's financial statement amounts are sometimes reclassified to conform to the current year presentation format. Such reclassifications have no impact on net income or total shareholders' equity.

Subsequent Events

The Bank has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2013 for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through February 19, 2014, the date these financial statements were available to be issued.

First Resource Bank

Notes to Financial Statements

2. Securities

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2013 and 2012 are summarized as follows:

<i>December 31, 2013</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government agency securities	\$ 5,000,000	\$ -	\$ -	\$ 5,000,000
U. S. government mortgage-backed securities - residential	8,747,530	151,377	(10,638)	8,888,269
Corporate bonds	481,101	13,829	-	494,930
	\$ 14,228,631	\$ 165,206	\$ (10,638)	\$ 14,383,199

Held-to-maturity:				
U. S. government mortgage-backed securities - residential	\$ 256,448	\$ 7,056	\$ -	\$ 263,504
Corporate bonds	500,000	31,165	-	531,165
Municipal bonds	928,132	5,295	-	933,427
	\$ 1,684,580	\$ 43,516	\$ -	\$ 1,728,096

<i>December 31, 2012</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
U. S. government agency securities	\$ 500,000	\$ 1,375	\$ -	\$ 501,375
U. S. government mortgage-backed securities - residential	6,752,703	254,954	-	7,007,657
Corporate bonds	474,916	15,374	-	490,290
	\$ 7,727,619	\$ 271,703	\$ -	\$ 7,999,322

Held-to-maturity:				
U. S. government mortgage-backed securities - residential	\$ 362,824	\$ 17,472	\$ -	\$ 380,296
Corporate bonds	500,000	53,280	-	553,280
Municipal bonds	929,110	26,098	-	955,208
	\$ 1,791,934	\$ 96,850	\$ -	\$ 1,888,784

First Resource Bank

Notes to Financial Statements

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2013. The Bank had no investments with gross unrealized losses at December 31, 2012.

<i>December 31, 2013</i>	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Securities available-for-sale:						
U. S. government mortgage-backed securities - residential	\$3,253,635	\$ (10,638)	\$ -	\$ -	\$ 3,253,635	\$ (10,638)

As of December 31, 2013, four securities were in unrealized loss positions due to interest rate fluctuations. No securities were deemed to be other-than-temporarily impaired.

The amortized cost and fair value of securities as of December 31, 2013 and 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

<i>December 31, 2013</i>	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due less than one year	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -
Due after one year through five years	481,101	494,930	500,000	531,165
Due after five years through ten years	-	-	928,132	933,427
Due over 10 years	-	-	-	-
U.S. government mortgage-backed securities - residential	5,481,101	5,494,930	1,428,132	1,464,592
	8,747,530	8,888,269	256,448	263,504
	\$ 14,228,631	\$ 14,383,199	\$ 1,684,580	\$ 1,728,096

Securities with a carrying value of \$9,004,000 and \$7,889,000 at December 31, 2013 and 2012, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

First Resource Bank
Notes to Financial Statements

3. Loans Receivable

The composition of loans receivable at December 31, 2013 and 2012 is as follows:

	2013	2012
Commercial	\$ 14,173,864	\$ 14,848,429
Commercial real estate	92,552,442	80,610,246
Commercial construction	8,162,904	8,895,223
Consumer home equity	24,620,845	23,773,734
All other consumer	572,139	589,681
Total loans	140,082,194	128,717,313
Unearned net loan origination fees and costs	(83,733)	(44,381)
Allowance for loan losses	(1,252,853)	(1,439,935)
Net Loans	\$ 138,745,608	\$ 127,232,997

4. Allowance for Loan Losses

The changes in the allowance for loan losses for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Balance, beginning	\$ 1,439,935	\$ 1,458,824
Charge-offs	(600,891)	(718,205)
Recoveries	18,316	8,266
Provision for loan losses	395,493	691,050
Balance, Ending	\$ 1,252,853	\$ 1,439,935

First Resource Bank

Notes to Financial Statements

The following tables summarize the activity in the allowance for loan losses by loan class for the years ended December 31, 2013 and 2012, and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2013 and 2012:

2013	Allowance for Loan Losses							
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	
Commercial	\$ 130,578	\$ (13,614)	\$ 3,933	\$ 11,130	\$ 132,027	\$ 7,782	\$ 124,245	
Commercial real estate	625,968	(184,499)	8,558	150,714	600,741	-	600,741	
Commercial construction	96,392	(170,533)	-	114,446	40,305	-	40,305	
Home equity	570,979	(223,671)	2,400	122,168	471,876	32,043	439,833	
Consumer, other	16,018	(8,574)	3,425	(2,965)	7,904	1,594	6,310	
	\$ 1,439,935	\$ (600,891)	\$ 18,316	\$ 395,493	\$ 1,252,853	\$ 41,419	\$ 1,211,434	

2013	Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	\$ 14,173,864	\$ 393,693	\$ 13,780,171
Commercial real estate	92,552,442	6,385,477	86,166,965
Commercial construction	8,162,904	1,445,347	6,717,557
Home equity	24,620,845	999,920	23,620,925
Consumer, other	572,139	106,243	465,896
	\$ 140,082,194	\$ 9,330,680	\$ 130,751,514

First Resource Bank

Notes to Financial Statements

2012		Allowance for Loan Losses					
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial	\$ 213,114	\$ -	\$ 3,215	\$ (85,751)	\$ 130,578	\$ 3,606	\$ 126,972
Commercial real estate	550,386	(44,620)	-	120,202	625,968	169,366	456,602
Commercial construction	65,763	(132,735)	-	163,364	96,392	29,678	66,714
Home equity	559,725	(525,518)	790	535,982	570,979	68,790	502,189
Consumer, other	69,836	(15,332)	4,261	(42,747)	16,018	3,093	12,925
	\$ 1,458,824	\$ (718,205)	\$ 8,266	\$ 691,050	\$ 1,439,935	\$ 274,533	\$ 1,165,402

2012		Loans Receivable		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	
Commercial	\$ 14,848,429	\$ 369,360	\$ 14,479,069	
Commercial real estate	80,610,246	3,754,612	76,855,634	
Commercial construction	8,895,223	928,178	7,967,045	
Home equity	23,773,734	490,505	23,283,229	
Consumer, other	589,681	111,667	478,014	
	\$ 128,717,313	\$ 5,654,322	\$ 123,062,991	

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2013 and 2012:

December 31, 2013	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	\$ 14,126,021	\$ 86,260,137	\$ 6,717,556	\$ 23,691,102	\$ 572,139	\$131,366,955
Special mention	17,084	3,714,388	1,218,198	32,529	-	4,982,199
Substandard	30,759	2,577,917	227,150	897,214	-	3,733,040
Doubtful	-	-	-	-	-	-
	\$ 14,173,864	\$ 92,552,442	\$ 8,162,904	\$ 24,620,845	\$ 572,139	\$140,082,194

December 31, 2012	Commercial	Commercial Real Estate	Commercial Construction	Home Equity	Consumer, Other	Total
Pass	\$ 14,826,716	\$ 75,773,056	\$ 6,665,032	\$ 23,403,058	\$ 589,681	\$ 121,257,543
Special mention	-	1,737,985	1,302,013	48,464	-	3,088,462
Substandard	21,713	3,099,205	928,178	322,212	-	4,371,308
Doubtful	-	-	-	-	-	-
	\$ 14,848,429	\$ 80,610,246	\$ 8,895,223	\$ 23,773,734	\$ 589,681	\$ 128,717,313

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Notes to Financial Statements

The following tables summarize information in regards to impaired loans by loan portfolio class as of and for the years ended December 31, 2013 and 2012:

<i>December 31, 2013</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 47,843	\$ 47,843	\$ -	\$ 49,987	\$ 971
Commercial real estate	6,385,477	6,583,589	-	6,595,196	271,811
Commercial construction	1,445,347	1,831,656	-	1,593,461	73,778
Consumer home equity	764,749	1,355,374	-	660,188	18,702
Consumer - other	-	-	-	-	-
With an allowance recorded:					
Commercial	\$ 345,850	\$ 345,850	\$ 7,782	\$ 347,497	\$ 21,149
Commercial real estate	-	-	-	-	-
Commercial construction	-	-	-	-	-
Consumer home equity	235,171	235,171	32,043	237,295	6,211
Consumer - other	106,243	159,432	1,594	108,888	3,576
Total:					
Commercial	\$ 393,693	\$ 393,693	\$ 7,782	\$ 397,484	\$ 22,120
Commercial real estate	6,385,477	6,583,589	-	6,595,196	271,811
Commercial construction	1,445,347	1,831,656	-	1,593,461	73,778
Consumer home equity	999,920	1,590,545	32,043	897,483	24,913
Consumer - other	106,243	159,432	1,594	108,888	3,576

<i>December 31, 2012</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-
Commercial construction	-	-	-	-	-
Consumer home equity	-	-	-	-	-
Consumer - other	-	-	-	-	-
With an allowance recorded:					
Commercial	\$ 369,360	\$ 369,360	\$ 3,606	\$ 97,352	\$ 5,926
Commercial real estate	3,754,612	3,799,042	169,366	3,395,263	76,611
Commercial construction	928,178	1,143,953	29,678	755,185	8,905
Consumer home equity	490,505	926,043	68,790	678,711	4,409
Consumer - other	111,667	139,359	3,093	120,463	3,422
Total:					
Commercial	\$ 369,360	\$ 369,360	\$ 3,606	\$ 97,352	\$ 5,926
Commercial real estate	3,754,612	3,799,042	169,366	3,395,263	76,611
Commercial construction	928,178	1,143,953	29,678	755,185	8,905
Consumer home equity	490,505	926,043	68,790	678,711	4,409
Consumer - other	111,667	139,359	3,093	120,463	3,422

First Resource Bank

Notes to Financial Statements

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2013 and 2012:

<i>December 31, 2013</i>	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	\$ -	\$ -	\$ 30,759	\$ 30,759	\$ 14,143,105	\$ 14,173,864	\$ -
Commercial real estate	65,826	82,537	1,077,804	1,226,167	91,326,275	92,552,442	-
Commercial construction	-	-	227,150	227,150	7,935,754	8,162,904	-
Consumer home equity	11,667	32,529	290,638	334,834	24,286,011	24,620,845	-
Consumer - other	106,243	-	-	106,243	465,896	572,139	-
	\$ 183,736	\$ 115,066	\$ 1,626,351	\$ 1,925,153	\$ 138,157,041	\$ 140,082,194	\$ -

<i>December 31, 2012</i>	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Recorded Investment >90 Days and Accruing
Commercial	\$ 13,613	\$ -	\$ -	\$ 13,613	\$ 14,834,816	\$ 14,848,429	\$ -
Commercial real estate	285,477	379,253	1,345,957	2,010,687	78,599,559	80,610,246	-
Commercial construction	-	234,150	694,028	928,178	7,967,045	8,895,223	-
Consumer home equity	212,615	-	322,212	534,827	23,238,907	23,773,734	-
Consumer - other	121,681	10,160	-	131,841	457,840	589,681	-
	\$ 633,386	\$ 623,563	\$ 2,362,197	\$ 3,619,146	\$ 125,098,167	\$ 128,717,313	\$ -

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2013 and 2012:

	2013	2012
Commercial	\$ 30,759	\$ -
Commercial real estate	1,160,341	1,756,630
Commercial, construction	227,150	928,178
Home equity	422,212	322,212
Consumer, other	-	-
	\$ 1,840,462	\$ 3,007,020

First Resource Bank

Notes to Financial Statements

The Bank may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring ("TDR"). Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate, to a below market rate for a loan with similar credit risk, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Bank's allowance for loan losses.

The Bank identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

The following tables reflect information regarding the Bank's troubled debt restructurings for the years ended December 31, 2013 and 2012:

	Number of Contracts	Pre- Modification Outstanding Recorded Investments	Post- Modification Outstanding Recorded Investments
2013			
Troubled debt restructurings:			
Commercial real estate	2	\$ 1,236,457	\$ 1,236,457

	Number of Contracts	Pre- Modification Outstanding Recorded Investments	Post- Modification Outstanding Recorded Investments
2012			
Troubled debt restructurings:			
Commercial	1	\$ 347,647	\$ 347,647
Home equity	1	48,679	48,463

First Resource Bank

Notes to Financial Statements

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2013 and 2012 are as follows:

	2013	2012
Land	\$ 1,135,000	\$ 1,135,000
Buildings	2,203,350	1,410,499
Leasehold improvements	414,242	414,242
Furniture, fixtures and equipment	373,839	299,909
Computer equipment and data processing software	351,754	321,698
	4,478,185	3,581,348
Accumulated depreciation	(963,147)	(910,004)
	\$ 3,515,038	\$ 2,671,344

6. Deposits

The components of deposits at December 31, 2013 and 2012 are as follows:

	2013	2012
Demand, non-interest bearing	\$ 6,429,207	\$ 5,236,362
Demand, interest-bearing	3,809,040	6,921,675
Money market accounts	53,960,919	43,363,298
Time, \$100,000 and over	40,956,299	41,291,987
Time, other	34,715,927	34,275,713
	\$ 139,871,392	\$ 131,089,035

At December 31, 2013, the scheduled maturities of time deposits are as follows:

Year ending December 31,

2014	\$ 42,944,141
2015	16,940,370
2016	10,592,520
2017	1,802,081
2018	3,393,114
	\$ 75,672,226

At December 31, 2013 and 2012, the Bank had brokered deposits of \$14,281,414 and \$13,287,664, respectively.

First Resource Bank

Notes to Financial Statements

7. Borrowings

Short-term borrowings at December 31, 2013 consisted of an advance from the Federal Home Loan Bank (FHLB) of \$2,555,000, due January 2, 2014 with interest at 0.28%. The Bank had no short-term borrowings at December 31, 2012.

Long-term borrowings at December 31, 2013 and 2012 consisted of FHLB borrowings with the following maturity dates and interest rates:

	2013	2012
Fixed note at 0.350%, maturing on June 17, 2015	\$ 437,500	\$ -
Fixed note at 0.466%, maturing on August 27, 2015	652,000	-
Fixed note at 1.290%, maturing on January 3, 2017	920,000	920,000
Fixed note at 1.194%, maturing on February 23, 2017	1,300,000	1,300,000
Fixed note at 0.913%, maturing on August 23, 2017	1,200,000	1,200,000
Fixed note at 2.077%, maturing on June 17, 2020	437,500	-
Fixed note at 2.712%, maturing on August 27, 2020	652,000	-
	\$ 5,599,000	\$ 3,420,000

Borrowings from the FHLB are secured by a blanket lien on the Bank's assets. The Bank was required to maintain stock in the FHLB of \$618,000 and \$597,100 as of December 31, 2013 and 2012, respectively. The Bank has a maximum borrowing capacity with the FHLB of approximately \$77,586,000 at December 31, 2013, of which \$8,154,000 was outstanding.

The Bank also has access to borrowings from the Federal Reserve Bank Discount Window. All borrowings through this facility are secured by specific pledge of investments. There were no borrowings outstanding under this facility at December 31, 2013 and 2012.

8. Lease Commitments

In 2005, the Bank entered into an operating lease agreement for its main banking office. This lease commenced January 2005 during organization of the Bank and had a five-year term with an additional five-year option period. The five year option period was exercised during 2009. Rent expense for each of the years ended December 31, 2013 and 2012 totaled \$102,360. The Bank leases this office from a principal stockholder.

In 2006, the Bank entered into an operating lease agreement with a related party for office space and a remote banking center which houses an ATM machine and an after hours depository. The lease commenced May 1, 2006 and had a three year term. This lease was renewed for an additional three years with no change in terms. In 2013, the lease was amended to become a month-to-month lease. Rent expense for each of the years ended December 31, 2013 and 2012 totaled \$2,400.

First Resource Bank

Notes to Financial Statements

In 2007, the Bank entered into an operating lease agreement with a 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 commenced on February 1, 2008 and has a seven year term. Rent expense for the years ended December 31, 2013 and 2012 was \$31,851 and \$32,334, respectively.

In 2013, the Bank entered into an operating lease agreement for its corporate office. This lease will commence in May 2014 and has a ten year and seven months term with two additional five year option periods.

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

Year ending December 31,

2014	\$ 143,406
2015	135,374
2016	134,032
2017	137,746
2018	141,461
Thereafter	912,838
	<hr/>
	\$ 1,604,857

9. Employment Agreements

The Bank has employment agreements with its chief executive officer and chief financial officer. The agreements include minimum annual salary commitments and change of control provisions. The Bank also has a change of control agreement with its chief lending 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 agreement, the individual will receive monetary compensation in the amount set forth in the agreement.

10. Shareholders' Equity

On September 15, 2011, the Bank entered into a Securities Purchase Agreement (the "Purchase Agreement") with the Secretary of the Treasury (the "Treasury"), pursuant to which the Bank issued and sold to the Treasury 5,083 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series 2011 A (the "Series 2011 A Preferred Stock"), having a liquidation preference of \$1,000 per share (the "Liquidation Amount"), for proceeds of \$5,083,000. The Purchase Agreement was entered into, and the Series 2011A Preferred Stock was issued, pursuant to the Treasury's SBLF program, a \$30 billion fund established under the Small Business Jobs Act of 2010 that encourages lending to small businesses by providing capital to qualified community banks with assets of less than \$10 billion. The proceeds were used to redeem \$5,147,000 of the Series 2009A, 2009B and 2009C preferred stock previously issued to the Treasury under its Capital Purchase Program.

First Resource Bank

Notes to Financial Statements

The Series 2011A Preferred Stock qualifies as Tier 1 capital for the Bank. Non-cumulative dividends are payable quarterly on the Series 2011A Preferred Stock, beginning January 1, 2012. The dividend rate is calculated as a percentage of the aggregate Liquidation Amount of the outstanding Series 2011A Preferred Stock and is based on changes in the level of "Qualified Small Business Lending" or "QSBL" (as defined in the Purchase Agreement) by the Bank. Based upon the increase in the Bank's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period, which is from the date of issuance through December 31, 2011, was 5.0%. For the 2nd through 10th calendar quarters, the annual dividend rate may be adjusted to between 1% and 5%, to reflect the amount of change in the Banks' level of QSBL. For the 11th calendar quarter through 4.5 years after issuance, the dividend rate will be fixed at between 1% and 7% based upon the increase in QSBL as compared to the baseline. As of December 31, 2013 and 2012, the annual dividend rate was set at 1.0%. After 4.5 years from issuance, the dividend rate will increase to 9%.

The Series 2011A preferred shares are non-voting, other than class voting rights on matters that could adversely affect the shares. The preferred shares are redeemable at any time, with Treasury, Federal Reserve and FDIC approval.

The Bank has a Bank Shareholder Stock Purchase Plan. The Plan allows existing shareholders of record to purchase new shares of common stock directly from the Bank. The purchase price for these shares is the volume weighted average price for a share of Bank common stock during the full calendar quarter that precedes the calendar quarter in which the purchase date occurs, as reported by the National Association of Securities Dealers Automated Quotations ("NASDAQ"). At each quarterly purchase date, the minimum investment is \$250 and the maximum investment is \$100,000. During 2013 and 2012, the Bank sold no shares of common stock under this Plan.

The Bank has an Employee Stock Purchase Plan. The Employee 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 2013 and 2012, the Bank sold 3,993 and 2,591 shares of common stock under this Plan.

First Resource Bank

Notes to Financial Statements

11. Stock Option Plan

The Bank has a 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 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. At December 31, 2013, there were 91,579 shares available for grant under the Plan.

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. Stock options granted in 2005 vest over 3 or 5 years. Stock options granted in 2006 vest over 5 years. There have been no option grants since 2006.

During 2005, 70,175 stock options, as adjusted for the 5% stock distributions in 2013 and 2012, 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 Plan.

First Resource Bank

Notes to Financial Statements

Following is a rollforward of stock option activity (as adjusted for the 2013 and 2012 5% stock distribution) for the years ended December 31, 2013 and 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life	Aggregate Intrinsic Value
Options outstanding December 31, 2011	202,177	\$ 7.74		
2012 forfeitures	(4,209)	7.84		
Options outstanding December 31, 2012	197,968	7.74		
2013 forfeitures	-			
Options outstanding December 31, 2013	197,968	\$ 7.74	1.7 years	\$ -
Options exercisable December 31, 2013	197,968	\$ 7.74	1.7 years	\$ -

As of December 31, 2013 and 2012, there was no unrecognized compensation cost related to nonvested stock options.

12. Federal Income Taxes

The components of federal income tax expense for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Current expense	\$ 504,523	\$ 348,910
Deferred expense (benefit)	(15,373)	87,185
	\$ 489,150	\$ 436,095

First Resource Bank

Notes to Financial Statements

A reconciliation of the statutory federal income tax at a rate of 34% to income tax expense included in the statements of income for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Federal income tax at statutory rate	\$ 525,235	\$ 460,242
Tax exempt interest	(7,654)	(6,987)
Bank owned life insurance income	(33,678)	(35,715)
Other	5,247	18,555
	\$ 489,150	\$ 436,095

The components of the net deferred tax asset at December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	\$ 223,688	\$ 310,918
Organization and start-up costs	55,815	64,628
Depreciation on premises and equipment	36,108	19,980
Stock option compensation	124,782	124,782
Supplemental executive retirement plan	22,210	-
Nonaccrual interest	49,309	-
OREO valuation allowance	51,837	19,536
Deferred rent	882	1,367
Total deferred tax assets	564,631	541,211
Deferred tax liabilities:		
Deferred loan costs	(73,113)	(69,034)
Unrealized gain on available-for-sale securities	(52,553)	(92,379)
Prepaid expenses	(25,201)	(21,233)
Total deferred tax liabilities	(150,867)	(182,646)
Net Deferred Tax Assets, Included in Other Assets	\$ 413,764	\$ 358,565

Based on projections of future taxable income over periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Bank will realize the benefits of these deductible differences.

First Resource Bank

Notes to Financial Statements

The Bank follows the provisions of Financial Accounting Standards Board ASC 740, Accounting for Uncertainty in Income Taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that has a likelihood of being realized on examination of more than 50 percent. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. Under the “more-likely-than-not” threshold guidelines, the Bank believes no significant uncertain tax positions exist, either individually or in the aggregate, that would give rise to the non-recognition of an existing tax benefit. As of December 31, 2013 and 2012, the Bank had no material unrecognized tax benefits or accrued interest and penalties. The Bank’s policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Bank is no longer subject to examination by taxing authorities for the years before January 1, 2010.

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 \$7,617,456 at December 31, 2013 and \$7,392,367 at December 31, 2012. During 2013, \$3,427,356 of advances were made and repayments totaled \$3,202,267. Deposits of related parties totaled \$7,685,184 and \$10,159,514 at December 31, 2013 and 2012, respectively.

The Bank paid legal fees of approximately \$8,464 and \$10,119 to a law firm of a director for the years ended December 31, 2013 and 2012, 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 \$2,400 for each of the years ended December 31, 2013 and 2012. The Bank leases its operations office space from a related party as described in Note 8. Total rent expense to the related party was \$31,851 and \$32,334 for the years ended December 31, 2013 and 2012, respectively. The Bank also purchases fuel oil for an onsite generator from a related party. Total payments to this related party in 2013 were \$701. The Bank leases its main office from a principal stockholder as described in Note 8. Total rent expense to the related party was \$102,360 for the years ended December 31, 2013 and 2012.

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 and letters of 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.

First Resource Bank

Notes to Financial Statements

A summary of the Bank's financial instrument commitments at December 31, 2013 and 2012 is as follows:

	Contract Amount	
	2013	2012
Commitments to grant loans	\$ 3,767,000	\$ 1,133,500
Unfunded commitments under lines of credit	15,620,143	13,143,276
Letters of credit	284,565	103,697

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.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to those commitments at December 31, 2013 and 2012 was \$284,565 and \$103,697, respectively. The current amount of the liability as of December 31, 2013 and 2012 for guarantees under standby letters of credit issued is not material.

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, 2013, that the Bank meets all capital adequacy requirements to which it is subject. The Bank is considered well capitalized as of December 31, 2013.

First Resource Bank

Notes to Financial Statements

The Bank's actual capital amounts and ratios at December 31, 2013 and 2012 are presented below:

<i>December 31, 2013</i>	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 18,159	13.7%	\$ ≥10,607	≥8.0%	\$ ≥13,258	≥10.0%
Tier 1 capital (to risk-weighted assets)	16,906	12.8%	≥ 5,303	≥4.0%	≥ 7,955	≥ 6.0%
Tier 1 capital (to average assets)	16,906	10.4%	≥ 6,522	≥4.0%	≥ 8,153	≥ 5.0%

<i>December 31, 2012</i>	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 17,322	14.6%	\$ ≥9,520	≥8.0%	\$ ≥11,900	≥10.0%
Tier 1 capital (to risk-weighted assets)	15,882	13.3%	≥4,760	≥4.0%	≥ 7,140	≥ 6.0%
Tier 1 capital (to average assets)	15,882	10.7%	≥5,932	≥4.0%	≥ 7,415	≥ 5.0%

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. The Pennsylvania Department of Banking waived this requirement for dividends payable under Treasury's SBLF program.

16. Fair Value Measurements and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to these respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each reporting date.

First Resource Bank

Notes to Financial Statements

The Bank uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. In accordance with the accounting guidance adopted by the Bank, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value measurement guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 are as follows:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>December 31, 2013</i>	Total			
Securities available-for-sale:				
U. S. government agency securities	\$ 5,000,000	\$ -	\$ 5,000,000	\$ -
U. S. government mortgage-backed securities, residential	8,888,269	-	8,888,269	-
Corporate bonds	494,930	-	494,930	-
	\$ 14,383,199	\$ -	\$ 14,383,199	\$ -

First Resource Bank

Notes to Financial Statements

<i>December 31, 2012</i>	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available-for-sale:				
U. S. government agency securities	\$ 501,375	\$ -	\$ 501,375	\$ -
U. S. government mortgage-backed securities, residential	7,007,657	-	7,007,657	-
Corporate bonds	490,290	-	490,290	-
	\$ 7,999,322	\$ -	\$ 7,999,322	\$ -

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 are as follows:

<i>December 31, 2013</i>	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 967,611	\$ -	\$ -	\$ 967,611
<i>December 31, 2012</i>				
Impaired loans	\$ 5,379,789	\$ -	\$ -	\$ 5,379,789

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Notes to Financial Statements

For non-financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 and 2012 are as follows:

<i>December 31, 2013</i>	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other real estate owned	\$ 563,000	\$ -	\$ -	\$ 563,000

<i>December 31, 2012</i>				
Other real estate owned	\$ 227,489	\$ -	\$ -	\$ 227,489

Quantitative information about Level 3 Fair Value Measurements at December 31, 2013 is included in the table below:

<i>December 31, 2013</i>	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	\$ 967,611	Appraisal of collateral	Appraisal adjustments	None
			Liquidation expenses	7.41%-8.74% (8.14%)
Other real estate owned	\$ 563,000	Appraisal of property	Appraisal adjustments	None
			Liquidation expenses	4.76%-6.0% (5.12%)

There were no appraisal adjustments as all appraisals used were current.

First Resource Bank

Notes to Financial Statements

Quantitative information about Level 3 Fair Value Measurements at December 31, 2012 is included in the table below:

<i>December 31, 2012</i>	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Inputs	Estimated Range (Weighted Average)
Impaired loans	\$ 5,379,789	Appraisal of collateral	Appraisal adjustments	None
			Liquidation expenses	7.3%-37.7% (8.14%)
Other real estate owned	\$ 227,489	Appraisal of property	Appraisal adjustments	None
			Liquidation expenses	6.4%-8.9% (8.1%)

There were no appraisal adjustments as all appraisals used were current.

Below is management's estimate of the fair value of all financial instruments whether carried at cost or fair value on the Bank's balance sheet. The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

Fair value estimates, methods and assumptions for the Bank's financial instruments are set forth below:

Cash and Short-Term Time Deposits (Carried at Cost)

The carrying amounts reported in the balance sheets for cash and due from banks and short-term time deposits approximate their fair values due primarily to their short-term nature.

Securities

The fair value of securities available-for-sale (carried at fair value) and held-to-maturity (carried at amortized cost) are determined by matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices.

First Resource Bank

Notes to Financial Statements

Loans Receivable (Carried at Cost)

The fair values of loans other than impaired loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value at December 31, 2013 consists of loan balances of \$687,264, net of valuation allowances of \$41,419 and loan balances of \$454,422, net of partial charge-offs of \$132,656. The fair value at December 31, 2012 consists of loan balances of \$5,654,322, net of valuation allowances of \$274,533.

Other Real Estate Owned (OREO)

OREO assets are originally recorded at fair value upon transfer of the loans to OREO. Subsequently, OREO assets are carried at the lower of carrying value or fair value. The fair value of OREO is based on independent appraisals less selling costs. Appraised values may be discounted based upon management's historical knowledge and changes in the market conditions from the time of the appraisal. Because of the high degree of judgment required in estimating the fair value of OREO and because of the relationship between fair value and general economic conditions, the Company considers fair values of OREO to be highly sensitive to market conditions. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. At December 31, 2013 and December 31, 2012, the fair value consists of OREO balances of \$658,000 and \$250,989, respectively, net of valuation allowances of \$95,000 and \$23,500, respectively.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and payable approximates fair value.

First Resource Bank

Notes to Financial Statements

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Long-Term Borrowings (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Off-Balance Sheet Instruments (Disclosed at Cost)

Off-balance sheet instruments are primarily comprised of loan commitments that are generally priced at market at the time of funding. Fees on commitments to extend credit are deemed to be immaterial, and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments.

First Resource Bank

Notes to Financial Statements

The following tables summarize the carrying amount and fair value estimates of the Bank's financial instruments at December 31, 2013 and 2012 (in thousands):

<i>December 31, 2013</i>	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	\$ 606	\$ 606	\$ 606	\$ -	\$ -
Securities available-for-sale	14,383	14,383	-	14,383	-
Securities held-to-maturity	1,685	1,728	-	1,728	-
Loans receivable, net	138,746	141,440	-	-	141,440
Restricted investment in bank stock	668	668	-	668	-
Accrued interest receivable	417	417	-	417	-
Liabilities:					
Demand and savings deposits	64,199	64,199	-	64,199	-
Time deposits	75,672	76,200	-	76,200	-
Accrued interest payable	73	73	-	73	-
Short-term borrowings	2,555	2,555	-	2,555	-
Long-term borrowings	5,599	5,506	-	5,506	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

<i>December 31, 2012</i>	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets:					
Cash and short-term time deposits	\$ 5,633	\$ 5,633	\$ 5,633	\$ -	\$ -
Securities available-for-sale	7,999	7,999	-	7,999	-
Securities held-to-maturity	1,792	1,889	-	1,889	-
Loans receivable, net	127,233	130,251	-	-	130,251
Restricted investment in bank stock	647	647	-	647	-
Accrued interest receivable	401	401	-	401	-
Liabilities:					
Demand and savings deposits	55,521	55,521	-	55,521	-
Time deposits	75,568	76,512	-	76,512	-
Accrued interest payable	61	61	-	61	-
Long-term borrowings	3,420	3,426	-	3,426	-
Off-Balance Sheet Asset (Liability):					
Commitments to extend credit	-	-	-	-	-
Unfunded commitments under lines of credit	-	-	-	-	-

Annual Shareholders Meeting

Thursday, May 1, 2014 • 9:00 A.M.

The Sheraton – Great Valley
707 East Lancaster Avenue
Routes 202 & 30
Frazer, PA 19355

Stock Transfer Agent

Broadridge Corporate Issuer Solutions, Inc.

P. O. Box 1342
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