The Business of Banking...Done Right.

The Victory Bank Annual Report 2008

The Victory Bank Statement of Purpose

We exist to optimize the financial lives of our clients. The Victory Bank Client Experience is defined by fairness and good advice, by convenience, speed and responsiveness, and by integrity and respect.

Values

The Victory Bank Team achieves success through high personal and corporate character, by sharing valuable experience and knowledge, and by exhibiting consistent, daily behavior that benefits our clients.

We value:

- **Extraordinary Personal Service** – Every client contact is an opportunity to better our clients' lives, leaving them feeling valued, important and satisfied. Perfection of The Victory Bank Client Experience is our inspiration.
- **Ethical Behavior** – We always strive to do what is right and best for the long-term interests of our clients, team members and shareholders.
- **Personal and Corporate Integrity** – Our values stand the challenges of business, and the tests of time. We do not compromise our values for personal or corporate gain.
- **Candor** – Open, honest and direct communication is expected throughout the organization regardless of title or position. Pollution of our work environment with gossip and negativity is not acceptable.
- **Respect for All** – We conduct business so that all constituencies are served, regardless of age, gender, race, sexual preference, disability, religious or political views, and in a way that benefits our team members, our local communities and our shareholders.
- **Credibility** – We do what we promise.
- **Consistency and Excellence** – We love doing things right the first time, and are relentlessly committed to excellence.
- **Planning, Efficiency and Systematic Thinking** – We establish clear plans and goals, designed to ensure the success of the bank. We carefully consider the long-term implications of our decisions, and operate efficiently and without waste.
- **A Learning Organization** – We are committed to the never-ending improvement of our systems and technology, and to constantly bettering our individual knowledge and skills.
- **Creativity and Innovation** – We recognize and reward those team members who find better ways to do things. Change and experimentation are encouraged, and mistakes are viewed as opportunities to learn and improve. When things go wrong, we focus on solutions and learning rather than blame.
- **A Great Working Environment** – The safety and satisfaction of our team members is fundamental to meeting our goals. Our long-term goal is to make The Victory Bank the employer of choice.
- **Teamwork** – We recognize and celebrate the importance and power of teamwork, of working in a collaborative way where individual recognition is secondary to accomplishing the common good.

Ultimately, we measure our success through the outlook of our clients, whose total satisfaction assures corporate growth and financial success. Perfection is our inspiration.

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The Business of Banking...Done Right.

Dear Shareholders:

This is a good news story, one about a bank founded on a clear set of principles by people from your community, a local bank that delivers on its promises and focuses its energy on creating positive experiences for its clients. In spite of the unrelenting negative economic news surrounding us, I am proud to report that The Victory Bank is growing by the day, adding new banking customers for loans, deposit accounts, cash management services and merchant banking services.

Watching formerly great companies collapse into bankruptcy and seeing millions of people losing their jobs is tragic and frustrating. Many Americans have also lost a great deal of personal wealth, and it appears that we are suffering from a drastic, collective loss of confidence, caused at least in part by banks and other financial services firms.

Despite these harsh realities, some good may come out of it. Reconnecting borrowers and lenders in face-to-face transactions can go a long way to solving many of the issues we face. Banks making common-sense lending decisions, providing credit to only those borrowers who have the demonstrable means to repay the loan and sufficient collateral to back it up can only lead to a better future for all of us, and banks like The Victory Bank have been founded all over the country based upon these sensible principles.

You, of course, helped make that happen by investing in the bank. We have closed the first real year of operations at your bank, and are pleased to offer our first annual report of operations.

FINANCIAL RESULTS

The Victory Bank commenced operations on January 16, 2008, working from a temporary facility until December 22, while construction of our permanent headquarters was completed. Despite the many disadvantages of this arrangement, we were able to grow the bank's balance sheet and revenue consistent with our budget, and we have enjoyed a measurable increase in all aspects of the business since moving into our new building. Total deposits grew to $15.5mm, total loans grew to $18.1mm, and our loan pipeline has consistently ranged between $12 and $15mm. While we offer an excellent array of retail banking products, our focus has remained on serving small to medium sized businesses and professional practices. Approximately 81% of our loans are to commercial borrowers. Unlike many other banking companies that have effectively stopped lending and have withdrawn from relationships with long-standing customers, The Victory Bank is busily reviewing credits and making quality loans, every day.

Because current interest rates have squeezed operating margins, it will be necessary for the bank to grow somewhat larger than originally forecast in order to become profitable. In response to these changes, your Board of Directors has approved a revised three-year business plan that takes into account the many changes in our operating environment, most notably deterioration of credit quality and a remarkably low interest-rate environment. In anticipation of future growth and capital requirements, the Board has approved the creation of a Bank Holding Company, subject to shareholder approval.

PEOPLE AND VALUES

While modern technology and geographic convenience are important, we believe that success in banking is primarily based on having a high quality team of professionals available to serve the client's needs and to consistently create a positive client experience. At The Victory Bank, this isn't just talk. Lots of companies will try to tell you (and themselves) how important their people are, and how important the client experience is, but please ask yourself, "Do they really deliver, or is this just talk?"

The mission of your bank is founded in our values, like always putting the client's interests first, respect, honesty, open communication, integrity, learning and teamwork, and in the collective and consistent efforts of a group of people who manifest these values in their daily behavior. Our banking team has been hand-picked based on their attitudes, energy, personalities, experience and personal integrity. They are efficient, knowledgeable and caring, and will make every effort possible to give good advice and solve problems.

I give you my personal promise that we will deliver a high-quality experience for you and for your friends, family and contacts. You can refer business to us with confidence, and trust that we will do a lot more than just talk – we will deliver, everyday.

BUILDINGS, SYSTEMS AND PRODUCT OFFERINGS

If you haven't yet made it to the bank to open your accounts, please come and visit soon, and note our Grand Opening Event scheduled for Saturday, May 16, rain or shine. You can also explore the bank online at www.thevictorybank.com. While a few details remain to be completed, we have received many compliments about the appearance and quality of our banking facility. Clients have also started making use of our business center, complete with modern audio/video facilities, and we have hosted a number of local community events.

While we provide high-performing web-based delivery systems such as internet banking and bill payment, we also rely on some more traditional methods of client service. For example, if you call us we promise that a person will answer the telephone! Our bankers and couriers will routinely "bring the bank to the customer," and we offer a traditional retail banking facility with a drive-through and a drive-up ATM. Our remote deposit capture service (Deposits…Done Right) is highlighted on the website, and has been enthusiastically accepted by our client base. We are processing thousands of deposits over the Internet with great success.

New offerings include The Victory Vision Sweep Account, for commercial depositors who can benefit by sweeping overnight balances into interest bearing accounts, and the Victory Fortress Savings Account, a high yielding, premium savings account.

COMMUNITY BASE, TARP INVESTMENT AND CALL FOR ACTION

I am pleased to report that the United States Treasury recently invested $541,000 in preferred shares of The Victory Bank, as part of the federal government's plan to strengthen the capital and lending positions of banks all across the nation, now approaching 600 banks total and climbing. While this may sound like a good deal of money, it represented only about 5% of the total capital raised in forming the bank, and .00068% of the $80 BILLION dollars invested into insurance giant AIG. For big banks that were going to fail absent these investments, the term "bailout" certainly seems apt, but for most participating banks, the treasury program represents a solid investment into well-run banks that will pay a conservative dividend back to the treasury, and will in most cases be bought out in the future with no losses to the taxpayer.

In 2008, we also completed our first regulatory safety and soundness exam, conducted jointly by the FDIC and the Pennsylvania Department of Banking.

SUMMARY AND CONCLUSION

It has been a tremendous year for all of us here at the bank. We owe you a great debt for your personal support and investments, and for doing business with your bank, in your community. Here is our call to action – please bring your own business to the bank, and help us build upon our early success with a robust 2009 – and please keep calling with referrals and new contacts. Your support and referrals are the life-blood of the bank, and many of you have done a stellar job thus far. Please have confidence that we will live up to our promises and deliver the kind of client experience that most people just talk about, and that some others have perhaps forgotten can really exist.

It exists here, at The Victory Bank!

Sincerely,

Joseph W. Major
Chairman and CEO

Independent Auditor's Report

To the Board of Directors of
The Victory Bank
Limerick, Pennsylvania

We have audited the accompanying balance sheet of The Victory Bank as of December 31, 2008, and the related statements of operations, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our 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 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 audit provides 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 The Victory Bank as of December 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Beard Miller Company LLP

Beard Miller Company LLP
Malvern, Pennsylvania
April 8, 2009

The Victory Bank

Balance Sheet
December 31, 2008

	2008
Assets	
Cash and due from banks	$ 972,616
Federal funds sold	767,000
Cash and Cash Equivalents	1,739,616
Securities available for sale	2,491,299
Loans receivable, net of allowance for loan losses of $199,132	17,863,734
Bank premises and equipment, net	855,569
Restricted investment in bank stocks	83,700
Accrued interest receivable	49,114
Other assets	75,124
Total Assets	$23,158,156
Liabilities and Stockholders' Equity	
Liabilities	
Deposits:	
Non-interest bearing	$ 1,920,176
Interest-bearing	13,600,329
Total Deposits	15,520,505
Accrued interest payable	5,487
Other liabilities	126,203
Total Liabilities	15,652,195
Stockholders' Equity	
Preferred stock, $1 par value; authorized 2,000,000 shares; no shares issued or outstanding	-
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding 1,025,464 shares	1,025,464
Surplus	9,168,812
Accumulated deficit	(2,679,614)
Accumulated other comprehensive loss	(8,701)
Total Stockholders' Equity	7,505,961
Total Liabilities and Stockholders' Equity	$23,158,156

See notes to financial statements.

Statement of Operations
For the Year Ended December 31, 2008

	2008
Interest Income	
Interest and fees on loans	$ 583,762
Interest on investment securities	30,364
Interest on federal funds sold	92,226
Interest on deposits in other banks	98,237
Total Interest Income	804,589
Interest Expense	
Deposits	209,596
Short term borrowings	1,259
Total Interest Expense	210,855
Net Interest Income	593,734
Provision for Loan Losses	199,132
Net Interest Income after Provision for Loan Losses	394,602
Non-Interest Income	
Service charges and activity fees	2,420
Other income	3,989
Total Non-Interest Income	6,409
Non-Interest Expenses	
Salaries and employee benefits	1,493,886
Occupancy and equipment	157,692
Legal and professional fees	311,769
Advertising and promotion	102,221
Loan expenses	15,760
Data processing costs	145,609
Supplies, printing and postage	36,766
Telephone	14,112
Entertainment	29,670
Mileage and tolls	13,266
Insurance	15,061
Dues and subscriptions	19,210
Other	21
Total Non-Interest Expenses	2,355,043
Net Loss	$(1,954,032)

See notes to financial statements.

Statement of Stockholders' Equity
For the Year Ended December 31, 2008

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2008	$ 100,000	$ 711,273	$ (725,582)	$ -	$ 85,691
Comprehensive loss:					
Net loss	-	-	(1,954,032)	-	(1,954,032)
Unrealized losses on securities available for sale	-	-	-	(8,701)	(8,701)
Total Comprehensive Loss					(1,962,733)
Sale of shares of common stock, net of offering costs of $197,024	925,464	8,132,152	-	-	9,057,616
Share-based compensation expense	-	325,387	-	-	325,387
Balance - December 31, 2008	$1,025,464	$9,168,812	$(2,679,614)	$(8,701)	$7,505,961

See notes to financial statements.

Statement of Cash Flows
For the Year Ended December 31, 2008

	2008
Cash Flows from Operating Activities	
Net loss	$(1,954,032)
Adjustments to reconcile net loss to net cash used in operating activities:	
Provision for loan losses	199,132
Depreciation	37,457
Share-based compensation	325,387
Net accretion of investment securities	(7,031)
Increase in accrued interest receivable	(49,114)
Increase in other assets	(75,124)
Increase in accrued interest payable	5,487
Increase in other liabilities	126,203
Net Cash Used in Operating Activities	(1,391,635)
Cash Flows from Investing Activities	
Activity in available for sale securities:	
Purchases	(19,990,989)
Proceeds from maturities	17,498,020
Net increase in loans	(18,062,866)
Net increase in restricted investment in bank stocks	(83,700)
Purchases of premises and equipment	(814,316)
Net Cash Used in Investing Activities	(21,453,851)
Cash Flows from Financing Activities	
Net increase in deposits	15,520,505
Net proceeds from issuance of common stock	9,057,616
Net Cash Provided by Financing Activities	24,578,121
Net Increase in Cash and Cash Equivalents	1,732,635
Cash and Cash Equivalents - Beginning	6,981
Cash and Cash Equivalents - Ending	$ 1,739,616
Supplementary Cash Flows Information	
Interest paid	$ 205,368

See notes to financial statements.

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Operations

The Victory Bank (the "Bank") was incorporated on May 25, 2007 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania state chartered banking institution. The Bank commenced operations on January 16, 2008 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 primarily Montgomery County, Pennsylvania.

Prior to commencing operations, the Bank incurred $775,331 of organization and pre-opening costs, $739,672 was incurred in 2007 while the remaining $35,659 was incurred in 2008, all of these organizational and pre-opening expenses were expensed when incurred. Interest income of $14,090 was earned in 2007 on the organizational funds prior to commencing operations, and $87,654 was earned ($13,767 in 2008 and $73,887 in 2007) on escrow funds during the capital raise. These amounts expensed and earned are included in the statement of operations for the year ended December 31, 2008 in the respective income and expense categories. Stock offering costs of $197,024 in 2008 and $188,727 in 2007 were 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 year. 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, other than temporary impairment of securities, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Montgomery County, Pennsylvania. Note 4 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.

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, all of which mature within ninety days. Generally, federal funds are purchased for one day periods.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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.

Declines in the fair value of 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 Receivable

Loans receivable that management has the intent and the Bank the 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.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost as of December 31, 2008, and consists of common stock of the Atlantic Central Bankers Bank and Federal Home Loan Bank (FHLB) stocks. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

Management evaluates the restricted investment in bank stocks for impairment in accordance with Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities with Trade Receivables) That Lend to or Finance the Activities of Others*. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the correspondent bank as compared to the capital stock amount for the correspondent bank and the length of time this situation has persisted, (2) commitments by the correspondent bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent bank, and (3) the impact of legislative and regulatory changes in institutions and, accordingly, on the customer base of the correspondent bank.

Management believes no impairment charge is necessary related to the restricted investment in bank stocks as of December 31, 2008. However, security impairment analysis is completed quarterly and the determination that no impairment had occurred as of December 31, 2008 is no assurance that impairment may not occur.

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.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. At December 31, 2008, the entire allowance reflected a general reserve.

Note 1 - Summary of Significant Accounting Policies (Continued)

Allowance for Loan Losses (Continued)

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 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.

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.

Advertising expense incurred for the year ended December 31, 2008, including organizational and pre-opening expenses, totaled approximately $15,143.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Comprehensive Income (Loss)

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 loss, are components of comprehensive loss.

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.

Employee Benefit Plan

During 2008, the Bank established a 401(k) plan ("the Plan"). Under the Plan, all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions.

Share-Based Compensation

The Bank adopted the provisions of Statement of Financial Standards No. 123(R), "Share-Based Payment." This statement requires the Bank to recognize the cost of employee and organizer services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award.

Note 2 - Restrictions on Cash and Due from Banks

In return for services obtained through correspondent banks, the Bank is required to maintain non-interest bearing cash balances in those correspondent banks. At December 31, 2008, compensating balances approximated $150,000.

Note 3 - Securities Available for Sale

The amortized cost and approximate fair value of securities as of December 31, 2008 is summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Government agency debt securities	$2,500,000	$4,220	$(12,921)	$2,491,299

Note 3 - Securities Available for Sale (Continued)

The amortized cost and fair value of securities as of December 31, 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	1,000,000	1,004,220
Due after five years through ten years	1,500,000	1,487,079
Due after ten years	-	-
	$2,500,000	$2,491,299

All U.S. Government agency securities at December 31, 2008 have been pledged to collateralize municipal deposits. All U.S. Government agency securities with an unrealized loss at December 31, 2008 were in an unrealized loss position for less than 12 months.

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 those 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 year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Bank adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Bank only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Bank's December 31, 2008 consolidated financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements.

Note 3 - Securities Available for Sale (Continued)

SFAS 157 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 under SFAS 157 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's 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, 2008 are as follows:

Description	December 31, 2008	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Securities available for sale	$2,491,299	$ -	$2,491,299	$ -

There were no financial assets measured at fair value on a nonrecurring basis at December 31, 2008.

Note 3 - Securities Available for Sale (Continued)

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. 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. The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at December 31, 2008:

Securities

The fair value of securities available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or 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. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

Note 4 - Loans Receivable

The composition of loans receivable at December 31, 2008 is as follows:

	2008
Commercial term	$ 7,651,485
Commercial mortgage	3,626,460
Commercial line	3,440,998
Construction	74,496
Home equity	3,066,146
Consumer	243,351
Total Loans	18,102,936
Deferred fees, net	(40,070)
Allowance for loan losses	(199,132)
Net Loans	$17,863,734

Note 4 - Loans Receivable (Continued)

The changes in the allowance for loan losses for the year ended December 31, 2008 are as follows:

	2008
Balance, beginning of year	$ -
Provision for loan losses	199,132
Balance, end of year	$199,132

As of and for the year ended December 31, 2008, 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, 2008 are as follows:

	Estimated Useful Lives	2008
Leasehold improvements	10 - 20 years	$558,615
Computer equipment and software	3 - 5 years	178,690
Automobiles	3 years	34,437
Bank unique equipment	5 years	37,251
Furniture, fixtures and equipment	3 - 10 years	84,033
		893,026
Accumulated depreciation		(37,457)
		$855,569

Depreciation expense charged to operations amounted to $37,457 for the year ended December 31, 2008.

Note 6 - Deposits

The components of deposits at December 31, 2008 are as follows:

	2008
Demand, non-interest bearing	$ 1,920,176
Demand interest bearing and savings accounts	873,089
Money market accounts	8,508,098
Time, $100,000 and over	2,062,879
Time, other	2,156,263
	$15,520,505

Note 6 - Deposits (Continued)

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2008	$2,970,112
2009	927,247
2010	103,763
2011	103,867
2012	114,153
	$4,219,142

Note 7 - Lines of Credit

The Bank has a $1,500,000 unsecured federal funds overnight line of credit with a correspondent bank. There were no borrowings on the line of credit at December 31, 2008.

Note 8 - Lease Commitments and Total Rental Expense

The Bank has an operating lease agreement for its main banking office. Future minimum lease payments by year under the non-cancellable lease agreements for the Bank's facilities are as follows:

2008	$ 226,000
2009	226,000
2010	226,000
2011	226,000
2012	227,437
Thereafter	3,940,917
	$5,072,354

Rent expense for the lease for the year ended December 31, 2008 was $67,994.

Note 9 - Employment Agreement

The Bank entered into employment agreements with certain employees. The terms of the agreements range from 18 months to two years. The agreements include minimum annual salary commitments and for certain employees change of control provisions. 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 agreements.

Note 10 - Stockholders' Equity

During 2008, the Bank sold 925,464 shares of common stock at $10.00 per share, which resulted in net proceeds of $9,057,616 (after offering costs of $197,024) under an initial stock offering of 1,900,000 shares. During 2007, the Bank sold 100,000 shares of common stock at $10.00 per share, which resulted in net proceeds of $811,273 (after offering costs of $188,727). Warrants are exercisable any time and expire ten (10) years from the date of issuance, which is January 16, 2008. There were 100,000 warrants outstanding at December 31, 2008.

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 $1,000,000 to defray anticipated initial losses. Accordingly, $1,000,000 of the Bank's surplus is reserved for this purpose until the Bank becomes profitable.

Note 11 - Federal Income Taxes

There is no provision for income taxes for the year ended December 31, 2008 due to the net operating loss incurred.

The components of the net deferred tax asset (liability) at December 31, 2008 are as follows:

Deferred tax assets:	
Allowance for loan losses	$ 42,981
Organization and start-up costs	237,655
Cash basis conversion	17,644
Nonqualified stock options	5,260
Net operating loss carryforwards	489,697
Deferred Tax Asset	793,237
Valuation allowance	(793,237)
Total Deferred Tax Assets, Net of Valuation Allowance	$ -

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $1,440,285 which expire in 2028.

Note 12 - 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. There were loans receivable from related parties totaling $1,400,266 at December 31, 2008. Loans originated for related parties totaled $1,517,530 and payments received were $117,264 for the year ended December 31, 2008. Deposits of related parties totaled $1,428,343 as of December 31, 2008.

Note 13 - Share-Based Compensation

Organizers of the Bank were issued a total of 100,000 "organizer warrants" for their efforts during the organization and start-up of the Bank. These warrants are immediately exercisable, expire in 10 years and will enable the warrant holder to purchase one share of common stock at $10.00 per share for each warrant exercised.

In 2008, the Board of Directors adopted the 2008 Stock Option Plan, which was approved by the Board of Directors on March 18, 2008, and was approved by the shareholders on May 28, 2008.

The 2008 Plan enables the Board of Directors to grant stock options to employees, directors, consultants, and other individuals who provide services to the Bank. The shares subject to or related to options under the Plan are authorized and unissued shares of the Bank. The maximum number of shares that may be subject to options under the Plan is 205,092, all of which may be issued as Incentive Stock Options and as Non-Qualified Stock Options. Incentive Stock Options are subject to limitations under Section 422 of the Internal Revenue Code. The Bank has reserved, for the purposes of the Plan, out of its authorized and unissued shares, such number of shares. The 2008 Plan will terminate ten years from stockholder approval. Options may not be granted with an exercise price that is less than 100% of the fair market value of the Bank's common stock on the date of grant. Options may not be granted with a term longer than 10 years. However, any Incentive Stock Option granted to any employee who, at the time such Option is granted, owns more than 10% of the voting power of all classes of shares of the Bank, its parent or of a subsidiary may not have a term of more than five years. Options will vest and be exercisable at such time or times and subject to such terms and conditions as determined by the Board of Directors. Generally, options will vest over a vesting period of approximately equal percentages each year over an initial term no shorter than three (3) years. In 2008, 128,945 Incentive Stock Options were issued under the Plan and 45,568 Non-Qualified Stock Options were issued under the Plan. At December 31, 2008, there are 30,579 shares available for grant under the 2008 Plan.

The following is a summary of the Bank's share-based compensation activity and related information for the year ended December 31, 2008:

	Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2008				
Stock warrants granted in 2008	100,000	$10.00		
Stock options granted in 2008	174,513	10.00		
Outstanding at December 31, 2008	**274,513**	**$10.00**	**10 years**	**$ -**
Exercisable at December 31, 2008	**100,000**	**$10.00**	**10 years**	**$ -**

The fair value of each organizer warrant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grant in 2008: dividend yield of 0%; risk-free interest rate of 3.00%; expected life of 5 years and expected volatility of 26.90%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The fair value of the warrants granted in 2008 was $2.96 per warrant.

Note 13 - Share-Based Compensation (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 2008: dividend yield of 0%, risk-free interest rate of 3.89%, expected life of seven years, and expected volatility of 26.57%. The volatility percentage was based on the average expected volatility of similar public financial institutions in the Bank's market area. The weighted average fair value of options granted in 2008 was $3.77 per share.

Total share-based compensation cost for the year ended December 31, 2008 was $325,387 of which $59,254 related to stock options and $266,133 related to stock warrants granted to organizers. There were no tax benefits recognized related to the share-based compensation expense due to the net operating loss incurred.

As of December 31, 2008, there was $394,038 of unrecognized compensation cost related to nonvested Incentive Stock Options granted in 2008. In addition there was $139,249 of unrecognized compensation cost related to nonvested Non-Qualified Stock options granted in 2008. These costs are expected to be recognized on a vesting method over a weighted average period of five years.

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.

The Bank had the following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2008:

	2008
Commitments to grant loans	$ 15,000
Unfunded commitments under lines of credit	4,201,074
	$4,216,074

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. The liability associated with these commitments is not material at December 31, 2008.

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, 2008, 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, 2008.

The Bank's actual capital amounts and ratios at December 31, 2008 are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
Total capital (to risk-weighted assets)	$7,714	37.37 %	$≥1,651	≥8.00 %	$≥2,064	≥10.00 %
Tier 1 capital (to risk-weighted assets)	7,515	36.41	≥ 826	≥4.00	≥1,239	≥ 6.00
Tier 1 capital (to average assets)	7,515	36.16	≥ 831	≥4.00	≥1,039	≥ 5.00

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations.

Note 16 - Subsequent Event

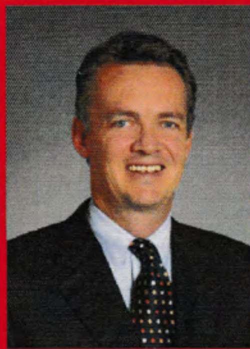
On February 27, 2009, pursuant to the U.S. Department of Treasury's TARP Capital Purchase Program, the Bank issued the following securities to the initial selling security holder for an aggregate consideration of $541,000: (i) 541 shares of fixed-rate non-cumulative perpetual preferred stock, Series A, having par value of $1.00 per share; and (ii) fixed-rate non-cumulative perpetual preferred stock, Series B, having a par value of $1 per share, pursuant to the exercise of a preferred stock warrant. The proceeds from this transaction count as Tier 1 capital and the warrant qualifies as tangible equity.

The Victory Bank Team

Joseph W. Major	Chairman and Chief Executive Officer
Richard L. Graver	President and Chief Lending Officer
Robert H. Schultz	Chief Financial Officer and Chief Operating Officer
Eric B. Offner	Executive Vice President and Chief Credit Officer
Saul S. Rivkin	Vice President and Banking Center Manager
Donna Colella	Operations Manager
Noreen Cobourn	Banking Officer/Loan Operations Manager
Harriet Hale	Banking Center Assistant Manager
Trisha Metz	Banking Officer/Credit Department Manager
Dennis F. Zielinski	Compliance and Security Officer
Shelly Stockmal	Executive Assistant
Julie Jackson	Senior Customer Service Representative
Noel Billingsley	Vice President/Business Development
Joseph Bergquist	Vice President/Commercial Relationship Manager

Board of Directors

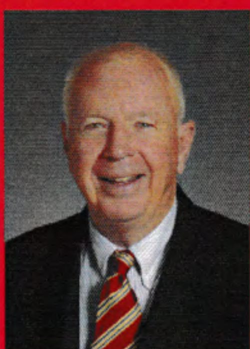

Alan Apt


Matthew "Bo" Bates


Robert Brant, Esq.


Beryl B. Byles


Michael Eddinger


Karl Glocker


Kevin Johnson

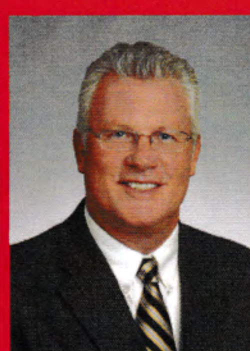

Joseph Major
Chairman and CEO


Dennis Urffer, CPA

Management Team


Richard L. Graver
President and
Chief Lending Officer


Robert H. Schultz
Chief Financial Officer
and Chief Operating
Officer


Eric B. Offner
Executive Vice
President and
Chief Credit Officer


Saul S. Rivkin
Vice President and
Banking Center Manager

VICTORY BANK

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