THE PATH TO SUCCESS

The Victory Bancorp, Inc. Annual Report 2009

VICTORY BANCORP

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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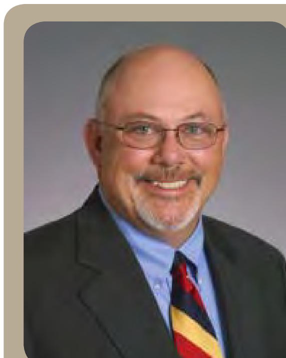
VICTORY BANCORP

Introduction

I am pleased to report that The Victory Bank continues to make significant progress in its march to profitability, and has received an extremely positive reception from our region. Despite operating in a volatile and uncertain economy and with interest rates being harshly manipulated to historically low levels, the bank has grown dramatically in loans, deposits and income, and continues on its path to success. Many of our shareholders have also become our customers, and our best sources of referrals. We thank you for your investment in the bank and your collective support thus far.

Commitment to Values

I can remember a time (not so long ago) when bankers were usually held in high esteem and viewed as trusted professionals, committed to their local communities. The unsettling events of the past few years have sadly but understandably changed the public's perception about the banking industry. Of course, no matter what it does, a small bank like The Victory Bank cannot change the whole nation's view on this topic, but we nonetheless think it is important to remember that our bank was founded first on its values. Our Statement of Purpose was written long before we opened, and every member of our team and Board of Directors became intimately familiar with our mission and values before signing on to this project. It defines why we are here, and how we do things, much like a constitution establishes the overriding rules for a government. At its core, it describes inviolate corporate values, such as respect, teamwork, integrity, credibility and candor. It obligates us to always do what is right for our clients, even when it is not the easiest or most profitable course of action for the bank. It demonstrates our belief in fairness and equal opportunities for our clients and our communities, and most importantly, it commits us to follow a path of high ethics at all times.



Joseph Major
Chairman and CEO

I believe that most small banks in this country try to do business in a similar fashion, and many have been unfairly smeared with the same tar and rancor directed towards the so-called "too-big-to-fail" institutions whose dangerous and short-sighted practices nearly destroyed our nation's economy. Even for banking insiders, the differences in magnitude between giant Wall Street firms and local banks are so great as to be incomprehensible. We hope you will keep these gigantic differences in mind when considering whether or not to bank with us or refer us to your friends, family and business associates.

For those of you who wish to consider our commitment to a values-driven organization in greater detail, I would direct you to a copy of our Statement of Purpose printed on the front inside cover of this report, or to our website (www.thevictorybank.com), where it is prominently featured.

Market Conditions

While we believe that the economy is showing steady signs of improvement, 2009 proved to be an extremely difficult year to operate a small, new bank. Employment losses were catastophic, consumer confidence incredibly low, and both the commercial and residential real estate markets were severely battered.

Most businesses closed the shutters and just hunkered down to weather the storm.

The Federal Reserve has taken a series of actions designed to keep interest rates unnaturally low to help the nation dig out of this deep trough, and while this may be good monetary policy, it has made things even more difficult for the bank in our start-up period. However, as will be noted in more detail below, our spreads and net interest income have shown dramatic improvement over the past few months, boding well for the future. The weak economy has made it more difficult than originally forecast to book quality loans and to establish high-quality relationships. Please note the all-important distinction between booking any sort of loans, as compared with quality loans. Many small businesses and professionals that in a growth economy might have been expanding, buying real estate and equipment and increasing their lines of credit to fund their growing inventories and receivables have been forced to do just the opposite. Many businesses have failed or have been forced to make radical cuts in staffing and in their expenses, and the customary pace of loan growth in this region has been brought to a near standstill. And while we have all faced serious challenges locally, many other regions have suffered even more.

On the positive side, marketplace disruptions involving other banks, e.g., local banks that have been sold and some very large banks that have either failed or been sold, have definitely worked to our favor. Many of our clients and prospects have expressed intense dissatisfaction with the banking industry; In fact, many people are downright angry about what is going on in our industry and in this marketplace, and have been actively seeking alternatives. They are drawn to our very real service culture (as compared to the bait-and switch tactics or empty promises they may have received from mega-banks), and by the fact that we answer the telephone and do a lot of small but important things to let our customers know they matter. They love the fact that we are locally owned and managed. The biggest challenge is filling these needs while not making loans that we will later regret because of credit issues.

So – how do we accomplish this?

The other very positive side-effect of these market disruptions has been our ability to recruit a remarkably talented and committed team of bankers, almost all of whom came here from other banking companies that operate in this market. We believe that the only meaningful differentiating factor that a bank can provide is the wisdom, experience, talent, attitude and character of its team of people. Our team (now up to 18 bankers and climbing) currently holds an astonishing 252 years of collective banking experience! They are here mostly because they believe in our mission and values. They are the kind of people who take great pleasure in doing things the right way and who take pride in their personal integrity and the integrity of this bank. I am humbled and flattered to be a part of this team, and I am extremely proud of all that they have accomplished thus far despite the economic headwinds they have faced from the very start.

Financial Results

Now for some numbers. Overall, most of the trend lines are moving strongly upwards. In the past 12 months:

- Deposits grew from $15.5 million to $48.1 million, and are well past $53 million today. We have grown from zero to over 1,500 bank accounts in a little over two years.
- Loans, net of provision for losses grew from $17.9 million to $46.4 million, and we now hold a total of $49.7 million in loans.
- Provision for loan losses increased from $199,000 to $580,000.
- Asset quality remains excellent. Total assets grew from $23.2 million to $55.7 million at year end.
- Our net interest margin, i.e., the difference between our total cost of funding the bank and what we earn on loans and investments, has increased from approximately 1.6% at the beginning of 2009 to over 3.6% today.
- Total interest income increased from $805,000 to $1,962,000.
- Net interest income increased from $594,000 to $1,113,000.
- Net interest income after provisions for loan losses improved from $395,000 to $733,000.
- Total non-interest expenses increased from $2,355,000 to $3,226,000.
- The total operating loss for the year increased from $1,954,000 to $2,359,000, primarily because of our move into our more expensive permanent facility and because of additions to our team.

Please note that a loss of this order for 2009 was expected and budgeted, but exceeded budget by a modest amount. The extent of the loss can be attributed to two principle factors:

1. We did not grow the bank as fast or as large as budgeted, primarily because of economic conditions; and
2. Interest rates were extremely low, limiting yields on loans and investments and therefore limiting our net interest income.

Because of these and many other uncertain factors, we cannot predict exactly when the bank will become profitable, but at this time expect positive results when the bank reaches approximately $92 million in total asset size. Please remember that every relationship helps, and the most important thing you as a shareholder can do is to bring your personal business to the company, and to refer other quality leads to our team.

Significant Milestones and Accomplishments

In my experience, businesses are either spiraling upwards to success, or spiraling downwards; holding steady is almost impossible. While enumerating all of the positive developments of The Victory Bank in 2009 would be impossible, here is a summary of important highlights:

- We filled every key position in the bank with experienced and qualified people, adding to our team of credit analysts and support staff for loan production, also filling key positions in retail and business development.
- Completed our move into our permanent headquarters, which included outside landscaping, professional signage and lots of small decorating decisions. For those of you who have not yet visited our facility, we went to great lengths to design a modern and efficient facility, make it look tasteful and professional, all while watching our budgets (not an easy task). We believe our exciting retail results to date have been generated by a combination of easy access, great visibility, an appealing retail "mood," along with a first-rate team of bankers.
- Held highly successful VIP and retail Grand Opening events.
- Completed our first Safety and Soundness, Compliance and Community Reinvestment Examinations by the FDIC.
- Organized a bank holding company (see below).
- Went "hog-wild" in promoting our Deposits Done Right remote capture program, which is now successfully operating in almost 70 of our best clients, resulting in several million dollars a month in deposit activity.
- Introduction of our Victory Reserve Cash Management Service
- Rebuilt our web presence with a beautiful and fully functional web site. It looks and works very well, and also check us out on Facebook!
- We have made thousands of in-person visits, sales calls, and contacts at every imaginable community event. We are fully committed to a simple "shoe-leather" marketing strategy, with our team of lenders, managers and business development officers constantly in motion and involved in the community.

Bank Holding Company and Future Capital Requirements

In September we received final approval from the shareholders and our various regulators (which now include the FDIC, The Pennsylvania State Department of Banking, and the Federal Reserve for the holding company only) to create The Victory Bancorp Inc., a bank holding company that now holds 100% of the stock of The Victory Bank, which is a separate legal entity. Please note that the management of the company and the board of directors have simply taken on dual roles in both companies, with little impact on our day-to-day operations.

The purpose of this reorganization was in-part to facilitate raising additional investment capital in the future, so that the company can continue to grow. All banks, large and small, are subject to several different minimum regulatory capital requirements, and while the bank is currently well-capitalized, The Victory BancCorp Inc. expects to undertake another significant capital raise in the near future (4-12 months) to remain above these minimum requirements as we continue to grow the institution. While no final decisions have yet been made regarding any such offering, including the final form, targets or pricing, we would like all of our existing shareholders to consider further investment and support of the company as we continue our quest for excellence.

Thanks to You and Our Team

Finally, I would like to thank our Board of Directors, who have been working tirelessly and without any compensation whatsoever for several years in support of our nascent bank. This group of local professionals and entrepreneurs has proven to be exactly what we were hoping for: wise, energetic, enthusiastic, honest, curious, dependable, experienced, and a lot of fun to be around. I must mention them all by name:

- Karl Glocker – Glocker Real Estate and Insurance
- Dennis Urffer, CPA – Reznick, Amsterdam and Leshner
- Alan Apt – Aptcor Commercial Real Estate
- Beryl Byles – Management Consultant and Executive Coach
- Kevin Johnson – CEO, Traffic Planning and Design
- Bob Brant, Esq. – Brant and Associates
- Mike Eddinger – Principle, Suburban Water
- Matthew "Bo" Bates – President, West Motor Freight

I am on the Board, too, and this group has kept me on my toes and brought us wisdom, referrals and great advice. Thank you.

Lastly, I also wish to thank our splendid team of committed bankers, and all of you as shareholders, for helping to get our "dream bank" off the ground. We have come a long way in a short time, and while we will face a lot of challenges as we move forward, I have the utmost faith in you all, and in our community.

We most sincerely appreciate your support.

Sincerely,

Joseph W. Major
Chairman and CEO

ParenteBeard

Independent Auditors' Report

To the Board of Directors of
The Victory Bancorp, Inc.
Limerick, Pennsylvania

We have audited the accompanying consolidated balance sheets of The Victory Bancorp, Inc. (the "Bank") as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Victory Bancorp, Inc. as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

ParenteBeard LLC

Malvern, Pennsylvania
March 29, 2010

Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
Assets		
Cash and due from banks	**$ 780,655**	$ 972,616
Federal funds sold	**3,905,000**	767,000
Cash and Cash Equivalents	**4,685,655**	1,739,616
Securities available for sale	**2,391,338**	2,491,299
Loans receivable, net of allowance for loan losses of $579,849 and $199,132	**46,360,661**	17,863,734
Bank premises and equipment, net	**1,193,065**	855,569
Restricted investment in bank stocks	**482,800**	83,700
Accrued interest receivable	**147,223**	49,114
Federal deposit insurance company prepaid assessment	**263,899**	-
Other assets	**130,149**	75,124
Total Assets	**$55,654,790**	$23,158,156
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 4,130,170**	$ 1,920,176
Interest-bearing	**43,974,374**	13,600,329
Total Deposits	**48,104,544**	15,520,505
Accrued interest payable	**23,266**	5,487
Other liabilities	**213,359**	126,203
Total Liabilities	**48,341,169**	15,652,195
Stockholders' Equity		
Preferred stock, $1 par value; authorized 2,000,000 shares; $1,000 liquidation preference per share; 2,107 shares issued at December 31, 2009 and -0- at December 31, 2008	**2,107,000**	-
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding 1,025,464 shares	**1,025,464**	1,025,464
Surplus	**9,231,324**	9,168,812
Accumulated deficit	**(5,060,030)**	(2,679,614)
Accumulated other comprehensive income (loss)	**9,863**	(8,701)
Total Stockholders' Equity	**7,313,621**	7,505,961
Total Liabilities and Stockholders' Equity	**$55,654,790**	$23,158,156

See notes to consolidated financial statements.

Consolidated Statements of Operations

Years Ended December 31, 2009 and 2008

	2009	2008
Interest Income		
Interest and fees on loans	**$1,858,145**	$ 583,762
Interest on investment securities	**94,956**	30,364
Interest on federal funds sold	**7,183**	92,226
Interest on deposits in other banks	**1,629**	98,237
Total Interest Income	**1,961,913**	804,589
Interest Expense		
Deposits	**846,992**	209,596
Short term borrowings	**1,704**	1,259
Total Interest Expense	**848,696**	210,855
Net Interest Income	**1,113,217**	593,734
Provision for Loan Losses	**380,717**	199,132
Net Interest Income after Provision for Loan Losses	**732,500**	394,602
Non-Interest Income		
Service charges and activity fees	**19,633**	2,420
Net gains on sales of loans	**97,673**	-
Other income	**16,725**	3,989
Total Non-Interest Income	**134,031**	6,409
Non-Interest Expenses		
Salaries and employee benefits	**1,589,559**	1,493,886
Occupancy and equipment	**541,745**	157,692
Legal and professional fees	**253,255**	311,769
Advertising and promotion	**173,614**	102,221
Loan expenses	**25,544**	15,760
Data processing costs	**304,864**	145,609
Supplies, printing and postage	**57,516**	36,766
Telephone	**15,147**	14,112
Entertainment	**33,702**	29,670
Mileage and tolls	**13,582**	13,266
Insurance	**28,409**	13,760
Federal deposit insurance company premiums	**86,432**	1,301
Dues and subscriptions	**21,442**	19,210
Shares tax	**74,120**	-
Other	**6,888**	21
Total Non-Interest Expenses	**3,225,819**	2,355,043
Net Loss	**(2,359,288)**	(1,954,032)
Preferred stock dividends	**21,128**	-
Net Loss Available to Common Stockholders	**$(2,380,416)**	$(1,954,032)

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2009 and 2008

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (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
Comprehensive loss:						
Net loss	-	-	-	**(2,359,288)**	-	**(2,359,288)**
Unrealized gains on securities available for sale	-	-	-	-	**18,564**	**18,564**
Total Comprehensive Loss						**(2,340,724)**
Issuance of preferred stock	**2,046,000**	-	-	-	-	**2,046,000**
Exercise of warrants	**61,000**	-	**(61,000)**	-	-	-
Dividends on preferred stock	-	-	-	**(21,128)**	-	**(21,128)**
Share-based compensation expense	-	-	**123,512**	-	-	**123,512**
Balance - December 31, 2009	**$2,107,000**	**$1,025,464**	**$9,231,324**	**$(5,060,030)**	**$ 9,863**	**$7,313,621**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities		
Net loss	**$(2,359,288)**	$(1,954,032)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	**380,717**	199,132
Depreciation	**229,490**	37,457
Share-based compensation	**123,512**	325,387
Net accretion of investment securities	**5,256**	(7,031)
Net realized gain on sale of loans held for sale	**(97,673)**	-
Origination of loans held for sale	**(830,689)**	-
Proceeds from sale of loans held for sale	**913,758**	-
Increase in accrued interest receivable	**(98,109)**	(49,114)
Increase in Federal Deposit Insurance Company prepaid assessment	**(263,899)**	-
Increase in other assets	**(55,025)**	(75,124)
Increase in accrued interest payable	**17,779**	5,487
Increase in other liabilities	**87,156**	126,203
Net Cash Used in Operating Activities	**(1,947,015)**	(1,391,635)
Cash Flows from Investing Activities		
Activity in available for sale securities:		
Purchases	**(33,500,664)**	(19,990,989)
Proceeds from maturities, calls, and principal paydowns	**33,613,933**	17,498,020
Net increase in loans	**(28,863,040)**	(18,062,866)
Net increase in restricted investment in bank stocks	**(399,100)**	(83,700)
Purchases of premises and equipment	**(566,986)**	(814,316)
Net Cash Used in Investing Activities	**(29,715,857)**	(21,453,851)
Cash Flows from Financing Activities		
Net increase in deposits	**32,584,039**	15,520,505
Net proceeds from issuance of preferred stock	**2,046,000**	-
Cash dividends on preferred stock	**(21,128)**	-
Net proceeds from issuance of common stock	**-**	9,057,616
Net Cash Provided by Financing Activities	**34,608,911**	24,578,121
Net Increase in Cash and Cash Equivalents	**2,946,039**	1,732,635
Cash and Cash Equivalents - Beginning	**1,739,616**	6,981
Cash and Cash Equivalents - Ending	**$ 4,685,655**	$ 1,739,616
Supplementary Cash Flows Information		
Exercise of warrants	**$ 61,000**	$ -
Interest paid	**$ 830,917**	$ 205,368

See notes to consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements of The Victory Bancorp, Inc. (the "Corporation") are prepared on the accrual basis and included in the accounts of The Victory Bancorp, Inc. and its wholly-owned subsidiary, The Victory Bank. All significant accounts and transactions have been eliminated from the accompanying consolidated financial statements.

Organization and Nature of Operations

The Parent Corporation is a financial services bank holding company whose principal activity is the ownership and management of The Victory Bank as mentioned above.

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, $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 consolidated statements of operations for the years ended December 31, 2008 and 2007 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.

Basis of Financial Statement Presentation

Effective April 1, 2009, the Bank adopted new provisions under ASC Topic 855, *Subsequent Events*. ASC 855 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. ASC 855 sets forth the period after the balance sheet date during which management of an entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. In preparing these consolidated financial statements, the Bank evaluated the events and transactions that occurred between December 31, 2009 and March 29, 2010, the date these financial statements were issued.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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.

Effective April 1, 2009, the Bank adopted new provisions under ASC Topic 320, Investments-Debt and Equity Securities, specific to other-than-temporary impairment. Under the new guidance which applies to existing and new debt securities, it clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the amortized cost basis of the security through either cash flows or market price. Prior to the adoption of the recent accounting guidance, management considered, in determining whether other-than-temporary impairment exists (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.

Note 1 - Summary of Significant Accounting Policies (Continued)

Securities (Continued)

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, ASC Topic 320 changes the presentation and amount of the other-than-temporary impairment recognized in the consolidated statement of operations. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in operations. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

For equity securities, when the Bank has decided to sell an impaired available for sale security and the entity does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Bank recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made.

Loans Receivable

Loans receivable that management has the intent and 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

Management evaluates the restricted investment in bank stocks for impairment in accordance with ASC 942-10, *Accounting Standards Codification*, *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, 2009. However, a security impairment analysis is completed quarterly and the determination that no impairment had occurred as of December 31, 2009 is no assurance that impairment may not occur in the future.

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.

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, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; (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.

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, 2009, and consists of common stock of the Atlantic Central Bankers Bank and Federal Home Loan Bank (FHLB) stocks totaling 482,800 and 83,700 at December 31, 2009 and 2008, respectively. In December 2009, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. Advertising expense incurred for the years ended December 31, 2009 and 2008, including organizational and pre-opening expenses, totaled approximately $8,133 and $15,143, respectively.

Note 1 - Summary of Significant Accounting Policies (Continued)

Income Taxes

The Bank accounts for income taxes in accordance with income tax accounting guidance FASB ASC 740, *Income Taxes*. On January 1, 2009, the Bank adopted the recent accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for current period by applying the provisions of the enacted tax law to the taxable income to excess of deductions over revenues. The Bank determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more likely than not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more likely than not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Bank recognizes interest and penalties on income taxes as a component of income tax expense. The Bank's federal and state tax returns are open and subject to examination from the 2008 tax return year and forward.

Comprehensive Income (Loss)

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains on securities available for sale which is recognized as separate components of equity.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 16. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

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 consolidated balance sheet when they are funded.

Note 1 - Summary of Significant Accounting Policies (Continued)

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. For the years ended December 31, 2009 and 2008, expense attributable to the Plan amounted to $29,779 and $-0-, respectively.

Share-Based Compensation

The Bank adopted the provisions of ASC 718-10, *Share-Based Payment*. This standard 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.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee’s service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Sholes model is used to estimate the fair value of stock options, while the market price of the Bank’s common stock at the date of grant is used for restricted stock awards.

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, 2009 and 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, 2009 and 2008 is summarized as follows:

	2009			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government agency debt securities	**$1,495,200**	**$ -**	**$ -**	**$1,495,200**
Residential mortgage-backed securities	**886,275**	**9,863**	**-**	**896,138**
	$2,381,475	**$9,863**	**$ -**	**$2,391,338**
	2008			
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, 2009 and 2008, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due after one year through five years	**$1,495,200**	**$1,495,200**	$1,000,000	$1,004,220
Due after five years through ten years	**-**	**-**	1,500,000	1,487,079
Due after ten years	**886,275**	**896,138**	-	-
	$2,381,475	**$2,391,338**	$2,500,000	$2,491,299

All U.S. Government agency and mortgage backed securities at December 31, 2009 and 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.

Note 4 - Loans Receivable

The composition of loans receivable at December 31, 2009 and 2008 is as follows:

	2009	2008
Commercial term	**$10,704,445**	$ 7,651,485
Commercial mortgage	**11,711,151**	3,626,460
Commercial line	**10,395,675**	3,440,998
Construction	**1,040,440**	74,496
Home equity	**11,126,941**	3,066,146
Consumer	**2,016,507**	243,351
Total Loans	**46,995,159**	18,102,936
Deferred fees, net	**(54,649)**	(40,070)
Allowance for loan losses	**(579,849)**	(199,132)
Net Loans	**$46,360,661**	$17,863,734

The changes in the allowance for loan losses for the year ended December 31, 2009 and 2008 are as follows:

	2009	2008
Balance, beginning of year	**$199,132**	$ -
Provision for loan losses	**380,717**	199,132
Balance, end of year	**$579,849**	$199,132

Note 4 - Loans Receivable (Continued)

The following table presents the Bank's impaired loans at December 31, 2009:

	2009
Impaired loans without a valuation allowance	$ -
Impaired loans with a valuation allowance	249,965
Total Impaired Loans	**$249,965**
Valuation allowance related to impaired loans	$ 62,915
Total loans past-due ninety days or more and still accruing	-
Average investment in impaired loans	49,993
Interest income recognized on impaired loans	-
Interest income recognized on a cash basis on impaired loans	-

As of December 31, 2008, the Bank had no impaired loans, no nonaccrual loans, and no loans past due 90 days or more. During the year ended December 31, 2008, the Bank had no investment in impaired loans.

Note 5 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2009 and 2008 are as follows:

	Estimated Useful Lives	2009	2008
Leasehold improvements	10 - 20 years	$ 696,661	$558,615
Computer equipment and software	3 - 5 years	373,879	178,690
Automobiles	3 years	85,572	34,437
Bank unique equipment	5 years	145,446	37,251
Furniture, fixtures and equipment	3 - 10 years	158,454	84,033
		1,460,012	893,026
Accumulated depreciation		(266,947)	(37,457)
		$1,193,065	$855,569

Depreciation expense charged to operations amounted to $229,490 and $37,457 for the years ended December 31, 2009 and 2008, respectively.

Note 6 - Deposits

The components of deposits at December 31, 2009 and 2008 are as follows:

	2009	2008
Demand, non-interest bearing	**$ 4,130,170**	$ 1,920,176
Demand interest bearing	**1,594,907**	841,199
Money market accounts	**11,801,503**	8,508,098
Savings accounts	**18,021,145**	31,890
Time, $100,000 and over	**5,142,219**	2,062,879
Time, other	**7,414,600**	2,156,263
	$48,104,544	$15,520,505

At December 31, 2009, the scheduled maturities of time deposits are as follows:

2010	$11,539,548
2011	603,541
2012	108,261
2013	305,469
	$12,556,819

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, 2009 and 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:

2010	**$ 226,000**
2011	**226,000**
2012	**226,000**
2013	**227,437**
2014	**243,250**
Thereafter	**3,697,667**
	$4,846,354

Rent expense for the lease for the year ended December 31, 2009 and 2008 was $278,147 and $67,994, respectively.

Note 9 - Employee Agreements

The Bank entered into employee 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 control of the Bank, as defined in the agreements, 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. 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, 2009 and 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.

On February 27, 2009, pursuant to the U.S. Department of Treasury's Troubled Asset Relief Program ('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 per share; and (ii) 27 shares of 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. All warrants were exercised immediately in exchange for 1,000 shares of preferred stock each. The proceeds from this transaction count as Tier 1 capital and the warrant qualifies as tangible equity.

On December 8, 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 $1,505,000: (i) 1,505 shares of fixed-rate non-cumulative perpetual preferred stock, Series C, having par value of $1 per share; and (ii) 34 shares of fixed-rate non-cumulative perpetual preferred stock, Series D, having a par value of $1 per share, pursuant to the exercise of a preferred stock warrant. All warrants were exercised immediately in exchange for 1,000 shares of preferred stock each. The proceeds from this transaction count as Tier 1 capital and the warrant qualifies as tangible equity.

Series A Preferred Stock and Series C Preferred Stock pay cumulative dividends at a rate of 5% per year for the first five years and, thereafter, at a rate of 9% per year.

Series B Preferred Stock and Series D Preferred Stock pay cumulative dividends at a rate of 9% per year.

Note 11 - Federal Income Taxes

There is no provision for income taxes for the years ended December 31, 2009 and 2008 due to the net operating loss incurred.

The components of the net deferred tax asset (liability) at December 31, 2009 are as follows:

	2009	2008
Deferred tax assets:		
Allowance for loan losses	**$ 149,329**	$ 42,981
Organization and start-up costs	**229,929**	237,655
Cash basis conversion	**-**	17,644
Nonqualified stock options	**15,782**	5,260
Net operating loss carryforwards	**1,258,765**	489,697
Deferred Tax Asset	**1,653,805**	793,237
Valuation allowance	**(1,500,467)**	(793,237)
Total Deferred Tax Assets, Net of Valuation Allowance	**153,338**	-
Deferred tax liabilities:		
Premises and equipment	**(105,385)**	-
Cash basis conversion	**(19,301)**	-
Deferred loan costs	**(28,652)**	-
	(153,338)	-
Net Deferred Tax Asset	**$ -**	$ -

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $3,702,250 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 $1,523,599 and $1,400,266 at December 31, 2009 and 2008, respectively. Loans originated for related parties totaled $241,300 and $1,517,530 and payments received were $117,968 and $117,264 for the years ended December 31, 2009 and 2008, respectively. Deposits of related parties totaled $1,826,748 and $1,428,343 as of December 31, 2009 and 2008, respectively.

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 2009 and 2008, respectively, 4,000 and 128,945 Incentive Stock Options were issued under the Plan and -0- and 45,568 Non-Qualified Stock Options were issued under the Plan. At December 31, 2009 and 2008, there are 30,679 and 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, 2009:

	Warrants and Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at January 1, 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	$ -
Stock options granted in 2009	4,000	10.00		
Stock options forfeited in 2009	(4,100)	10.00		
Outstanding at December 31, 2009	**274,413**	**$10.00**	**9 years**	**$ -**
Exercisable at December 31, 2009	**134,899**	**$10.00**	**9 years**	**$ -**

Note 13 - Share-Based Compensation (Continued)

The fair value of each organizer warrant is estimated on the date of grants using the Black-Scholes option pricing model with the following weighted average assumptions for grant in 2008: dividend yield of 0.00%; 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. There were no organizer warrants granted in 2009. The fair value of the warrants granted in 2008 was $2.96.

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:

	2009	2008
Dividend yield	**-%**	-%
Expected life	**7 years**	7 years
Expected volatility	**32.50%**	26.57%
Risk-free interest rate	**2.46%**	3.89%

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 options granted in 2009 and 2008 were $3.91 and $3.77.

Total share-based compensation cost for the year ended December 31, 2009 was $123,512 related to stock options. There were no tax benefits recognized related to the share-based compensation expense due to the net operating loss incurred.

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, 2009, there was $315,542 of unrecognized compensation cost related to nonvested Incentive Stock Options granted in 2009. In addition there was $108,305 of unrecognized compensation cost related to nonvested Non-Qualified Stock options granted in 2009. These costs are expected to be recognized on a vesting method over a weighted average period of five years.

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, 2009 and 2008:

	2009	2008
Commitments to grant loans	$ -	$ 15,000
Unfunded commitments under lines of credit	8,599,000	4,201,074
	$8,599,000	$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, 2009.

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 consolidated 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, 2009, that the Bank meets all capital adequacy requirements to which it is subject.

Note 15 - Regulatory Matters (Continued)

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, 2009.

The Bank's actual capital amounts and ratios at December 31, 2009 and 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)			
December 31, 2009						
Total capital (to risk-weighted assets)	**$7,884**	**16.76 %**	**$≥3,762**	**≥8.00 %**	**$≥4,703**	**≥10.00 %**
Tier 1 capital (to risk-weighted assets)	**7,304**	**15.53**	**≥1,881**	**≥4.00**	**≥2,822**	**≥ 6.00**
Tier 1 capital (to average assets)	**7,304**	**13.15**	**≥2,222**	**≥4.00**	**≥2,778**	**≥ 5.00**
December 31, 2008						
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 - Fair Value Measurements

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 consolidated 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") Statement No. 157, now ASC 820-10, issued *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. FASB ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements. The Bank adopted FASB ASC 820-10 effective for its fiscal year beginning January 1, 2008.

Note 16 - Fair Value Measurements (Continued)

FASB ASC 820-10 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 FASB ASC 820-10 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.

A description of the valuation methodologies used for assets measured at fair value is set forth below:

The Victory Bancorp, Inc.'s available for sale investment securities, which generally include U.S. government agencies and mortgage-backed securities, are reported at fair value. These securities are valued by an independent third party ("preparer"). The preparer's evaluations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their evaluated pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

U.S. Government agencies are evaluated and priced using multi-dimensional relational models and option adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage-backed securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information and other benchmarks. Other investments are evaluated using a broker-quote based application, including quotes from issuers.

Impaired loans are those that 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.

Note 16 - Fair Value Measurements (Continued)

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, 2009 and 2008 are as follows:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2009				
Securities available for sale	**$2,391,338**	**$ -**	**$2,391,338**	**$ -**
December 31, 2008				
Securities available for sale	$2,491,299	$ -	$2,491,299	$ -

Non-accrual loans are evaluated for impairment on an individual basis under FASB ASC Topic 310, *Receivables*. The impairment analysis includes current collateral values, known relevant factors that may affect loan collectibility, and risks inherent in different kinds of lending. When the collateral value or discounted cash flows less costs to sell is less than the carrying value of the loan a specific reserve (valuation allowance) is established. Other real estate owned is carried at the lower of cost or fair value. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
		(In Thousands)		
December 31, 2009				
Impaired loans	**$ 187,050**	**$ -**	**$ -**	**$187,050**

The Bank had no financial assets or liabilities measured at fair value on a non-recurring basis for the year ended December 31, 2008.

The Victory Bank Team

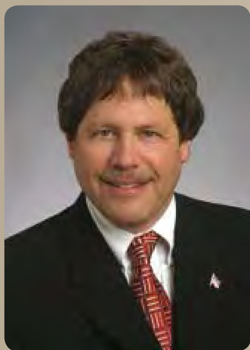
Front (L-R)

Noel Billingsley, Vice President and Business Development Officer; Leslie Unger, Administrative Assistant; Diana Stephens, Banking Center Representative; Shelly Stockmal, Executive Assistant; Donna Colella, Operations Manager; Trisha Metz, Credit Department Manager; Roxanne Raymond, Banking Center Representative; Noreen Cobourn, Loan Operations Manager; Julie Jackson, Banking Center Representative; and Joseph Bergquist, Vice President and Commercial Relationship Manager.

Back (L-R)

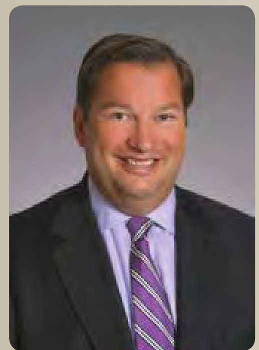
Matthew Melcher, Credit Analyst; Richard L. Graver, President and Chief Lending Officer; Saul S. Rivkin, Vice President and Chief Retail Officer; Robert H. Schultz, Chief Financial Officer and Chief Operating Officer; James Phillips, Business Development Officer; Joseph W. Major, Chairman and CEO; Eric B. Offner, Executive Vice President and Chief Credit Officer; and Dennis Zielinski, Compliance Officer and Security Officer.

Board of Directors

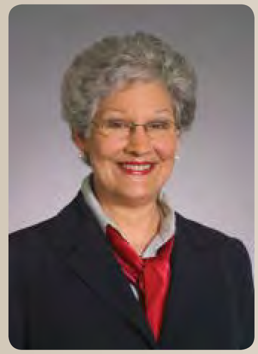


Alan Apt

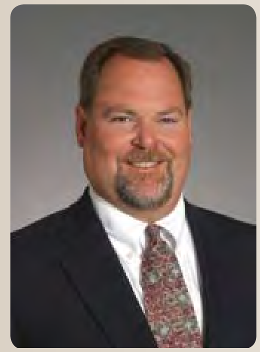
Matthew “Bo” Bates



Robert Brant, Esq.



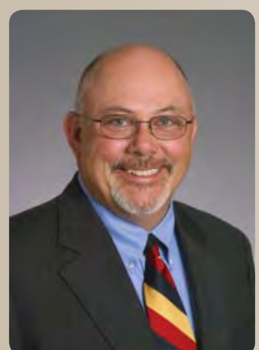
Beryl B. Byles



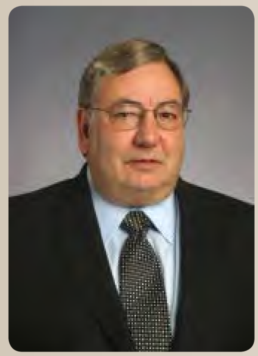
Michael Eddinger

Karl Glocker

Kevin Johnson



Joseph Major
Chairman and CEO

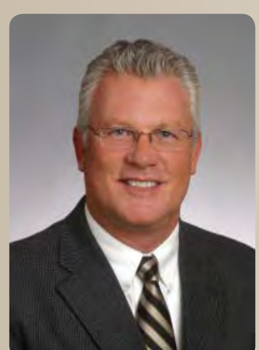


Dennis Urffer, CPA

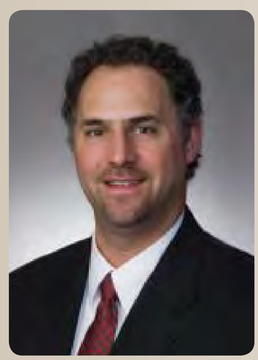
Management Team

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
Chief Retail Officer

VICTORY
BANCORP

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