IN PURSUIT OF EXCELLENCE

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.

TABLE OF CONTENTS

Letter from the Chairman and CEO 2

Independent Auditors' Report 5

Consolidated Balance Sheet 6

Consolidated Statement of Operations. 7

Consolidated Statement of Stockholders' Equity 8

Consolidated Statement of Cash Flows 9

Notes to Consolidated Financial Statements 10

Board of Directors 40

The Victory Bank Team 41

Introduction

The task of a world-class hurdler looks tantalizingly simple. On the starting line the athlete arches into an ideal pose, eyes focused on the finish line, waiting for the gun. Then comes a furious burst of energy, gasping lungs, burning muscles, a series of graceful leaps over the hurdles with a final lunge into the tape, and the race is done. Simple enough to watch, but at a world-class competitive level, getting billions of cells, muscles, nerves and body parts working in perfect harmony requires years of dedication and consistency. In addition to raw talent, it requires intelligent coaching, perfect nutrition, hours of daily practice, and painful levels of hard work to build the human systems to compete at such a level, all to cover a few hundred meters and some man-made hurdles just a razor's edge ahead of the pack.

2011 proved to be a remarkable and historic year for The Victory Bancorp as it successfully navigated several hurdles of its own. Most importantly, we achieved four consecutive quarters of profitability and completed the first profitable year in our history, enjoyed significant growth in loans, assets, and deposits, and maintained excellent loan quality. A significant amount of new capital was raised, primarily from our existing shareholders. The company also received additional new capital from United States Treasury via the Small Business Lending Fund (SBLF), and exited the Treasury's TARP program. Like the athlete, accomplishing these challenging tasks has required years of dedication and the well-organized contributions of many, including the local investment capital of our board and shareholders, the leadership and planning of our executive group, and the consistent actions of our entire team of bankers. There are no substitutes for hard work and the collective, unwavering commitment of talented individuals united to accomplish specific goals.

Operating Environment

The operating environment during 2011 was highly unusual and perhaps unprecedented. Most banks experienced a combination of very low deposit costs, excessive liquidity, and low demand for loans. Consumers methodically deleveraged by paying-down credit cards and home equity lines. Existing home sales and new residential development were almost non-existent, and except for the refinancing of existing debt,

Joseph W. Major
Chairman and CEO

mortgage lending was also low. The demand for loans from small businesses and professional practices was likewise tepid, with many savvy businesspeople "sitting on the sidelines," rather than investing in new equipment, buildings, or hiring people. The news media's constant assertion that banks were hoarding cash and not making loans was patently untrue, and in fact, competition for new business loans was fierce among smaller banks. Since 2007, many local banks had scaled back on their lending operations, and had focused much of their attention on building loan-loss reserves and resolving loan problems, often related to construction and land development. However, during the course of 2011, many of these companies re-entered the local lending market, and competition for good quality loans steadily increased during the year. The inevitable result of this competition is reduced operating margins for all the banks.

The entire financial services industry has also been affected by significant new laws passed in 2010, most notably the Dodd-Frank legislation, and by ever more demanding pressures from bank regulators. These pressures are not abstract; the hard costs to comply with these new regulations and with higher levels of regulatory scrutiny are considerable, and have placed an added burden upon smaller banks that cannot spread these cost over a larger asset base.

Financial Results

We are pleased to report that 2011 was the first profitable year for The Victory Bank and for the holding company, The Victory Bancorp. Both generated a profit in all four quarters, with the bank totaling an after-tax profit of $730,000, as compared to an after-tax loss of $499,000 in 2010, an overall improvement of $1.23 million. The Victory Bancorp paid out a total of $233 thousand in preferred stock dividends to owners of certain securities, and to the U.S. Treasury under the TARP program. Aggregated, profit for The Victory Bancorp totaled $497,000, as compared to a loss of $601,000 in 2010, an improvement of approximately $1.1 million.

Total assets grew from $84.9 million to $107.0 million, deposits grew from $75.4 million to $95.7 million, and total stockholders' equity grew from $8.0 million to $11.1 million. Net interest income before loan loss provision increased from $2.6 million to $3.6 million in 2011. In addition, 2011 also saw meaningful growth in noninterest income, totaling $732 thousand in 2011, compared to $310 thousand in 2010. Noninterest expenses increased from $3.2 million to $3.55 million in 2011, as the bank expanded its team of commercial bankers and supporting staff.

Asset quality remained strong, and the company increased its allowance for loan losses from $933 thousand at the end of 2010 to $1.1 million at the end of 2011, approximately 1.26% of total loans. Non-accrual loans totaled $210 thousand at December 31, 2010, and $315 thousand at December 31, 2011.

Other Key Accomplishments

One of the greatest hurdles facing smaller banking companies is the accumulation of enough capital to meet regulatory requirements and to allow for growth. Recent valuations for bank stocks have been notably poor, and raising capital by smaller banks not traded on a public exchange has been difficult. Beginning in late 2010 and continuing through the first half of 2011, we engaged in a private placement of convertible preferred securities, raising just over $2.5 million in new capital, of which $1.3 million was received in 2011. Additionally, out of approximately 950 applicants, we were one of just over 300 smaller banks approved for an investment by the U. S. Treasury from its small business lending fund in the amount of $3.43 million. Concurrent with closing, we paid $2.1 million back to the Treasury that remained on our books from the TARP program, thus successfully departing that program. Lastly and perhaps most importantly, we further grew our capital base by making money this year and increasing our retained earnings.

In October of 2011, we closed on the purchase of our headquarters building which was previously subject to a long-term lease. This transaction is expected to save the company hundreds of thousands of dollars over the life of the former lease, and was immediately accretive to earnings. During the course of the year, several new professionals joined our team, bringing with them many years of commercial banking experience. Both Tony D'Antonio and Alex Kroll joined our team as senior commercial relationship managers and "hit the ground running" when they arrived. As compared to the joy we felt when we moved out of the temporary trailer

into our headquarters building 3 years ago, a number of our operations people moved into the building next door. This step was inevitable given our business plan and growth, but was bittersweet for all of us who had grown accustomed to working so closely under one roof.

Plans for the Future

Unlike the athlete sprinting for a few seconds with the goal of winning that one race, we operate under a comprehensive three year, rolling business plan, which is carefully reconsidered on a periodic basis and altered to fit the changing circumstances around us, including the national and local economies, interest rates, technology, and other factors. We believe in the admonition of Gen. Dwight David Eisenhower who once wrote that "plans are nothing; planning is everything." More than anything, we believe that our ability to adapt to an ever-changing world will define our level of long-term success.

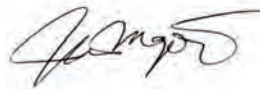
However, we are deeply committed to an unchanging, values-driven management approach, which defines how we treat our clients, shareholders, and team members, as well as how we interact with our community. These core values are printed in this annual report, posted our website and are an integral part of everything we do. Consistent with this approach, our core sales and marketing strategy is based on building meaningful relationships with our clients, where their best interests are always considered and where every arrangement with our bank must be fair both to our clients and to the bank. Successful implementation of this approach requires a certain amount of dedication and stubbornness by every member of our team. 2012 calls for the maturation of our business plan in several meaningful ways:

- Added emphasis on customer relationship management, so that we don't forget about paying attention to the needs and preferences of our existing clients in our haste to find new ones;
- Steady growth in loans and deposits to local businesses and professional practices;
- The acquisition of software that helps us identify our best customers, and that provides a basis for the rational pricing of loans and other bank products;
- Continued emphasis on credit quality. Making loans that cannot or will not be paid back is the principal cause of distress and failure in our industry, and the need for constant diligence regarding the underwriting of loans cannot be over emphasized. We remain totally committed to traditional underwriting standards and to an ever-improving, credit driven culture;
- Beginning in 2009, we have utilized programs from the federal government's SBA program and were rated as one of the region's top 25 SBA lenders. These programs have helped small businesses sustain or grow their operations in ways that would have otherwise been unavailable to them and the bank has generated substantial amounts of income by auctioning the SBA guaranteed portions of many of these loans in the open market. We expect to expand these operations throughout 2012;
- The future calls for the continued growth of the overall knowledge, talent, and expertise of our team. Beginning in 2012 and beyond, we are expanding our investment in education and training for our entire team utilizing individual development plans, internal training and outside resources available through the Pennsylvania Bankers Association and other sources.

Conclusion

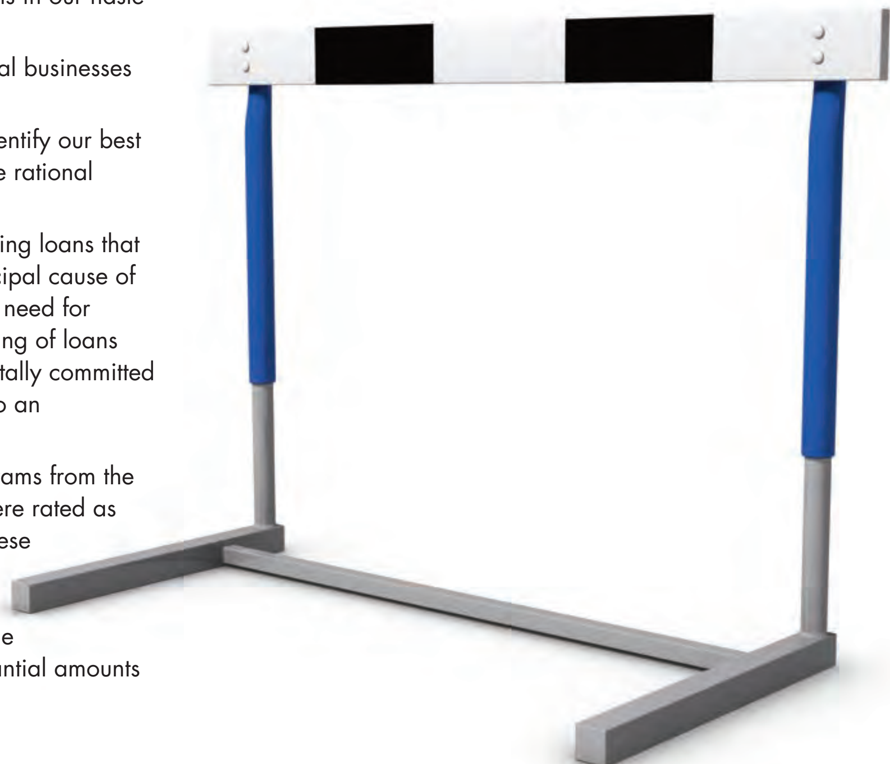
Despite the hazardous and uncertain operating environment of the past four years, our team of directors, shareholders, and devoted employees has taken us across many hurdles, and laid a solid foundation for future growth and expansion. To all of those committed individuals, and to our ever-growing and devoted client base, I express our team's collective appreciation for helping us get this far. As always, we thank you for your individual contributions, and remind you to refer quality clients and relationships to the bank. You have our promise that we will serve them well.

Sincerely Yours,



Joseph W. Major
Chairman and CEO

The Victory Bank
The Victory Bancorp



Independent Auditors' Report

Board of Directors
The Victory Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of The Victory Bancorp, Inc. and subsidiary (the "Company") as of December 31, 2011 and 2010, 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 Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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. and subsidiary as of December 31, 2011 and 2010, 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

Harrisburg, Pennsylvania
March 30, 2012

Consolidated Balance Sheet
(Dollars in Thousands, except per share data)
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	$ 4,626	$ 1,642
Federal funds sold	7,745	1,013
Cash and cash equivalents	12,371	2,655
Securities available-for-sale	3,764	6,677
Loans receivable, net of allowance for loan losses of $1,078 and $933	84,459	72,321
SBA loans held for sale	-	1,024
Premises and equipment, net	3,854	1,038
Restricted investment in bank stocks	387	462
Accrued interest receivable	287	218
FDIC prepaid assessment	66	159
Bank owned life insurance	1,207	-
Other assets	616	342
Total assets	$ 107,011	$ 84,896
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 12,111	$ 8,931
Interest-bearing	83,542	66,468
Total deposits	95,653	75,399
Secured borrowings	-	1,151
Accrued interest payable and other liabilities	283	323
Total liabilities	95,936	76,873
Stockholders' Equity		
Preferred stock, $1 par value; authorized 2,000,000:		
Series A -Series Dcumulative, non-convertible, $1 liquidation value, none outstanding at December 31, 2011; 2,107 shares issued and outstanding at December 31, 2010; total liquidation value $2,107 at December 31, 2010	-	2,107
Series E non-cumulative, convertible, $100 liquidation value 26,158 shares issued and outstanding at December 31, 2011; 13,208 shares issued and outstanding at December 31, 2010; total liquidation value $2,616 at December 31, 2011	2,616	1,321
Series F cumulative, non-convertible, $1 liquidation 3,431 shares issued and outstanding at December 31, 2011; none outstanding at December 31, 2010; total liquidation value $3,431 at December 31, 2011	3,431	-
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding 1,025,464 shares	1,025	1,025
Surplus	9,221	9,221
Accumulated deficit	(5,164)	(5,661)
Accumulated other comprehensive income (loss)	(54)	10
Total stockholders' equity	11,075	8,023
Total liabilities and stockholders' equity	$ 107,011	$ 84,896

See notes to consolidated financial statements.

Consolidated Statement of Operations
(In Thousands)
Years Ended December 31, 2011 and 2010

	2011	2010
Interest Income		
Interest and fees on loans	$ 4,650	$ 3,514
Interest on investment securities	61	49
Other interest income	8	8
Total interest income	4,719	3,571
Interest Expense		
Deposits	1,089	965
Short-term borrowings	2	3
Total interest expense	1,091	968
Net interest income	3,628	2,603
Provision for Loan Losses	279	353
Net interest income after provision for loan losses	3,349	2,250
Non-Interest Income		
Service charges and activity fees	100	77
Net gains on sales of loans	579	201
Other income	53	32
Total non-interest income	732	310
Non-Interest Expenses		
Salaries and employee benefits	1,896	1,553
Occupancy and equipment	438	556
Legal and professional fees	239	191
Advertising and promotion	70	66
Loan expenses	36	35
Data processing costs	434	400
Supplies, printing and postage	58	56
Telephone	19	19
Entertainment	66	44
Mileage and tolls	26	20
Insurance	34	34
FDIC insurance premiums	99	115
Dues and subscriptions	33	26
Shares tax	74	72
Other	29	12
Total non-interest expenses	3,551	3,199
Income (loss) before income tax benefit	530	(639)
Income Tax Benefit	200	140
Net income (loss)	730	(499)
Preferred Stock Dividends	233	102
Net income (loss) available to common stockholders	$ 497	$ (601)

See notes to consolidated financial statements

Consolidated Statement of Stockholders' Equity
(In Thousands)
December 31, 2011 and 2010

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2010	$ 2,107	$ 1,025	$ 9,232	$ (5,060)	$ 10	$ 7,314
Comprehensive loss:						
Net loss	-	-	-	(499)	-	(499)
Unrealized losses on securities available-for-sale *	-	-	-	-	-	-
Total comprehensive loss						(499)
Issuance of preferred stock, net of offering costs of $73	1,321	-	(73)	-	-	1,248
Cash dividends on preferred stock	-	-	-	(102)	-	(102)
Share-based compensation expense	-	-	62	-	-	62
Balance, December 31, 2010	3,428	1,025	9,221	(5,661)	10	8,023
Comprehensive income:						
Net income	-	-	-	730	-	730
Unrealized losses on securities available-for-sale	-	-	-	-	(64)	(64)
Total comprehensive income						666
Issuance of preferred stock	4,726	-	-	-	-	4,726
Redemption of preferred stock	(2,107)					(2,107)
Cash dividends on preferred stock	-	-	-	(233)	-	(233)
Balance, December 31, 2011	$ 6,047	$ 1,025	$ 9,221	$ (5,164)	$ (54)	$ 11,075

* Amount less than $1.

Consolidated Statement of Cash Flows
(In Thousands)
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Net income (loss)	$ 730	$ (499)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	279	353
Depreciation and amortization	222	213
Share-based compensation	-	62
Deferred income tax benefit	(200)	(140)
Net accretion of investment securities	14	3
Realized gain on sale of non SBA loans	(105)	-
Earnings on bank owned life insurance	(7)	-
Net realized gains on sale of SBA loans	(374)	(201)
SBA loans originated for sale	(3,331)	(3,286)
Proceeds from sale of SBA loans	4,729	3,620
Increase in accrued interest receivable	(69)	(71)
Decrease in FDIC prepaid assessment	93	104
Increase in other assets	(74)	(72)
(Decrease) increase in accrued interest payable	(8)	3
(Decrease) Increase in other liabilities	(32)	130
Net cash provided by operating activities	1,867	219
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Purchases	(19,472)	(36,999)
Proceeds from maturities, calls and principal paydowns	22,307	32,711
Net increase in loans	(16,100)	(27,517)
Proceeds from sale of loans	2,637	-
Redemption of restricted investment in bank stocks	75	21
Purchases of premises and equipment	(3,038)	(77)
Disposition of premises and equipment	-	20
Purchase of bank owned life insurance	(1,200)	-
Net cash used in investing activities	(14,791)	(31,841)
Cash Flows from Financing Activities		
Net increase in deposits	20,254	27,294
Net proceeds from issuance of preferred stock	4,726	1,248
Redemption of preferred stock	(2,107)	-
Cash dividends on preferred stock	(233)	(102)
Proceeds from (repayments of) secured borrowing	-	1,151
Net cash provided by financing activities	22,640	29,591
Net increase (decrease) in cash and cash equivalents	9,716	(2,031)
Cash and Cash Equivalents, Beginning	2,655	4,686
Cash and Cash Equivalents, Ending	$ 12,371	$ 2,655
Supplementary Cash Flows Information		
Interest paid	$ 1,099	$ 965
Non-cash transfers of secured borrowings related to SBA loans sold within 90 days of year end in 2010	$ 1,151	$ -

See notes to consolidated financial statements

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 include the accounts of The Victory Bancorp, Inc. and its wholly-owned subsidiary, The Victory Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

Organization and Nature of Operations

The Victory Bancorp, Inc. is a registered bank holding company, which owns 100% of the outstanding capital stock of The Victory Bank. The Corporation was incorporated under the laws of the State of Pennsylvania in 2009 for the purpose of serving as The Victory Bank's holding company. The holding company structure provides flexibility for growth through expansion of core business activities and access to varied capital raising operations. The Corporation's primary business activity consists of ownership of all of the outstanding stock of The Victory Bank. As of December 31, 2011, the Corporation had 312 stockholders of record.

The Bank is a Pennsylvania chartered commercial bank which was chartered in January 2008. The Bank operates a full-service commercial and consumer banking business in Montgomery County, Pennsylvania. The Bank's focus is on small- and middle-market commercial and retail customers. The Bank originates secured and unsecured commercial loans, commercial mortgage loans, consumer loans and construction loans and does not make subprime loans. The Bank also offers revolving credit loans, small business loans and automobile loans. The Bank offers a variety of deposit products, including demand and savings deposits, regular savings accounts, investment certificates and fixed-rate certificates of deposit. As a state-chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation.

Subsequent Events

Accounting Standards Codification (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 Corporation evaluated the events and transactions that occurred between December 31, 2011 and March 30, 2012, the date these financial statements were available to be 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, the fair value of financial instruments, the determination of other-than-temporary impairment of investment 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 economy of Montgomery County and the surrounding areas.

Cash and Cash Equivalents

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 sold for one day periods.

Securities

Management determines the appropriate classification of debt investment securities at the time of purchase and reevaluates such designation as of each balance sheet date. Securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums, or unaccreted discounts. At December 31, 2011 and 2010, the Corporation had no investment securities classified as held-to-maturity.

Securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available-for-sale. These securities are carried at fair value, which is determined by obtaining quoted market prices or matrix pricing. Unrealized gains and losses are excluded from earnings and are reported in other comprehensive income (loss). Realized gains and losses are recorded on the trade date and are determined using the specific identification method. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Management evaluates securities for other-than-temporary impairment on at least an annual basis, and more frequently when economic or market concerns warrant such evaluation. Declines in fair value of securities below their cost that are deemed to be other-than-temporary are 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 earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss). 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) whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the debt security prior to any anticipated recovery in fair value.

U.S. Small Business Association (SBA) Lending Activities

The Bank originates loans to customers in its primary market area under an SBA program that generally provides for SBA guarantees of up to 90 percent of each loan. The Bank generally sells the guaranteed portion of its SBA loans to a third party and retains the servicing, holding the nonguaranteed portion in its portfolio. When the guaranteed portion of an SBA loan is sold, the premium received on the sale and the present value of future cash flows of the servicing assets are recognized in income.

SBA servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These servicing rights are initially measured at fair value at the date of sale and included in the gain on sale. To determine the fair value of Mortgage Servicing Rights (MSRs), the Bank uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses.

These MSRs are amortized in proportion to, and over the period of, the estimated net servicing income or net servicing loss and measured for impairment based on fair value at each reporting date. The amortization of the MSRs is analyzed periodically and is adjusted to reflect changes in prepayment rates and other estimates.

Serviced loans sold to others are not included in the accompanying consolidated balance sheet. Income (losses) and fees collected for loan servicing are included in non-interest income.

Loans Receivable

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

The loans receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial term, commercial mortgage, commercial line, and construction. Consumer loans consist of the following classes: home equity and consumer.

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

Allowance for Loan Losses

The allowance for loan losses ("allowance") represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Because all identified losses are immediately charged off, no portion of the allowance is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

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

2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.

3. Nature and volume of the portfolio and terms of loans.

4. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.

5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.

6. Effect of external factors, such as competition and legal and regulatory requirements.

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

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial term, line and mortgage loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial mortgage loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial mortgage loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Construction lending is generally considered to involve high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor.

Home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Risks associated with home equity loans in second lien positions are greater than those in first position due to subordinate nature of the loans.

Other consumer loans include installment loans, car loans, and overdraft lines of credit. The majority of these loans are unsecured. Risks associated with other consumer loans tend to be greater due to the rapidly depreciating nature of the underlying assets.

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.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

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

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

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual, home equity loans and other consumer loans for impairment disclosures, unless such loans are the subject of a troubled debt restructuring agreement.

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

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

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

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. Amortization of leasehold improvements is recorded over the shorter of the estimated useful life or lease term.

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, and consists of common stock of the Atlantic Central Bankers Bank and Federal Home Loan Bank of Pittsburgh (FHLB) stocks totaling $387,000 and $462,000 at December 31, 2011 and 2010, respectively. In December 2008, the FHLB notified member banks that it was suspending dividend payments and the repurchase of capital stock. During 2010, the FHLB did begin repurchasing excess capital stock. The FHLB has also announced that it will issue its first dividend payment since 2008 in February 2012.

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

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, 2011 and 2010 totaled approximately $6,000 and $16,000, respectively.

Income Taxes

Current 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 the current period by applying the provisions of the enacted tax law to the current period taxable income. The Corporation 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, net operating loss carryforwards, 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 reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Corporation accounts for uncertain tax positions 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 appears 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.

The Corporation recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized in 2011 or 2010.

Federal and state tax returns for the years 2008 through 2010 are open for examination as of December 31, 2011.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on securities available-for-sale which is recognized as a separate component of stockholders' 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 15. 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 Corporation 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.

Employee Benefit Plan

The Bank has 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, 2011 and 2010, expense attributable to the Plan amounted to approximately $37,000 and $30,000, respectively.

Share-Based Compensation

The Bank follows the provisions of ASC 718-10, *Compensation – Stock Compensation*. 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 fair value of the Corporation's common stock at the date of grant is used for restricted stock awards.

Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 presentation. The reclassifications had no effect on results of operations.

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, 2011 and 2010, compensating balances approximated $150,000.

3. Securities Available-for-Sale

The amortized cost and approximate fair value of securities as of December 31, 2011 and 2010 is summarized as follows:

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Residential mortgage-backed securities	$ 3,318	$ 20	$ (11)	$ 3,327
Corporate financial institution bond	500	-	(63)	437
	$ 3,818	$ 20	$ (74)	$ 3,764
	2010			
U.S. Government agency debt securities	$ 6,000	$ -	$ -	$ 6,000
Residential mortgage-backed securities	667	10	-	677
	$ 6,667	$ 10	$ -	$ 6,677

Residential mortgage backed securities include FHLMC and GNMA pass through certificates at December 31, 2011 and 2010.

The unrealized losses and related fair value of investment securities available for sale with unrealized losses less than 12 months and those with unrealized losses 12 months or longer as of December 31, 2011 are as follows (in thousands):

	December 31, 2011					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage backed securities	$ 3,327	$ 11	$ -	$ -	$ 3,327	$ 11
Corporate bonds	437	63	-	-	437	63
Total	$ 3,764	$ 74	$ -	$ -	$ 3,764	$ 74

There were 3 individual securities in an unrealized loss position as of December 31, 2011 and no investment securities in an unrealized loss position as of December 31, 2010. The unrealized loss positions at December 31, 2011 are the result of interest rate changes and do not represent other than temporary impairment of investment securities.

The amortized cost and fair value of securities as of December 31, 2011 and 2010, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties.

	2011		2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or under	$ -	$ -	$ 6,000	$ 6,000
Due after one year through five years	500	437	-	-
Due after five years through ten years	-	-	-	-
Due after ten years	3,318	3,327	667	677
	$ 3,818	$ 3,764	$ 6,667	$ 6,677

No securities at December 31, 2011 have pledged to collateralize municipal deposits. All U.S. Government agency and mortgage backed securities at December 31, 2010 were pledged to collateralize municipal deposits.

4. Loans Receivable

The composition of loans receivable at December 31, 2011 and 2010 is as follows:

	2011	2010
	(In Thousands)	
Commercial term	$ 17,614	$ 18,927
Commercial mortgage	34,415	26,952
Commercial line	12,628	11,687
Construction	4,567	1,326
Home equity	8,937	9,640
Consumer	7,380	4,739
Total loans	85,541	73,271
Deferred fees, net	(4)	(17)
Allowance for loan losses	(1,078)	(933)
Net loans	$ 84,459	$ 72,321

Allowance for Loan Losses and Recorded Investment in Financial Receivables

The following table summarizes the activity in the allowance for loan losses by loan class for the year ended December 31, 2011 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2011 (in thousands):

	Allowance for Loan Losses						
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 152	$ (59)	$ -	$ 39	$ 132	$ -	$ 132
Commercial mortgage	176	-	-	52	228	-	228
Commercial line	156	(75)	-	83	164	77	87
Construction	10	-	-	25	35	-	35
Home equity	60	-	-	(3)	57	-	57
Consumer	21	-	-	72	93	49	44
Unallocated	358	-	-	11	369	-	369
	$ 933	$ (134)	$ -	$ 279	$ 1,078	$ 126	$ 952

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 17,614	$ 171	$ 17,443
Commercial mortgage	34,415	-	34,415
Commercial line	12,628	144	12,484
Construction	4,567	-	4,567
Home equity	8,937	-	8,937
Consumer	7,380	49	7,331
	$ 85,541	$ 364	$ 85,177

The changes in the allowance for loan losses for the year ended December 31, 2010 are as follows (in thousands):

Balance, beginning of year	$ 580
Provision for loan losses	353
Charge-offs	-
Balance, end of year	$ 933

Impaired Loans

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2011 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial term	$ 171	$ 306	$ -	$ 172	$ -
Commercial mortgage	-	-	-	-	-
Commercial line	-	-	-	-	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial term	$ -	$ -	$ -	$ -	$ -
Commercial mortgage	-	-	-	-	-
Commercial line	144	144	77	168	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	49	49	49	49	3
Total:					
Commercial term	$ 171	$ 306	$ -	$ 172	$ -
Commercial mortgage	-	-	-	-	-
Commercial line	144	144	77	168	-
Construction	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	49	49	49	49	3

The average recorded investment in impaired loans was $241,000 for the year ended December 31, 2010. The total recorded investment in impaired loans was $210,000 as of December 31, 2010. All impaired loans had a related allowance at December 31, 2010. The allowance recorded for impaired loans at December 31, 2010 was $77,000. The Bank recognizes income on impaired loans under the cash basis when the collateral on the loan is sufficient to cover the outstanding obligation to the Bank. There was no interest income recognized for the time that the loans were impaired during 2010.

Loan Receivables on Nonaccrual Status

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2011 and 2010 (in thousands):

	2011	2010
Commercial term	$ 171	$ -
Commercial mortgage	-	-
Commercial line	144	210
Construction	-	-
Home equity	-	-
Consumer	-	-
	$ 315	$ 210

Credit Quality Indicators

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Bank's internal risk rating system as of December 31, 2011 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	$ 17,443	$ -	$ 171	$ -	$ 17,614
Commercial mortgage	34,415	-	-	-	34,415
Commercial line	12,484	-	144	-	12,628
Construction	4,567	-	-	-	4,567
Home equity	8,937	-	-	-	8,937
Consumer	7,331	-	-	49	7,380
	$ 85,177	$ -	$ 315	$ 49	$ 85,541

Age Analysis of Past Due Loans Receivables

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2011 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Commercial term	$ 44	$ -	$ 174	$ 218	$ 17,396	$ 17,614	$ -
Commercial mortgage	-	-	-	-	34,415	34,415	-
Commercial line	-	-	-	-	12,628	12,628	-
Construction	-	-	-	-	4,567	4,567	-
Home equity	60	-	-	60	8,877	8,937	-
Consumer	-	49	-	49	7,331	7,380	-
	$ 104	$ 49	$ 174	$ 327	$ 85,214	$ 85,541	$ -

There were no loans past due 90 days or more still accruing interest at December 31, 2010.

Modifications

The Corporation may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider resulting in a modified loan which is then identified as a troubled debt restructuring (TDR). The Corporation may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. TDRs are considered impaired loans for purposes of calculating the Company's allowance for loan losses.

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

There were no troubled debt restructurings for the years ended December 31, 2011 and 2010.

Loan Sales

The Corporation originates and sells loans secured by the SBA. The Bank retains the unguaranteed portion of the loan and the servicing on the loans sold and receives a fee based upon the principal balance outstanding. During the years ended December 31, 2011 and 2010, the Bank sold loans held for sale for total proceeds of approximately $4,729,000 and $3,620,000 respectively. The loan sales resulted in realized gains of approximately $374,000 and $201,000 for the years ended December 31, 2011 and 2010, respectively. SBA loans held for sale at December 31, 2011 and 2010 amounted to approximately $-0- and $1,024,000, respectively. At December 31, 2010, there were secured borrowings of approximately $1,151,000 related to SBA loans sold within 90 days of year end. These borrowings offset the related loan balances during 2011, upon expiration of the related 90 day claw back period.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in the servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. The unpaid principal balances of loans serviced for others were approximately $7,071,000 and $4,055,000 at December 31, 2011 and 2010, respectively. The following summarizes the activity pertaining to servicing rights using the amortization method for the years ended December 31, 2011 and 2010:

	2011	2010
	(In Thousands)	
Balance, beginning	$ 79	$ 17
Additions	68	64
Disposals	-	-
Amortization	(8)	(2)
Balance, ending	$ 139	$ 79

The Corporation completed a sale of approximately $2,532,000 of non-SBA loans during 2011. The sale had net proceeds of $2,637,000, resulting in a gain of $105,000.

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2011 and 2010 are as follows:

	Estimated Useful Lives	2011	2010
		(In Thousands)	
Leasehold improvements	10 - 20 years	$ 710	$ 708
Computer equipment and software	3 - 5 years	474	390
Automobiles	3 years	124	86
Bank unique equipment	5 years	161	155
Furniture, fixtures and equipment	3 - 10 years	184	161
Building	40 years	1,687	-
Land		1,200	-
		4,540	1,500
Accumulated depreciation		(686)	(462)
		$ 3,854	$ 1,038

Depreciation and amortization expense charged to operations amounted to approximately $222,000 and $213,000 for the years ended December 31, 2011 and 2010, respectively.

On October 31, 2011, the Bank purchased the building and land at 548 North Lewis Road, Limerick, Pennsylvania, where the Bank's branch and executive offices resides. The purchase price of $2,850,000 is comprised of the land valued at $1,200,000 and the 6,500 square foot Bank branch and executive offices.

6. Deposits

The components of deposits at December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Demand, non-interest bearing	$ 12,111	$ 8,931
Demand interest bearing	5,173	2,261
Money market accounts	11,524	10,114
Savings accounts	45,531	27,395
Time, $100,000 and over	12,761	14,495
Time, other	8,553	12,203
	$ 95,653	$ 75,399

At December 31, 2011, the scheduled maturities of time deposits are as follows (in thousands):

2012	$ 10,776
2013	5,991
2014	2,513
2015	1,114
2016 and thereafter	920
	$ 21,314

Included in time deposits are brokered deposits of approximately $2,572,000 and $1,549,000 for the years ended December 31, 2011 and 2010, respectively.

7. Line 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, 2011 and 2010.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh and has $28.1 million of borrowing capacity at December 31, 2011. There were no borrowings under this capacity at December 31, 2011 or 2010.

8. Lease Commitments and Total Rental Expense

The Bank has an operating lease agreement for its administrative office maturing in 2012. Future minimum lease payments for 2012 under the non-cancellable lease agreement total $12,000.

Rent expense for leases for the years ended December 31, 2011 and 2010 was approximately $150,000 and $274,000, respectively. This included rent expense through October 31, 2011 for the main banking office building. The Corporation purchased this building in November of 2011 and the lease was terminated.

9. Stockholders' Equity

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.

On December 8, 2009, pursuant to the U.S. Department of Treasury's TARP Capital Purchase Program (CPP), the Corporation 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.

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.

The Corporation is authorized to issue 50,000 shares of Series E Preferred Stock, par value of $1 per share. Holders of the shares are entitled to receive a quarterly non-cumulative dividend at an annual rate of 7.0% if and when declared by the Company's Board of Directors. Non-cumulative dividends are payable quarterly on the Series E Preferred Stock, beginning January 1, 2012. During 2011 and 2010, the Corporation issued 12,950 and 13,208 shares of Series E Preferred Stock. Proceeds in 2011 and 2010 were $1,295,000 and $1,248,000, respectively, net of offering costs.

On September 22, 2011, the Corporation entered into a Purchase Agreement with the Treasury, pursuant to which the Corporation issued and sold to the Treasury 3,431 shares of its Preferred Stock, Series F, having a liquidation preference of $1,000 per share (the 'Liquidation Amount'), for proceeds of $3,431,000. The Purchase Agreement was entered into, and the Preferred Stock, Series F was issued, pursuant to the Treasury's Small Business Lending Fund program, a $30 billion fund established under the Small Business Jobs Act of 2010 that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. A portion of the proceeds were used to redeem the Preferred Stock, Series A through Series D previously issued to the United States Department of the Treasury under the CPP. The remaining proceeds were contributed to the Bank as additional capital for future growth.

The Series F Preferred Stock, qualifies as Tier 1 capital for the Corporation. The dividend rate is calculated as a percentage of the aggregate Liquidation Amount of the outstanding Preferred Stock, Series F and is based on changes in the level of Qualifying Small Business Lending ("QSBL") (as defined in the Purchase Agreement) by the Corporation. Based upon the increase in the Corporation's level of QSBL over the baseline level calculated under the terms of the Purchase Agreement, the dividend rate for the initial dividend period, which is from the date of issuance through December 31, 2011, has been set at approximately 1.0%. For the 2nd through 10th calendar quarters, the annual dividend rate may be adjusted to between 1% and 5%, to reflect the amount of change in the Corporation's level of QSBL. For the 11th calendar quarter through 4.5 years after issuance, the dividend rate will be fixed at between 1% and 7% based upon the increase in QSBL as compared to the baseline. After 4.5 years from issuance, the dividend rate will increase to 9%.

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

10. Federal Income Taxes

The components of income tax benefit for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Current	$ -	$ -
Deferred	200	140
	$ 200	$ 140

The deferred tax benefit in 2011 is attributable to reductions in the deferred tax asset valuation allowance.

The components of the net deferred tax asset at December 31, 2011 and 2010 are as follows:

	2011	2010
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 352	$ 269
Organization and start-up costs	195	212
Nonqualified stock options	26	21
Net operating loss carryforwards	1,047	1,318
Premises and equipment	272	248
Deferred loan costs	-	15
Deferred tax asset	1,892	2,083
Valuation allowance	(1,381)	(1,885)
Total deferred tax assets, net of valuation allowance	511	198
Deferred tax liabilities:		
Cash basis conversion	(56)	(58)
Deferred loan costs	(52)	-
Servicing asset	(20)	-
Other	(43)	-
	(171)	(58)
Net deferred tax asset, included in other assets	$ 340	$ 140

The income tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate of 34% to income before income taxes. The difference relates primarily to the impact of non-taxable income offset by the decrease in deferred tax asset valuation allowance.

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $3,080,000 which expire through 2030. Due to the limited amount of taxable income anticipated in future periods, the Corporation has established a valuation allowance that reduces the amount of its net deferred tax asset to an amount expected to be recovered at December 31, 2011 and 2010.

11. 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 approximately $1,893,000 and $1,440,000 at December 31, 2011 and 2010, respectively. Loans originated for related parties totaled $680,000 and payments received were approximately $228,000 for the year ended December 31, 2011. Deposits of related parties totaled approximately $2,663,000 and $1,501,000 as of December 31, 2011 and 2010, respectively.

12. 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 were 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. At December 31, 2011, there were 100,000 warrants outstanding, which expire in 2018.

In 2008, the Board of Directors adopted the 2008 Stock Option Plan (“2008 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 Corporation. 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 Corporation 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 Corporation’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 Corporation, 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 years. In 2009, 4,000 Incentive Stock Options were issued under the Plan and no Non-Qualified Stock Options were issued under the Plan. No options were granted in 2011 or 2010. At December 31, 2011 and 2010, there are 30,679 shares available for grant under the 2008 Plan.

The following is a summary of the Corporation's share-based compensation activity and related information for the years ended December 31, 2011 and 2010 (in thousands):

	Warrants and Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2010	274	$ 10.00		
Stock options granted in 2010	-	-		
Stock options forfeited in 2010	(105)	10.00		
Outstanding at December 31, 2010	169	10.00	8 years	$ -
Stock options granted in 2011	-			
Stock options forfeited in 2011	(1)			
Outstanding at December 31, 2011	168	$ 10.00	7 years	$ -
Exercisable at December 31, 2011	168	$ 10.00	7 years	$ -

There were no organizer warrants granted in 2011 or 2010. The fair value of the warrants granted in 2008 was $2.96, which were expensed upon issuance as no future services were required by the recipients.

The fair value of each option granted during 2009 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

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

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 was $3.91.

During 2010, the directors, senior management and employees of the Corporation forfeited all non-vested options as of July 1, 2010. As a result, no additional compensation expense will be recognized in connection with the options.

Total share-based compensation cost related to stock options totaled approximately $0 and $62,000 for the years ended December 31, 2011, and 2010, respectively.

13. 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, 2011 and 2010:

	2011	2010
	(In Thousands)	
Unfunded commitments under lines of credit	$ 19,340	$ 12,036

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, 2011.

14. 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, 2011, 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 seven years of operation. Under these guidelines, the Bank is considered "well capitalized" as of December 31, 2011 and 2010.

The Bank's actual capital amounts and ratios at December 31, 2011 and 2010 are presented below:

	2011					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
Total capital (to risk-weighted assets)	$ 10,782	11.72 %	$ ≥7,358	≥8.00 %	$ ≥9,198	≥10.00 %
Tier 1 capital (to risk-weighted assets)	9,704	10.55	≥3,679	≥4.00	≥5,519	≥ 6.00
Tier 1 capital (to average assets)	9,704	9.39	≥4,135	≥4.00	≥5,169	≥ 5.00
	2010					
Total capital (to risk-weighted assets)	$ 8,799	11.90 %	$ ≥5,916	≥8.00 %	$ ≥7,394	≥10.00 %
Tier 1 capital (to risk-weighted assets)	7,875	10.65	≥2,958	≥4.00	≥4,437	≥ 6.00
Tier 1 capital (to average assets)	7,875	9.68	≥3,255	≥4.00	≥4,068	≥ 5.00

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

15. 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 Corporation 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 each year end.

Determination of Fair Value

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Topic 820 *Fair Value Measurements and Disclosures* fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments.

Current fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

The Corporation groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon 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, 2011 and 2010 are as follows (in thousands):

	2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Residential mortgage-backed securities	$ 3,327	$ -	$ 3,327	$ -
Corporate financial institution bond	437	-	437	-
	$ 3,764	$ -	$ 3,764	$ -
	2010			
U.S. Government agency debt securities	$ 6,000	$ -	$ 6,000	$ -
Residential mortgage-backed securities	677	-	677	-
	$ 6,677	$ -	$ 6,677	$ -

Residential mortgage backed securities include FHLMC and GNMA pass through certificates at December 31, 2011 and 2010.

The Victory Bancorp, Inc.'s available-for-sale investment securities, which include a corporate financial institution bond, 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.

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.

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

	2011			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 238	$ -	$ -	$ 238
	2010			
Impaired loans	$ 133	$ -	$ -	$ 133

The following information should not be interpreted as an estimate of the fair value of the entire Corporation since a fair value calculation is only provided for a limited portion of the Corporation's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Corporation's disclosures and those of other companies may not be meaningful. In addition to the fair value methods for available for sale securities and impaired loans, previously disclosed, the following methods and assumptions were used to estimate the fair values of the Corporation's financial instruments at December 31, 2011:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Servicing Asset (Carried Lower of Cost or Fair Value)

The fair value of the servicing asset is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income. The Corporation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness.

Loans (Carried at Cost)

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

Loans Held for Sale (Carried at Lower of Cost or Fair Value)

The fair value of loans held for sale is determined, when possible, using quoted secondary-market prices. If no such quoted prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Restricted Investments in Bank Stock (Carried at Cost)

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

Accrued Interest Receivable and Payable (Carried at Cost)

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

Deposits (Carried at Cost)

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

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Bank's off-balance sheet financial instruments (lending commitments and lines of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values, and related carrying amounts, of the Bank's financial instruments were as follows at December 31, 2011:

	2011	
	Carrying Amount	Fair Value
	(In Thousands)	
Financial Assets:		
Cash and cash equivalents	$ 12,371	$ 12,371
Securities available-for-sale	3,764	3,764
Restricted investments in bank stocks	387	387
Loans, net	84,459	85,561
Loans held for sale	-	-
Servicing asset	139	139
Accrued interest receivable	287	287
Financial Liabilities:		
Deposits	95,653	95,957
Other borrowings	-	-
Accrued interest payable	18	18
Off-Balance Sheet:		
Commitments to extend credit	-	-
Standby letters of credit	-	-

BOARD OF DIRECTORS

Alan S. Apt
President and CEO
Aptcor Commercial Realtors

Matthew "Bo" Bates
Chief Executive Officer
West Motor Freight

Robert L. Brant, Esquire
Principal
Robert L. Brant & Associates LLC

Beryl B. Byles
Executive Coach
Beryl B. Byles Consulting

Michael A. Eddinger
Principal and Co-Owner
Surburban Water Technology

Karl Glocker
President
Glocker and Co.

Kevin L. Johnson
President
Traffic Planning and Design, Inc.

Joseph W. Major
Chairman and CEO
The Victory Bank

Dennis R. Urffer, CPA
Chairman and Shareholder
Reshnick Amsterdam Leshner, PC

THE VICTORY BANK TEAM

L-R: **Leslie Unger,** Administrative Assistant; **Noel Billingsley,** Vice President, Commercial Relationship Manager; **Tom Moore,** Courier; **Vincent Raffeo,** Business Development; **Mary Locricchio,** Banking Center Representative; **Jennifer Gilbert,** Banking Center Representative; **Saul Rivkin,** Vice President, Chief Retail Officer; **Donna Colella,** Assistant Vice President, Operations Manager; **Matthew Melcher,** Credit Analyst; **Eric Offner,** Executive Vice President, Chief Credit Officer; **Dennis Zielinski,** Bank Secrecy Act and Security Officer; **Joseph Major,** Chairman and Chief Executive Officer; **Alex Kroll,** Senior Vice President, Commercial Relationship Manager; **Deborah Lee,** Vice President, Credit Department Manager; **Christine Gray,** Staff Accountant; **Richard Graver,** President and Chief Lending Officer; **James Phillips,** Business Development Officer; **Roxanne Raymond,** Banking Center Branch Manager; **Daniel Caycedo,** Banking Center Assistant Manager; **Noreen Cobourn,** Assistant Vice President, Loan Operations Manager; **Joseph Bergquist,** Vice President, Commercial Relationship Manager; **Pam Havrilla,** Loan Process Manager; **Robert Schultz,** Chief Financial Officer and Chief Operating Officer; **Shelly Stockmal,** Banking Officer, Executive Assistant; and **Tony D'Antonio,** Senior Vice President, Commercial Relationship Manager.

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