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THE VICTORY BANCORP INC
ANNUAL REPORT 2013

Looking to the future.

THE VICTORY BANK
Statement of Purpose

We exist to optimize the financial lives of our clients.

Values
At The Victory Bank, we value:

Extraordinary Personal Service – The Victory Bank delivers fair value and professional advice in a convenient and highly responsive manner. Every contact is an opportunity to help our clients feel valued, important and satisfied.

Respect – We conduct ourselves with respect and tolerance for all, regardless of age, disability, gender, race, sexual preference, economic status, religion or political views.

Ethical Behavior and Fairness – In every action we strive to consider the long-term best interests of our clients, team members, communities and shareholders, and to always do what is ethically right. Business relationships must provide good value to our clients, and be fair and profitable to the Bank.

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.

Credibility – We do what we promise.

Consistency and Excellence – We do things right the first time, and are relentlessly committed to excellence.

Planning, Efficiency and Systematic Thinking – We establish well-defined strategic plans, set clear goals, and think systematically about the long-term implications of our decisions. We operate efficiently and without waste.

A Learning Organization – We are stewards of our team's collective talents and capabilities, committed to helping all team members reach their ultimate potential. We are committed to the never-ending improvement of our knowledge, processes, systems and technology.

Adaptation and Innovation – We know that we must always be in a state of growth and change, adapting to an evolving marketplace. We recognize those individuals who innovate and challenge the status quo. Mistakes are viewed as opportunities to learn and improve, and when things go wrong, we focus on solutions rather than blame.

A Great Working Environment – We believe that joy, satisfaction and happiness are an integral part of success. We strive to make The Victory Bank the employer of choice for an exclusive team of professionals who are, without exception, fully engaged in the pursuit of excellence, and committed to the safety, satisfaction and happiness of the group.

Teamwork – We recognize and celebrate the importance and power of teamwork, where individual recognition is secondary to working in a collaborative way in pursuit of common goals.

Leadership – Every Team Member proudly wears the mantle of leadership. We strive to model and teach our core values at all times, and gauge our effectiveness as leaders through the positive changes that we create.

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

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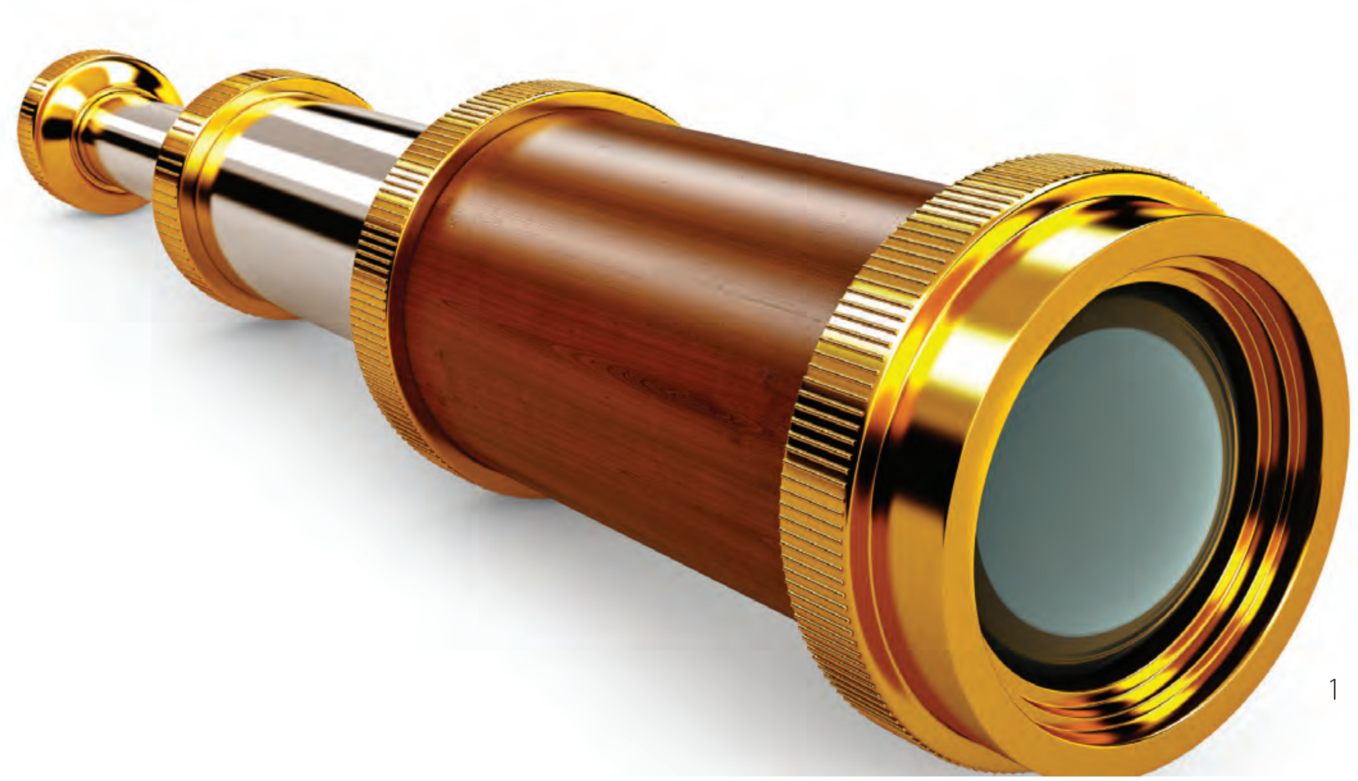

From the Chairman

OVERVIEW

2013 was the bank's 6th full year of operations. During the year the bank improved and grew its team of bankers, effectively managed its risks, showed consistent growth in assets and earnings, and entered into a significant proposed merger transaction with another bank.

The Victory Bank stayed true to its mission and core strategic plan: to recruit and maintain a superior work force that is closely connected with it's local market, enabling it to provide superior advice and service to a select group of commercial and professional clients. We do not believe in creating some kind of false "brand" for our company, spending our limited resources on trying to convince others of how great we are. Instead, we focus on what we do, and how we do it, with a constant emphasis on understanding our clients and serving their needs. We believe that if the client experience is REALLY great, the rest of the branding stuff will take care of itself.

Building a superior team of bankers is not something that occurs randomly. It requires the consistent application of certain key actions, which include an emphasis on hiring people of good character who enjoy helping others, and who operate with a high level of integrity. This starts with recruiting experienced and knowledgeable people into our company, and then making sure they conduct themselves in a manner consistent with our value system. We seek people who are fully engaged with work and life, who take joy in seeking excellence in everything they do, and who are willing to set aside their individual desires and grievances in pursuit of the greater good.

Maintaining a superior work force requires a compensation plan and benefits that are equal to or superior to many other employers in our region, and includes a significant investment in employee training, education and development. Turnover on our team has been kept to a minimum, and our consistent growth has made it possible to offer meaningful promotions to many members of our team.

RISKS

Banking is inherently a risk-reward business. We believe that the three biggest risks faced by a smaller banking company are credit risk, interest rate risk, and regulatory compliance risk.

We discuss credit risk first, because no matter what, a bank must be cautious and wise at is sends money "out the door." Almost every bank that gets into trouble has an excess of bad loans on its books. Throughout the year, The Victory Bank has been updating its loan approval process to improve the speed and accuracy of that process and to help the bank use sophisticated risk-based pricing tools in helping it to set fair pricing for every loan made. As a result, at December 31, 2013 the bank's Net Interest Margin was an impressive 4.53%, and non-performing loans were approximately one-third of one percent (.37%). Both of these measures compare very favorably to our peer group of banks.

A less obvious but important risk managed by banks is interest rate risk, that is, what happens to a bank's earnings and market value when rates either rise or fall? Because of the recent prolonged period of historically low interest rates, the banking industry has struggled to generate a reasonable return while at the same time positioning itself for the possibility of rate changes.

Many experts are predicting steadily rising rates beginning as early as the first quarter of 2015, and continuing for an extended period of time. I am pleased to report that analysis of The Victory Bank's balance sheet indicates that our bank is in a fairly neutral position, and that our bank would actually experience some improvement in net interest income and portfolio valuation in a rising rate environment. This is because the bank holds a fairly diverse portfolio of loans, including consumer lines of credit, 5-year balloon mortgages which re-price periodically, commercial term loans that are of relatively short duration, as well as certain other variable rate products such as commercial lines of credit.

No one would dispute that we are operating in the most heavily regulated and complex time in banking history, creating an ever greater level of operational and compliance risk for banks. Some of this has been created in direct response to the 2008-2010 financial crisis (e.g., Dodd-Frank), but other complexities have been caused by other well-intended legislation designed to protect consumers and investors (e.g., Sarbanes-Oxley & Graham, Leech, Bliley). And, the industry is facing a whole new breed of criminal that uses the internet to steal confidential client information from giant retailers and medical providers, such as Target and Home Depot, and then use that information to steal money from their bank accounts. The banking industry and bank regulators are working with great intensity to control this kind of risk, even though most client information is being stolen by hackers infiltrating the networks of the retailers, and rarely the networks of banks (The recent JP Morgan announcement notwithstanding). Current bank regulations require the bank to cover most of these losses for consumers, even when the banks have had nothing to do with the lapses in information security.

We have incurred significant expenses in controlling these risks on behalf of our clients, reissuing debit cards, restricting certain high-risk regions or states, investing in expensive anti-fraud monitoring software and services, and reducing client account limits.

FINANCIAL RESULTS

Through it all, your bank has continued to grow and generate profit while managing all of these risks. Please note these important measures of growth and success measured at year end, 2013:

- Total loans grew from $110 to $131 million, and total deposits from $112 to $120 million
- Total assets grew from $127 to $141 million
- The bank continued to build its loan loss reserve from $1.338 to $1.660 million, which is approximately 1.26% of total loans.
- Non-performing loans totaled $497 thousand at year end, 0.37% of total loans and the bank experienced minimal charge offs for bad loans in the amount of $33 thousand during 2013.
- Net interest margin remained relatively strong, at 4.53%, despite significant pressure on loan yields
- The bank generated $969 thousand in non-interest income from a variety of sources. While not heavily dependent upon so called nuisance fees, these additional fees and gains are an important source of additional revenue for the company. Much of this total (about 70%) came from the sale of certain SBA guaranteed loans into the secondary market for significant gains.
- The bank generated a total of $1.2 million in pre-tax income, paid federal income taxes of $473 thousand, resulting in bottom-line after tax income of $710 thousand for the year 2013. Total earnings declined somewhat from 2012 as a result of certain accounting issues from which the bank realized significant tax benefits in 2012 by recapturing certain losses held on its balance sheet. More importantly, the bank's pre-tax earnings continued to show significant improvement, rising 150% in 2013 over 2012.

"Building a superior team of bankers is not something that occurs randomly."

NEW INITIATIVES

Throughout the year, your bank continued to invest in certain core initiatives:

- Our Reading, Pennsylvania loan production office has been highly successful and is becoming a well-developed part of our business
- Throughout the year we made significant improvements to our internal loan production processes, including a more efficient underwriting and review process, and further developed the use of certain risk-based pricing tools, allowing us to more accurately price for the risks taken when issuing credit.
- We made significant improvements to our internal asset/liability analysis (ALCO), helping us to better understand the possible effect that changing interest rates might have upon the bank and helping us to plan and manage those inherent risks
- We introduced the Victory Enrichment Commitment (VEC), a comprehensive training and development program that is customized for members of The Victory Bank team to ensure ongoing growth and learning for EVERY banker. VEC uses a broad variety of both internal and external resources, including internally developed training classes taught by our senior management team, on-line learning, in-house "book clubs," training from the Pennsylvania Bankers Association and from the American Bankers Association, and more

WHAT'S IN STORE FOR THE FUTURE?

The economy has grudgingly showed steady improvement, housing prices are climbing, unemployment is falling, but none of this is happening very fast. We continue to receive a very mixed set of predictions about the economy, some bright and positive, and others filled with gloom. The Federal Reserve Bank continues to artificially hold down rates and provide a remarkably liberal monetary policy, even though the economic data we see today is far better than what we were seeing in 2009-2010. It is certainly possible that this logjam might soon be broken and rates could move upward, but we must prudentially assume that rates may remain this low (or to even theoretically decline a little) for the indefinite future.

Banking is changing rapidly, at an unprecedented pace. Right now we receive more than 75% of our deposit flow each month electronically through tools such as remote deposit capture and from cell phones and tablets. Our costs for auditing, regulatory compliance, information technology and controls to protect our clients' non-public information have increased substantially, with increased burdens being put upon our industry by our federal government and by a variety of regulatory bodies such as the FDIC and the CFPB. Small banks are also competing with the ever-growing credit union industry that for unexplainable reasons continues to operate with a 100% tax subsidy created by our Congress. I will make an editorial comment here suggesting that while all banks and all bank customers pay income taxes (people like you and me and your bank), the tax subsidized credit union industry is aggressively competing with us for customers, while our government continues to run up large deficits. We sincerely question the wisdom of these practices.

Many of you know that in December of 2013 we entered into a merger agreement with Huntingdon Valley Bank (HVB), another small banking institution currently operating as a mutual institution, meaning that it has no shareholders. The merger agreement includes plans to take HVB public while raising a significant amount of new investment capital, then subsequently merging the companies together. We believe that we can better serve our collective trade areas, and offer a somewhat broader product offering that would include our commercial banking operation and residential mortgages from HVB. We believe that the merger could help both banks by providing certain operating efficiencies and enough new capital to continue our growth plans, and would create a company with enough size or "mass" to better cope with these rising overhead burdens, while not losing our key strategic and cultural advantages such as top-flight service and advice, and an orientation to serving our local communities. Since signing this agreement, HVB has filed a registration statement with the SEC and together the companies have filed a plan of merger with the FDIC and the State Department of Banking, a rather substantial undertaking. As of the date of this letter, these applications remain under review before various regulatory bodies, and we plan to make public announcements regarding this process when final determinations are made by these various regulators.

In the meantime, we continue to manage your company as safely and progressively as we can. We continue to invest into hiring and training a superior workforce, building smarter and more efficient systems, and in making good credit decisions based upon very traditional underwriting practices.

THANKS TO YOU

Please accept my personal thanks and the sincere appreciation of our Board of Directors and our entire team of bankers for your continued support of this company. We look forward to a bright future.

Sincerely yours,

Joseph W. Major
Bank Leader
Chairman of the Board

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Victory Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

The Victory Bancorp Inc

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 its subsidiary as of December 31, 2013, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2012 consolidated financial statements of The Victory Bancorp, Inc. and its subsidiary were audited by other auditors, whose report dated March 22, 2013 expressed an unmodified opinion on those statements.

BDO USA, LLP

Harrisburg, Pennsylvania
March 27, 2014

The Victory Bancorp Inc

Consolidated Balance Sheet
(Dollars in Thousands, except share data)
December 31, 2013 and 2012

December 31,		2013		2012
Assets				
Cash and due from banks	$	809	$	3,171
Federal funds sold		1,580		2,406
Cash and cash equivalents		2,389		5,577
Securities available-for-sale		1,901		4,885
Loans receivable, net of allowance for loan losses of $1,660 at December 31, 2013 and $1,338 at December 31, 2012		129,337		109,158
Premises and equipment, net		3,960		3,868
Restricted investment in bank stocks		627		508
Accrued interest receivable		425		394
Bank owned life insurance		1,306		1,259
Other assets		1,374		1,647
Total Assets	$	141,319	$	127,296
Liabilities and Stockholders' Equity				
Liabilities				
Deposits:				
Non-interest bearing	$	17,433	$	15,741
Interest-bearing		102,693		96,597
Total deposits		120,126		112,338
Borrowings		7,665		2,000
Accrued interest payable and other liabilities		570		406
Total Liabilities		128,361		114,744
Stockholders' Equity				
Preferred stock, $1 par value; authorized 2,000,000 shares:				
Series E non-cumulative, convertible, $100 liquidation value 26,158 shares issued and outstanding; total liquidation value $2,616		2,616		2,616
Series F cumulative, non-convertible, $1 liquidation value 3,431 shares issued and outstanding: total liquidation value $3,431		3,431		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		(3,356)		(3,848)
Accumulated other comprehensive income		21		107
Total Stockholders' Equity		12,958		12,552
Total Liabilities and Stockholders' Equity	$	141,319	$	127,296

See accompanying notes to consolidated financial statements.

The Victory Bancorp Inc

Consolidated Statement of Income
(In Thousands)
Years Ended December 31, 2013 and 2012

Years Ended December 31,		2013		2012
Interest Income				
Interest and fees on loans	$	6,734	$	5,581
Interest on investment securities		102		114
Other interest income		3		12
Total Interest Income		6,839		5,707
Interest Expense				
Deposit		998		1,070
Borrowings		32		4
Total Interest Expense		1,030		1,074
Net interest income		5,809		4,633
Provision for Loan Losses		348		472
Net Interest Income After Provision for Loan Losses		5,461		4,161
Non-Interest Income				
Service charges and activity fees		145		140
Net gains on sales of loans		680		123
Net gains on sale of investments		45		-
Other income		99		106
Total Non-Interest Income		969		369
Non-Interest Expenses				
Salaries and employee benefits		2,842		2,307
Occupancy and equipment		409		368
Legal and professional fees		545		260
Advertising and promotion		122		98
Loan expenses		80		33
Data processing costs		579		461
Supplies, printing and postage		91		78
Telephone		30		22
Entertainment		105		77
Mileage and tolls		47		37
Insurance		65		36
FDIC insurance premiums		83		102
Dues and subscription		46		37
Shares tax		91		82
Other		112		59
Total Non-Interest Expense		5,247		4,057
Income before income tax (expense) benefit		1,183		473
Income Tax (Expense) Benefit		(473)		1,060
Net income		710		1,533
Preferred Stock Dividends		218		217
Net Income Available to Common Stockholders	$	492	$	1,316

See accompanying notes to consolidated financial statements.

The Victory Bancorp Inc

Consolidated Statement of Comprehensive Income
(Dollars in Thousands, except share data)
December 31, 2013 and 2012

Years Ended December 31,	2013	2012
Net Income	$ 710	$ 1,533
Other Comprehensive (Loss) Income		
Unrealized holding gain (loss) arising on securities available-for-sale	(85)	216
Reclassification adjustment for gains included in net income	(45)	-
Tax effect	44	(55)
Other comprehensive (loss) income	(86)	161
Total Comprehensive Income	$ 624	$ 1,694

See accompanying notes to consolidated financial statements.

The Victory Bancorp Inc

Consolidated Statement of Stockholders' Equity
(In Thousands)
Years Ended December 31, 2013 and 2012

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2012	$ 6,047	$ 1,025	$ 9,221	$ (5,164)	$ (54)	$ 11,075
Net income	-	-	-	1,533	-	1,533
Other comprehensive income	-	-	-	-	161	161
Cash dividends on preferred stock	-	-	-	(217)	-	(217)
Balance, December 31, 2012	6,047	1,025	9,221	(3,848)	107	12,552
Net income	-	-	-	710	-	710
Other comprehensive loss	-	-	-	-	(86)	(86)
Cash dividends on preferred stock	-	-	-	(218)	-	(218)
Balance, December 31, 2013	$ 6,047	$ 1,025	$ 9,221	$ (3,356)	$ 21	$ 12,958

See accompanying notes to consolidated financial statements.

(Dollars in Thousands, except share data)

Years Ended December 31,	2013	2012
Cash Flows from Operating Activities		
Net income	$ 710	$ 1,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	348	472
Depreciation and amortization	311	252
Deferred income taxes (benefit)	473	(1,060)
Net amortization of investment securities	34	31
Realized gains on sale of investment securities	(45)	-
Earnings on bank owned life insurance	(47)	(52)
Net realized gains on sale of loans held for sale	(680)	(123)
Origination of loans held for sale	(7,182)	(1,534)
Proceeds from sale of loans held for sale	7,862	1,657
Net gain on sale of real estate owned	(14)	-
Increase in accrued interest receivable	(31)	(107)
Decrease in FDIC prepaid assessment	-	66
Increase in other assets	(156)	(26)
Increase (decrease) in accrued interest payable	7	(1)
Increase in other liabilities	157	124
Net Cash Provided by Operating Activities	1,747	1,232
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Purchases	-	(1,623)
Proceeds from maturities, calls and principal pay downs	730	687
Proceeds from sale of investment securities	2,135	-
Net increase in loans	(20,670)	(25,171)
Proceeds from the sale of real estate owned	157	-
Purchase of restricted investment in bank stocks	(119)	(121)
Purchases of premises and equipment	(403)	(266)
Net Cash Used in Investing Activities	(18,170)	(26,494)
Cash Flows from Financing Activities		
Net increase in deposits	7,788	16,685
Cash dividends on preferred stock	(218)	(217)
Proceeds from long-term borrowing	4,665	-
Net proceeds from short-term borrowing	1,000	2,000
Net Cash Provided by Financing Activities	13,235	18,468
Net decrease in cash and cash equivalents	(3,188)	(6,794)
Cash and Cash Equivalents, Beginning	5,577	12,371
Cash and Cash Equivalents, Ending	$ 2,389	$ 5,577
Supplementary Cash Flows Information		
Interest paid	$ 1,023	$ 1,075
Supplementary Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	$ 143	$ -

See accompanying 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, 2013, the Corporation had 321 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

In preparing these consolidated financial statements, the Bank evaluated the events and transactions that occurred from December 31, 2013 through March 27, 2014, the date these consolidated financial statements were available for issuance.

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 borrowers' 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 re-evaluates 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, 2013 and 2012, 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 debt 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 mortgage servicing assets are recognized separately when rights are acquired through the sale of the SBA guaranteed portion. These mortgage servicing rights are initially measured at fair value at the date of sale and a gain is recognized equal to the fair value of MSRs on the date of 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 other consumer.

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 the 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 unsecured position or the rapidly depreciating nature of the underlying assets.

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. 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.

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.

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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 term, commercial mortgage, commercial line 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 based on the credit risk associated with the loan. 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.

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 Corporation, 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 Corporation 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 (ACBB) and Federal Home Loan Bank of Pittsburgh (FHLB) stocks totaling $627,000 and $508,000 at December 31, 2013 and 2012, 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 (benefit) 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 evaluates the carrying amount of its deferred tax assets on a quarterly basis or more frequently, if necessary, in accordance with the guidance provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 740 (ASC 740), in particular, applying the criteria set forth therein to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence.

In conducting the deferred tax asset analysis, the Corporation believes it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by financial institutions and their ability to absorb potential losses are important distinctions to be considered for bank holding companies like the Corporation. Most importantly, it is also important to consider that net operating losses for federal income tax purposes can generally be carried forward for a period of twenty years. In order to realize deferred tax assets, the Corporation must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, the Corporation carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. As a result of continued profitability and taxable income in recent years, the Corporation has concluded that no valuation allowance is required for the deferred tax assets at December 31, 2013.

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 during the years ended December 31, 2013 or 2012.

Federal and state tax returns for the years 2010 through 2012 are open for examination as of December 31, 2013.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of stockholders' equity section of the consolidated balance sheet, such items along with net income are components of comprehensive income.

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, 2013 and 2012, expense attributable to the Plan amounted to approximately $53,000 and $50,000, respectively.

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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-Scholes 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.

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, 2013 and 2012, compensating balances approximated $150,000.

3. Securities Available-for-Sale

The amortized cost and fair value of securities as of December 31, 2013 and 2012 is summarized as follows (in thousands):

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	$ 1,869	$ 32	$ -	$ 1,901
	$ 1,869	$ 32	$ -	$ 1,901

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	$ 2,614	$ 92	$ (11)	$ 2,695
Corporate financial institution bond	2,109	83	(2)	2,190
	$ 4,723	$ 175	$ (13)	$ 4,885

Residential mortgage-backed securities are comprised of FHLMC and GNMA pass through certificates at December 31, 2013 and 2012.

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, 2012 are as follows (in thousands):

December 31, 2012	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	$ 244	$ (11)	$ -	$ -	$ 244	$ (11)
Corporate bonds	-	-	498	(2)	498	(2)
	$ 244	$ (11)	$ 498	$ (2)	$ 742	$ (13)

There were no individual securities in an unrealized loss position as of December 31, 2013 and there was one investment security in an unrealized loss position greater than 12 months and one investment security in an unrealized loss position less than 12 months as of December 31, 2012. The unrealized loss positions at December 31, 2012 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, 2013 and 2012, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because the securities may be called without any penalties (in thousands).

	2013		2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or under	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	2,109	2,190
Due after five years through ten years	-	-	-	-
Due after ten years	1,869	1,901	2,614	2,695
	$ 1,869	$ 1,901	$ 4,723	$ 4,885

No securities at December 31, 2013 and 2012 were pledged to collateralize municipal deposits.

4. Loans Receivable

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

	2013	2012
Commercial term	$ 19,784	$ 21,999
Commercial mortgage	66,644	46,820
Commercial line	12,833	13,398
Construction	9,332	8,030
Home equity	10,725	10,523
Consumer	11,664	9,661
Total loans	130,982	110,431
Deferred fees, net	15	65
Allowance for loan losses	(1,660)	(1,338)
Net Loans	$ 129,337	$ 109,158

Allowance for Loan Losses and Recorded Investment in Financial Receivables

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2013 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2013 (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	$ 248	$ (33)	$ -	$ (12)	$ 203	$ 58	$ 145
Commercial mortgage	297	-	-	126	423	-	423
Commercial line	131	-	7	(48)	90	-	90
Construction	62	-	-	9	71	-	71
Home equity	65	-	-	1	66	-	66
Consumer	60	-	-	11	71	-	71
Unallocated	475	-	-	261	736	-	736
	$ 1,338	$ (33)	$ 7	$ 348	$ 1,660	$ 58	$ 1,602

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	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 19,784	$ 186	$ 19,598
Commercial mortgage	66,644	261	66,383
Commercial line	12,833	-	12,833
Construction	9,332	-	9,332
Home equity	10,725	-	10,725
Consumer	11,664	50	11,614
	$ 130,982	$ 497	$ 130,485

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2012 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2012 (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	$ 132	$ (14)	$ -	$ 130	$ 248	$ 77	$ 171
Commercial mortgage	228	-	-	69	297	25	272
Commercial line	164	-	6	(39)	131	-	131
Construction	35	-	-	27	62	-	62
Home equity	57	-	-	8	65	-	65
Consumer	93	(204)	-	171	60	-	60
Unallocated	369	-	-	106	475	-	475
	$ 1,078	$ (218)	$ 6	$ 472	$ 1,338	$ 102	$ 1,236

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 21,999	$ 279	$ 21,720
Commercial mortgage	46,820	1,350	45,470
Commercial line	13,398	-	13,398
Construction	8,030	-	8,030
Home equity	10,523	-	10,523
Consumer	9,661	50	9,611
	$ 110,431	$ 1,679	$ 108,752

Impaired Loans

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2013 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ 128	$ 296	$ -
Commercial mortgage	261	261	-
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	50	205	-
With an allowance recorded:			
Commercial term	$ 58	$ 59	$ 58
Commercial mortgage	-	-	-
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Total:			
Commercial term	$ 186	$ 355	$ 58
Commercial mortgage	261	261	-
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	50	205	-

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ 154	$ -
Commercial mortgage	479	-
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	50	-
With an allowance recorded:		
Commercial term	$ 73	$ -
Commercial mortgage	-	-
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	-	-
Total:		
Commercial term	$ 227	$ -
Commercial mortgage	479	-
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	50	-

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The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2012 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ 161	$ 302	$ -
Commercial mortgage	1,089	1,089	-
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	50	205	-
With an allowance recorded:			
Commercial term	$ 118	$ 119	$ 77
Commercial mortgage	261	261	25
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Total:			
Commercial term	$ 279	$ 421	$ 77
Commercial mortgage	1,350	1,350	25
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	50	205	-

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ 165	$ -
Commercial mortgage	218	48
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	10	4
With an allowance recorded:		
Commercial term	$ 125	$ -
Commercial mortgage	249	13
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	-	-
Total:		
Commercial term	$ 290	$ -
Commercial mortgage	467	61
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	10	4

Loans Receivable on Nonaccrual Status

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

	2013	2012
Commercial term	$ 186	$ 279
Commercial mortgage	261	1,350
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	50	50
	$ 497	$ 1,679

Interest income recognized on loans on non-accrual status during the years ended December 31, 2013 and 2012 was $-0- and $65,000, respectively. Additional interest income that would have been recognized on non-accrual loans, had the loans been performing in accordance with the original terms of their contracts totaled approximately $33,000 and $27,000 for the years ended December 31, 2013 and 2012, respectively.

Credit Quality Indicators

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

December 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	$ 17,515	$ 2,083	$ 186	$ -	$ 19,784
Commercial mortgage	66,099	284	261	-	66,644
Commercial line	11,555	1,278	-	-	12,833
Construction	9,332	-	-	-	9,332
Home equity	10,725	-	-	-	10,725
Consumer	11,614	-	50	-	11,664
	$ 126,840	$ 3,645	$ 497	$ -	$ 130,982

December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	$ 21,720	$ -	$ 279	$ -	$ 21,999
Commercial mortgage	45,470	1,207	143	-	46,820
Commercial line	13,398	-	-	-	13,398
Construction	8,030	-	-	-	8,030
Home equity	10,523	-	-	-	10,523
Consumer	9,611	-	50	-	9,661
	$ 108,752	$ 1,207	$ 472	$ -	$ 110,431

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, 2013 and 2012 (in thousands):

December 31, 2013	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	$ -	$ 52	$ 186	$ 238	$ 19,546	$ 19,784	$ -
Commercial mortgage	844	100	261	1,205	65,439	66,644	-
Commercial line	27	148	-	175	12,658	12,833	-
Construction	-	-	-	-	9,332	9,332	-
Home equity	-	-	-	-	10,725	10,725	-
Consumer	-	-	50	50	11,614	11,664	-
	$ 871	$ 300	$ 497	$ 1,668	$ 129,314	$ 130,982	$ -

December 31, 2012	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	$ -	$ -	$ 279	$ 279	$ 21,720	$ 21,999	$ -
Commercial mortgage	-	12	1,338	1,350	45,470	46,820	-
Commercial line	-	212	-	212	13,186	13,398	-
Construction	-	-	-	-	8,030	8,030	-
Home equity	-	-	-	-	10,523	10,523	-
Consumer	-	-	50	50	9,611	9,661	-
	$ -	$ 224	$ 1,667	$ 1,891	$ 108,540	$ 110,431	$ -

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, below market rates, 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 to be impaired loans for purposes of calculating the Corporation's allowance for loan losses and presentation of loans.

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 or defaults within twelve months of restructuring during the years ended December 31, 2013 and 2012.

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, 2013 and 2012, the Bank sold loans held for sale for total proceeds of $7,862,000 and $1,657,000, respectively. The loan sales resulted in realized gains of approximately $680,000 and $123,000 for the years ended December 31, 2013 and 2012, respectively. SBA loans held for sale at December 31, 2013 and 2012 amounted to $-0-.

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 $13,287,313 and $6,922,000 at December 31, 2013 and 2012, respectively. The following summarizes the activity pertaining to mortgage servicing rights using the amortization method for the years ended December 31, 2013 and 2012 (in thousands):

	2013	2012
Balance, beginning	$ 143	$ 139
Additions	150	20
Disposals	-	-
Amortization	(26)	(16)
Balance, Ending	$ 267	$ 143

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5. Bank Premises and Equipment

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

	Estimated Useful Lives	2013	2012
Leasehold improvements	10 - 20 years	$ 926	$ 734
Computer equipment and software	3 - 5 years	700	650
Automobiles	3 years	163	146
Bank unique equipment	5 years	182	164
Furniture, fixtures and equipment	3 - 10 years	277	205
Building	40 years	1,687	1,687
Land		1,200	1,200
		5,135	4,786
Accumulated depreciation		(1,175)	(918)
		$ 3,960	$ 3,868

Depreciation and amortization expense charged to operations amounted to approximately $311,000 and $252,000 for the years ended December 31, 2013 and 2012, respectively.

6. Deposits

The components of deposits at December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Demand, non-interest bearing	$ 17,433	$ 15,741
Demand interest bearing	6,084	9,296
Money market accounts	14,242	10,891
Savings accounts	59,576	53,424
Time, $100,000 and over	14,153	13,222
Time, other	8,638	9,764
	$ 120,126	$ 112,338

Included in money market deposits are brokered deposits of approximately $2,427,000 and $1,771,000 at December 31, 2013 and 2012, respectively.

At December 31, 2013, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31,		
2014	$	12,882
2015		2,890
2016		2,021
2017		2,825
Thereafter		2,173
	$	22,791

Included in time deposits are brokered deposits of approximately $-0- and $1,646,000 at December 31, 2013 and 2012, respectively.

7. Borrowings

The Bank has a $1,500,000 unsecured federal funds overnight line of credit with a correspondent bank. Borrowings on the line of credit at December 31, 2013 and 2012 were $-0-.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). At December 31, 2013, the Bank has a total borrowing capacity with the FHLB of $52.4 million. FHLB advances at December 31, 2013 totaled $7,665,000 of which $4,665,000 was long term with a weighted-average interest rate of 1.30% maturing through 2018 and $3,000,000 was short-term with a weighted-average interest rate of 0.25%.

FHLB advances at December 31, 2012 totaled $2,000,000 which were short-term with a weighted-average interest rate of 0.25%.

Long-term debt at December 31, 2013 consists of the following FHLB advances (in thousands):

		Amount	Weighted Average Rate
Fixed rate advances maturing:			
2016	$	3,000	1.06%
2018		1,665	1.73%
	$	4,665	

Advances from the FHLB are secured by FHLB stock and certain assets of the Corporation.

8. Lease Commitments and Total Rental Expense

The Corporation has an operating lease agreement for its Wyomissing Loan Production office. Future minimum lease payments under the non-cancellable lease agreement are as follows as of December 31, 2013 (in thousands):

2014	$	12,000
2015		4,000

The Corporation has entered into an operating lease agreement for its administrative office that commenced April 1, 2013. Future minimum lease payments under the non-cancellable lease agreement are as follows (in thousands):

2014	$	19,000
2015		50,000
2016		60,000
2017		60,000
2018		15,000

Rent expense for leases for the years ended December 31, 2013 and 2012 was approximately $50,000 and $21,000, respectively.

9. Stockholders' Equity

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 Corporation's Board of Directors. Non-cumulative dividends are payable quarterly on the Series E Preferred Stock, beginning January 1, 2011. During the years ended December 31, 2013 and 2012, the Corporation issued no shares of Series E Preferred Stock.

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 was from the date of issuance through December 31, 2011, was 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 dividend rate was 1.00% at December 31, 2013 and 2012.

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 expense for the years ended December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Current	$ -	$ -
Deferred	(473)	1,060
	$ (473)	$ 1,060

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

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 489	$ 372
Organization and start-up costs	160	177
Nonqualified stock options	21	21
Net operating loss carryforwards	483	1,145
Cash basis conversion	117	-
Other	1	1
Total tax assets	1,271	1,716
Deferred tax liabilities:		
Cash basis conversion	-	(87)
Deferred loan costs	(144)	(136)
Servicing asset	(91)	(49)
Unrealized gain on available-for-sale securities	(11)	(55)
Other	(109)	(44)
Total deferred tax liabilities	(355)	(371)
Net Deferred Tax Asset, Included in Other Assets	$ 916	$ 1,345

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 and non-deductible merger expenses.

The Bank has net operating loss carryforwards available for federal income tax purposes of approximately $1,422,000 which expire through 2030.

11. Transactions with Executive Officers, Directors and Principal Stockholders

The Corporation 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 $2,683,000 and $2,246,000 at December 31, 2013 and 2012, respectively. Loans originated for related parties totaled $644,000 and payments received were approximately $207,000 for the years ended December 31, 2013. Deposits of related parties totaled approximately $1,968,000 and $3,140,000 as of December 31, 2013 and 2012, respectively.

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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, expired in 10 years and enabled the warrant holder to purchase one share of common stock at $10.00 per share for each warrant exercised. At December 31, 2013, 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 2008 Plan are authorized and unissued shares of the Corporation. The maximum number of shares that may be subject to options under the 2008 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 2008 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 2008 Plan and no non-qualified stock options were issued under the 2008 Plan. No options were granted during the years ended December 31, 2013 and 2012. At December 31, 2013 and 2012, there are 30,679 shares available for grant under the 2008 Plan.

There were no stock options grants or forfeitures during the years ended December 31, 2013 and 2012. At December 31, 2013, the weighted average remaining contractual term of stock options outstanding was 5 years with an aggregate intrinsic value of $-0- and at December 31, 2012, the weighted average remaining contractual term of stock options outstanding was 6 years with an aggregate intrinsic value of $-0-.

There were no organizer warrants granted during the years ended December 31, 2013 and 2012. 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 was estimated at $3.91 on the date of grant using the Black-Scholes option-pricing model.

In 2013, the Board of Directors adopted the 2013 Equity Incentive Plan ("2013 Plan"), which was approved by the Board of Directors on March 19, 2013, and was approved by the shareholders on May 14, 2013. Under the 2013 Plan 228,000 shares were available to be issued in the form of performance awards that can be settled in stock or cash, restricted stock and restricted stock units, incentive stock options, non-qualified stock options, and stock appreciation rights. During the year ending December 31, 2013, no shares were issued.

13. Financial Instruments with Off-Balance Sheet Risk

The Corporation 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 Corporation'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 Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Corporation had the following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2013 and 2012 (in thousands):

	2013	2012
Unfunded commitments under lines of credit	$ 22,736	$ 18,927
Unfunded commitments under letters of credit	73	515

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, 2013.

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, 2013, 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, 2013 and 2012.

The Bank’s actual capital amounts and ratios at December 31, 2013 and 2012 are presented below (dollar amounts in thousands):

December 31, 2013	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 13,292	10.20%	$ ≥10,423	≥8.00%	$ ≥13,029	≥10.0%
Tier 1 capital (to risk weighted assets)	11,663	8.95%	≥ 5,211	≥4.00%	≥ 7,817	≥ 6.0%
Tier 1 capital (to average assets)	11,663	8.20%	≥ 5,687	≥4.00%	≥ 7,109	≥ 5.0%

December 31, 2012	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	$ 11,721	10.32%	$ ≥9,090	≥8.00%	$ ≥11,362	≥10.0%
Tier 1 capital (to risk weighted assets)	10,383	9.14%	≥4,545	≥4.00%	≥ 6,817	≥ 6.0%
Tier 1 capital (to average assets)	10,383	8.50%	≥4,889	≥4.00%	≥ 6,111	≥ 5.0%

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 Corporation’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.

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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

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, 2013 and 2012 are as follows (in thousands):

December 31, 2013	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	$ 1,901	$ -	$ 1,901	$ -
	$ 1,901	$ -	$ 1,901	$ -

December 31, 2012	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	$ 2,695	$ -	$ 2,695	$ -
Corporate financial institution bond	2,190	-	2,190	-
	$ 4,885	$ -	$ 4,885	$ -

Residential mortgage backed securities are comprised of FHLMC and GNMA pass through certificates at December 31, 2013 and 2012.

The Corporation's available-for-sale investment securities, which include corporate financial institution bonds 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.

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2013 and 2012 are summarized below (in thousands):

December 31, 2013	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 78	$ -	$ -	$ 78

December 31, 2012	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 489	$ -	$ -	$ 489

The Bank generally measures impairment for loans based on the fair value of the loan's collateral. Fair value is determined based upon independent third-party appraisals of the properties or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis and for which the Corporation has utilized Level 3 inputs to measure fair value at December 31, 2013 and 2012 (dollars in thousands):

December 31, 2013	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 78	Appraisal of collateral	Appraisal discounts	0-10% (10)%
			Liquidation expenses	0-10% (0)%

December 31, 2012	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 448	Appraisal of collateral	Appraisal discounts	0-10% (10)%
	-		Liquidation expenses	0-10% (0)%
Impaired loans	41	Sales price	Liquidation expenses	0 %
	$ 489			

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, 2013 and 2012:

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.

Mortgage Servicing Asset (Carried Lower of Cost or Fair Value)

The fair value of the mortgage 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.

Impaired loans are those in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Other Real Estate Owned (OREO)

OREO assets are originally recorded at fair value upon transfer of the loans to OREO. Subsequently, OREO assets are carried at the lower of carrying value or fair value. The fair value of OREO is based on independent appraisals less selling costs. Appraised values may be discounted based upon management's historical knowledge and changes in the market conditions from the time of the appraisal. Because of the high degree of judgment required in estimating the fair value of OREO and because of the relationship between fair value and general economic conditions, the Corporation considers fair values of OREO to be highly sensitive to market conditions. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

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.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate fair value.

Long-Term Debt (Carried at Cost)

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

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Corporation'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 resulting amounts were immaterial at December 31, 2013 and 2012 and, therefore, not disclosed.

The fair values, and related carrying amounts, of the Corporation's financial instruments were as follows at December 31, 2013 and 2012 (in thousands):

	2013		2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ 2,389	$ 2,389	$ 5,577	$ 5,577
Securities available-for-sale	1,901	1,901	4,885	4,885
Restricted investments in bank stocks	627	627	508	508
Loans, net	129,337	130,531	109,158	109,845
Mortgage servicing asset	267	272	143	144
Accrued interest receivable	425	425	394	394
Liabilities				
Deposits	120,126	120,331	112,338	113,387
Short term borrowings	3,000	3,000	2,000	2,000
Long-term debt	4,665	4,534	-	-
Accrued interest payable	24	24	17	17
Off Balance Sheet Asset (Liability)				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-

16. Pending Merger

On December 12, 2013, the Corporation, the Bank, Huntingdon Valley Bank ("HV Bank"), and HV Bancorp, Inc. ("HV Bancorp"), a new corporation in formation to facilitate the mutual-to-stock conversion of HV Bank, entered into an Agreement and Plan of Reorganization (the "Merger Agreement").

Subject to the terms and conditions of the Merger Agreement, the Corporation and Bank will be merged with and into HV Bancorp, with HV Bancorp as the surviving entity (the "Merger"). Upon effectiveness of the Merger, each outstanding share of the Corporation's capital stock will be converted into the right to receive shares of HV Bancorp capital stock.

The Merger Agreement contains customary representations, warranties and covenants of the Corporation and HV Bancorp, including, among others, covenants by the Corporation to conduct its business in the usual, regular and ordinary course during the interim period between the execution of the Merger Agreement and completion of the Merger and to call a meeting of the Corporation's shareholders to consider approval of the Merger, and covenants by HV Bancorp and HV Bank to take all reasonable steps necessary to complete the conversion of HV Bank from the mutual to the stock form of organization.

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Consummation of the Merger is subject to various conditions, including completion of the conversion of HV Bank from the mutual to the stock form of organization, which conversion will require the approval of the members of HV Bank and completion of a registered public offering of shares of HV Bancorp common stock in a subscription offering and, if necessary, a community offering and/or syndicated community offering. Completion of the Merger is also conditioned on the approval of the Merger Agreement by the Corporation's shareholders, the receipt of required regulatory approvals, the delivery of a customary legal opinion as to the federal tax treatment of the Merger, and other customary conditions for transactions such as the Merger.

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
Retired 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 of the Board
Bank Leader
The Victory Bank

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

Senior Management Team

Front (L-R): **Richard Graver,** President - The Victory Bancorp / Chief Banking Officer and Chief Lending Officer - The Victory Bank ; **Joseph Major,** Chairman – The Victory Bancorp and Bank Leader – The Victory Bank; Back (L-R): **Saul Rivkin,** Chief Retail Officer, VP; **Eric Offner,** Chief Credit Officer, EVP; **Shelly Stockmal,** Leader of Human Resource Development; **Robert Schultz,** Chief Financial Officer, Chief Operating Officer and Compliance Officer

The Victory Bank Team

COMMERCIAL TEAM

Richard Graver, President – The Victory Bancorp / Chief Banking Officer and Chief Lending Officer – The Victory Bank
Eric Offner, Chief Credit Officer, EVP
Joseph Bergquist, Commercial Relationship Manager, VP
Noel Billingsley, Commercial Relationship Manager, VP
Laurie Kercher, Commercial Relationship Manager, VP
Jon Swearer, Commercial Relationship Manager, VP
James Phillips, Business Development
Vince Raffeo, Business Development
Deborah Lee, Credit Department Manager, VP
Matthew Melcher, Senior Credit Analyst
Benjamin Major, Credit Analyst
Sarah Benson, Junior Credit Analyst
Leslie Unger, Administrative Assistant

RETAIL TEAM

Saul Rivkin, Chief Retail Officer, VP
Roxanne Raymond, Banking Center Branch Manager
Jennifer Gilbert, Banking Center Assistant Branch Manager
Mary Locricchio, Consumer Lending and Retail Bank Representative
Diana Stephens, Banking Center Representative
Thomas Moore, Courier

OPERATIONS AND ADMINISTRATIVE TEAM

Robert Schultz, Chief Financial Officer, Chief Operating Officer and Compliance Officer
Christine Carlozzi, Staff Accountant and Human Resources Administrator
Noreen Cobourn, Loan Operations Manager, AVP
Donna Colella, Operations Manager, AVP
Pamela Havrilla, Loan Administration Manager, AVP
Danae Soley, Loan Operations Clerk
Shelly Stockmal, Leader of Human Resource Development
Kelly Taylor, Executive Assistant
Dennis Zielinski, Bank Secrecy Act, Security, and Emergency Preparedness Officer

WYOMISSING LOAN OFFICE TEAM

Tony D'Antonio, Commercial Relationship Manager, SVP
Jodi Moore, Administrative Assistant