THE VICTORY BANCORP | 2014 ANNUAL REPORT

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

“*We continue to work every day to build a better, more valuable company.*”

OVERVIEW

2014 was a year filled with both challenges and new opportunities for The Victory Bank. At its core, The Victory Bank enjoyed its best year ever, showing steady improvement in key areas and maintaining solid credit quality in its loan portfolio. The Bank completed several significant operational improvements and also positioned itself for the possibility of interest rate changes. Several first-rate commercial bankers joined the team, and the bank continued to expand the knowledge-base of the entire team through extensive internal and external training. We showed consistent growth in loans, deposits, total assets and capital, and continued to grow our reserves.

FINANCIAL RESULTS

I am pleased to report the following results:

- Total assets grew from $141,000,000 to $157,000,000, and loans net of allowance for losses grew from $129,000,000 to $146,000,000.
- Our allowance for losses grew from $1,660,000 to $1,768,000, and charge-offs were $127,000 or less than 0.1% of average loans.
- Non-performing loans totaled $1,800,000 at year end, as compared with $497,000 at year end, 2013, as two large loans, for which we are well secured, ran into financial difficulties.
- Net interest margin remained a healthy 4.50% as compared to 4.53% in 2013.
- Deposits grew from $120,000,000 to $130,000,000, and the Bank maintained an attractive mix of low cost transaction and savings accounts.
- The Bank’s cost of interest-bearing funds decreased from 0.97% to 0.90% from 2013 to 2014.
- The Bank’s core driver of earnings, net interest income, increased approximately $615,000, from $5,809,000 to $6,424,000, based upon solid loan and deposit growth.
- After spending approximately $196,000 on merger-related expenses in 2014, the Bank’s earnings totaled $605,000, down slightly from 2013 at $710,000.
- Non-interest income declined sharply, from $969,000 in 2013 to $379,000 in 2014, primarily as a result of reduced demand for SBA-backed business loans.

A CHANGING WORLD AND MARKETPLACE

PEOPLE

Our strategic approach to banking in today's world is based upon one fundamental idea: ***that good banking is primarily a people business***. Better bankers can offer better advice, build stronger relationships, do a better job of solving problems and give "way-better" service to our clients. In short form, we believe that we can build and maintain a strategic competitive advantage by employing a superior work force.

Many companies will tell you that they believe in the same thing: stating that "people are our greatest asset," but their actual behavior belies a different, short-term agenda of cost cutting and service reductions, an agenda intended to meet this quarter's earnings goals regardless of the long-term harm caused to clients or to the overall quality of the team. However, recruiting and keeping a team of better bankers is an expensive and challenging series of tasks. At The Victory Bank, we focus our efforts and resources on doing certain, specific things as well as we possibly can:

- We are constantly recruiting superior bankers to our team. We have clearly defined the objectives of each position and have described the talents, tendencies, attitudes and skills of the people we are seeking.
- We expend an unusual amount of time, effort and money in the selection process including a series of interviews, background, credit and reference checks, and we employ a variety of aptitude and personality assessments to improve the odds of finding and retaining the best people in every position.
- We have developed a comprehensive education and training program using both internal and external training resources. We teach our team about our culture, values and strategy, develop their communication, planning and organizational skills, and impart skills training specific to each position.
- Our compensation and benefits plans are competitive and attractive and have been designed to keep personnel turnover to a minimum.
- We have learned that a team of engaged, curious and joyful people who seek excellence for its own sake are also highly productive and creative.

This approach ties in closely with the Bank's target strategy of making loans to small- to medium-sized businesses and professional practices. This is a somewhat different strategy than what most people like to refer to as a generic "community bank" strategy.

The Victory Bank is a niche bank focused on a particular type of client and product, seeking to cull the most valuable relationships out of a very large market place, rather than trying to be a "one size fits all" bank. This is a relationship-based approach to banking, where every client is carefully cultivated, and every loan is custom underwritten. Our job is to understand what our clients need and want, and to find ways to create a "win" for them and for the Bank. All of our success is predicated upon truly understanding our clients, their businesses and their values, and then seeking to serve them as best we can.

TECHNOLOGY
It is hard to believe that our industry is only a couple of generations away from green ledger cards and hand-posted passbook accounts, but the technological changes we have experienced are truly staggering. These changes have created levels of speed, efficiency and convenience that we could not even have dreamed about just a few years ago, but with these advances have come a whole new set of problems and risks. It is important to note that we are heavily invested in hardware, software, and off-site back-up systems to protect our clients' private information and to keep us operating even in the event of a cataclysmic event, attack or pandemic disease. We spend a lot of time and money testing and supporting these systems to prove to ourselves and our regulators that information is secure and that we can recover from disasters and cyber security events, and still operate the Bank.

However, please note, all financial providers and users of customer data, like big retailers, medical providers, insurance companies, etc., are under CONSTANT ATTACK from hackers and cyber criminals from around the globe. No security systems are totally safe, but we have been able to create processes and systems that warn us when something seems awry. Like all banks, we rely to some extent on automated systems to help us spot fraud and unusual activity, but coping with these issues also requires a top-flight team of bankers who are well-trained and disciplined in bank operations.

SBA LENDING
We have generated a significant amount of non-interest income over the past few years by generating loans backed by the credit guarantee of the Small Business Administration, and selling the guaranteed portions of these loans to other investors (such as banks). Over the last few years the premiums being paid by investors were at an all-time high and, given weakened economic conditions, the market provided an abundance of borrowers that needed SBA backing to qualify for loans. However, this trend has softened over the past 18 months, with fewer borrowers opting to seek SBA support. As a result, the number and size of SBA loans being generated has declined a great deal, and therefore the income we had generated has declined as well. Because we use the services of a third-party consultant to help us manage this particular line of business, our fixed costs associated with SBA lending are almost non-existent and we expect this additional source of revenue to be variable for the near future.

TERMINATED MERGER AGREEMENT
We operated during the entire year under the terms of a proposed merger agreement with Huntingdon Valley Bank, and made decisions under the reasonable belief that the merger would be approved and consummated before year end. With the advice of counsel and experienced investment bankers, we presented the proposed transaction to our bank regulators in mid 2013 and were advised that the structure and terms proposed would be acceptable. The merger agreement was executed and announced in December 2013, but for unclear "policy reasons," our bank regulators later objected to the proposed transaction, leading to the mutual termination of the merger agreement in January of 2015.

"Good banking is primarily a people business."

Fundamentally, this transaction would have benefited all involved, as it would have combed two small banks in Montgomery County, Pennsylvania, one of the largest and wealthiest counties in the Pennsylvania, with the complementary business lines of commercial banking and mortgage banking, and raised a significant amount of new capital at a reasonable cost. In addition, very few jobs would have been eliminated and we would have been in the position to continue to grow both lines of business in a seamless way, providing valuable lending services, employment opportunities and charitable support to our communities. What does all of this mean for us going forward? Mostly, it means that we need to proceed with other methods of raising capital so that we can continue to grow, become more efficient and more valuable to our investors and communities.

WHAT'S NEXT?
Only a few years ago, a very small bank, e.g., under $100 million in balance-sheet assets could operate pretty efficiently and generate a return for its shareholders that was comparable to the very largest

institutions. However, given the pressure on banks to manage risks like cybersecurity, to protect client information, and to comply with an ever-growing regulatory burden, it seems clear to us that consistent growth and the aggregation of capital in support of that growth are critical to building shareholder value. Well-intentioned or not, the current laws, regulations and attitudes of our regulators have created a distinct pricing advantage for the Wall Street "mega banks." As we continue our growth, our analysis shows that our bank continues to become more efficient and competitive with each dollar of quality assets that we add to our balance sheet. Fundamentally, growth in quality balance-sheet assets generates incremental revenue that grows a good deal faster than expenses.

With this in mind, we have determined to raise capital through the sale of our common stock pursuant to an exemption under the securities laws. We anticipate that we will be making the required securities filings with the Securities and Exchange Commission this month to offer and sell up to $5,000,000 of our common stock. Prior to commencing this offering, the Securities and Exchange Commission, on the Federal level and certain state securities departments in the states where we intend to sell stock will need to review and approve the filings. We anticipate commencing the offering in the second quarter of 2015, however, the actual timing of the commencement of the offering is subject to receipt of all required regulatory approvals. The details and terms of the offering will be provided to prospective investors by way of a traditional offering and subscription documents. We believe the additional capital we expect to raise will allow the Bank to sustain its current growth rate, reach a more competitive size, and increase operational efficiencies.

COMMUNITY SUPPORT

I am deeply involved in our state banking trade organizations as are many other members of our team. As a result we are fortunate to spend time with many of our banking peers. Honestly, I am just amazed on a daily basis at the level of community and charitable work performed by my friends in banking and at the amount of money that is raised in support of so many important charitable causes. This is also very real at The Victory Bank, where on a personal and community basis we are involved with dozens of positive community organizations. Moreover, as a small-business lender, we have generated over $300,000,000 in small business loans over the past seven years, loans that lead to growth, employment and regional prosperity. Despite all of this good work, I believe that banks and bankers unfortunately continue to operate "with a target on their backs," a convenient whipping-boy for politicians and the news media. On top of the ever-growing regulatory burden being piled on the small banks, the governor has proposed a dramatic tax increase for all banks in Pennsylvania as part of the new budget. In a state where banks already pay more (and in many cases a LOT more) than banks in our surrounding states, our state institutions are being put at yet another competitive disadvantage, which will reduce the amount that banks can lend, and therefore reduce business growth and employment in this state. In my opinion, this is a really bad idea.

Now, I can't speak for what the folks on Wall Street may have done, but I can assure you that nobody here at The Victory Bank created the 2008 financial melt-down or received any $10,000,000 bonuses! I would argue that this is true for virtually all of the banks in this state, who are uniformly committed to high ethical standards and community service. All of us at The Victory Bank are sincerely proud of what we do and of how we do it. Please understand that we deeply appreciate the support you have provided us, as investors and clients, and that we continue to work every day to build a better, more valuable company that maintains its commitment to its core value system.

Please accept our sincere thanks for your ongoing support.

Joseph W. Major
Bank Leader
Chairman of the Board

This letter does not constitute an offer or solicitation to sell shares or securities in the Company or any related or associated entity. No sales of securities will be made or commitment to purchase accepted until delivery of an offering circular that includes complete information about the Company and the offering. No money or other consideration is being solicited or will be accepted by way of this announcement. Any money or other consideration that is sent in response will not be accepted. An indication of interest made by a prospective investor involves no obligation or commitment of any kind.

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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 sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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.

BDO

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, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Harrisburg, Pennsylvania
April 13, 2015

Consolidated Balance Sheet
(Dollars in Thousands, except share data)
December 31, 2014 and 2013

December 31,		**2014**		2013
Assets				
Cash and due from banks	**$**	**1,912**	$	809
Federal funds sold		**-**		1,580
Cash and cash equivalents		**1,912**		2,389
Securities available-for-sale		**1,558**		1,901
Loans receivable, net of allowance for loan losses of $1,768 at December 31, 2014 and $1,660 at December 31, 2013		**146,376**		129,337
Premises and equipment, net		**3,845**		3,960
Restricted investment in bank stocks		**691**		627
Accrued interest receivable		**430**		425
Other real estate owned		**282**		-
Bank owned life insurance		**1,346**		1,306
Other assets		**894**		1,374
Total Assets	**$**	**157,334**	$	141,319
Liabilities and Stockholders' Equity				
Liabilities				
Deposits:				
Non-interest bearing	**$**	**17,423**	$	17,433
Interest-bearing		**112,503**		102,693
Total deposits		**129,926**		120,126
Borrowings		**13,331**		7,665
Accrued interest payable and other liabilities		**716**		570
Total Liabilities		**143,973**		128,361
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, $1,000 liquidation value 3,431 shares issued and outstanding: total liquidation value $3,431		**3,431**		3,431
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding 1,025,464 shares		**1,025**		1,025
Surplus		**9,221**		9,221
Accumulated deficit		**(2,968)**		(3,356)
Accumulated other comprehensive income		**36**		21
Total Stockholders' Equity		**13,361**		12,958
Total Liabilities and Stockholders' Equity	**$**	**157,334**	$	141,319

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income
(In Thousands)
Years Ended December 31, 2014 and 2013

Years Ended December 31,		**2014**		2013
Interest Income				
Interest and fees on loans	**$**	**7,411**	$	6,734
Interest on investment securities		**69**		102
Other interest income		**3**		3
Total Interest Income		**7,483**		6,839
Interest Expense				
Deposit		**946**		998
Borrowings		**113**		32
Total Interest Expense		**1,059**		1,030
Net interest income		**6,424**		5,809
Provision for Loan Losses		**231**		348
Net Interest Income After Provision for Loan Losses		**6,193**		5,461
Non-Interest Income				
Service charges and activity fees		**130**		145
Net gains on sales of loans		**155**		680
Net gains on sale of investments		**-**		45
Other income		**94**		99
Total Non-Interest Income		**379**		969
Non-Interest Expenses				
Salaries and employee benefits		**3,016**		2,842
Occupancy and equipment		**462**		409
Legal and professional fees		**243**		231
Merger related costs		**196**		314
Advertising and promotion		**137**		122
Loan expenses		**117**		80
Data processing costs		**618**		579
Supplies, printing and postage		**90**		91
Telephone		**32**		30
Entertainment		**106**		105
Mileage and tolls		**51**		47
Insurance		**75**		65
FDIC insurance premiums		**63**		83
Dues and subscription		**47**		46
Shares tax		**107**		91
Other		**159**		112
Total Non-Interest Expense		**5,519**		5,247
Income before income taxes		**1,053**		1,183
Income Taxes		**(448)**		(473)
Net income		**605**		710
Preferred Stock Dividends		**217**		218
Net Income Available to Common Stockholders	**$**	**388**	$	492

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income
(In Thousands)
December 31, 2014 and 2013

Years Ended December 31,		**2014**		2013
Net Income	**$**	**605**	$	710
Other Comprehensive Income (Loss)				
Unrealized holding gain (loss) arising on securities available-for-sale		**23**		(85)
Reclassification adjustment for gains included in net income		**-**		(45)
Tax effect		**(8)**		44
Other comprehensive income (loss)		**15**		(86)
Total Comprehensive Income	**$**	**620**	$	624

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity
(In Thousands)
Years Ended December 31, 2014 and 2013

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
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
Net income	**-**	**-**	**-**	**605**	**-**	**605**
Other comprehensive income	**-**	**-**	**-**	**-**	**15**	**15**
Cash dividends on preferred stock	**-**	**-**	**-**	**(217)**	**-**	**(217)**
Balance, December 31, 2014	**$ 6,047**	**$ 1,025**	**$ 9,221**	**$ (2,968)**	**$ 36**	**$ 13,361**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(In Thousands)
December 31, 2014 and 2013

Years Ended December 31,		**2014**		2013
Cash Flows from Operating Activities				
Net income	**$**	**605**	$	710
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		**231**		348
Depreciation and amortization		**308**		311
Deferred income taxes		**448**		473
Net amortization of investment securities		**5**		34
Realized gains on sale of investment securities		**-**		(45)
Earnings on bank owned life insurance		**(40)**		(47)
Net realized gains on sale of loans held for sale		**(155)**		(680)
Origination of loans held for sale		**(1,384)**		(7,182)
Proceeds from sale of loans held for sale		**1,539**		7,862
Net gain on sale of real estate owned		**-**		(14)
Increase in accrued interest receivable		**(5)**		(31)
(Increase) decrease in other assets		**24**		(156)
Increase in accrued interest payable		**19**		7
Increase in other liabilities		**127**		157
Net Cash Provided by Operating Activities		**1,722**		1,747
Cash Flows from Investing Activities				
Activity in available-for-sale securities:				
Proceeds from maturities, calls and principal pay downs		**361**		730
Proceeds from sale of investment securities		**-**		2,135
Net increase in loans		**(17,552)**		(20,670)
Proceeds from the sale of real estate owned		**-**		157
Purchase of restricted investment in bank stocks		**(64)**		(119)
Purchases of premises and equipment		**(193)**		(403)
Net Cash Used in Investing Activities		**(17,448)**		(18,170)
Cash Flows from Financing Activities				
Net increase in deposits		**9,800**		7,788
Cash dividends on preferred stock		**(217)**		(218)
Proceeds from long-term borrowing		**4,500**		4,665
Net increase in short-term borrowing		**1,166**		1,000
Net Cash Provided by Financing Activities		**15,249**		13,235
Net decrease in cash and cash equivalents		**(477)**		(3,188)
Cash and Cash Equivalents, Beginning		**2,389**		5,577
Cash and Cash Equivalents, Ending	**$**	**1,912**	$	2,389
Supplementary Cash Flows Information				
Interest paid	**$**	**1,040**	$	1,023
Supplementary Schedule of Noncash Investing and Financing Activities				
Other real estate acquired in settlement of loans	**$**	**282**	$	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 305 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, 2014 through April 13, 2015, 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, 2014 and 2013, 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 lines of credit, 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, lines of credit 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.
7. Experience, ability and depth of lending management staff.

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.

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 lines of credit 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 $60,000 common stock of the Atlantic Community Bankers Bank (ACBB) at December 31, 2014 and 2013 and Federal Home Loan Bank of Pittsburgh (FHLB) stocks totaling $631,000 and $567,000 at December 31, 2014 and 2013, 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 appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

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, 2014 or 2013.

Federal and state tax returns for the years 2011 through 2013 are open for examination as of December 31, 2014.

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 sheets 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, 2014 and 2013, expense attributable to the Plan amounted to $58,000 and $53,000, respectively.

Share-Based Compensation

The Bank follows the provisions of ASC 718-10, Compensation – Stock Compensation. This standard requires the Bank to recognize the cost of employee and organizer services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-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, 2014 and 2013, compensating balances totaled $150,000.

3. Securities Available-for-Sale

The amortized cost and fair value of securities as of December 31, 2014 and 2013 is summarized as follows (in thousands):

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	**$ 1,503**	**$ 55**	**$ -**	**$ 1,558**
	$ 1,503	**$ 55**	**$ -**	**$ 1,558**

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

Residential mortgage-backed securities are comprised of FHLMC and GNMA pass through certificates at December 31, 2014 and 2013.

The amortized cost and fair value of securities as of December 31, 2014 and 2013, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the securities may be called without any penalties (in thousands).

	2014		2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or under	$ -	$ -	$ -	$ -
Due after one year through five years	-	-	-	-
Due after five years through ten years	-	-	-	-
Mortgage-backed investment securities	1,503	1,558	1,869	1,901
	$ 1,503	$ 1,558	$ 1,869	$ 1,901

No securities at December 31, 2014 and 2013 were pledged to collateralize municipal deposits.

4. Loans Receivable

The composition of loans receivable at December 31, 2014 and 2013 is as follows (in thousands):

	2014	2013
Commercial term	$ 19,389	$ 19,784
Commercial mortgage	72,038	66,644
Commercial line	20,192	12,833
Construction	11,895	9,332
Home equity	9,519	10,725
Consumer	15,105	11,664
Total loans	148,138	130,982
Deferred fees, net	6	15
Allowance for loan losses	(1,768)	(1,660)
Net Loans	$ 146,376	$ 129,337

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, 2014 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2014 (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	$ 203	$ 27	$ -	$ 35	$ 211	$ 48	$ 163
Commercial mortgage	423	100	-	349	672	119	553
Commercial line	90	-	4	85	179	-	179
Construction	71	-	-	31	102	-	102
Home equity	66	-	-	(6)	60	-	60
Consumer	71	-	-	22	93	-	93
Unallocated	736	-	-	(285)	451	-	451
	$ 1,660	$ 127	$ 4	$ 231	$ 1,768	$ 167	$ 1,601

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 19,389	$ 175	$ 19,214
Commercial mortgage	72,038	874	71,164
Commercial line	20,192	-	20,192
Construction	11,895	750	11,145
Home equity	9,519	-	9,519
Consumer	15,105	-	15,105
	$ 148,138	$ 1,799	$ 146,339

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

	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

Impaired Loans

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2014 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ 127	$ 296	$ -
Commercial mortgage	410	409	-
Commercial line	-	-	-
Construction	750	750	-
Home equity	-	-	-
Consumer	-	-	-
With an allowance recorded:			
Commercial term	$ 48	$ 49	$ 48
Commercial mortgage	464	664	119
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Total:			
Commercial term	$ 175	$ 345	$ 48
Commercial mortgage	874	1,073	119
Commercial line	-	-	-
Construction	750	750	-
Home equity	-	-	-
Consumer	-	-	-

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ 128	$ -
Commercial mortgage	104	15
Commercial line	-	-
Construction	191	4
Home equity	-	-
Consumer	-	-
With an allowance recorded:		
Commercial term	$ 52	$ -
Commercial mortgage	331	5
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	-	-
Total:		
Commercial term	$ 180	$ -
Commercial mortgage	435	20
Commercial line	-	-
Construction	191	4
Home equity	-	-
Consumer	-	-

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	-

Loans Receivable on Nonaccrual Status

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Commercial term	$ 175	$ 186
Commercial mortgage	874	261
Commercial line	-	-
Construction	750	-
Home equity	-	-
Consumer	-	50
	$ 1,799	$ 497

Interest income recognized on loans on non-accrual status during the years ended December 31, 2014 and 2013 was $24,000 and $-0-, 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 $51,000 and $33,000 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 (in thousands):

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	$ 19,012	$ 41	$ 336	$ -	$ 19,389
Commercial mortgage	70,562	319	953	204	72,038
Commercial line	19,833	147	212	-	20,192
Construction	11,145	-	750	-	11,895
Home equity	9,519	-	-	-	9,519
Consumer	15,105	-	-	-	15,105
	$ 145,176	$ 507	$ 2,251	$ 204	$ 148,138

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

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, 2014 and 2013 (in thousands):

December 31, 2014	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	**$ -**	**$ -**	**$ 175**	**$ 175**	**$ 19,214**	**$ 19,389**	**$ -**
Commercial mortgage	**-**	**-**	**874**	**874**	**71,164**	**72,038**	**-**
Commercial line	**-**	**-**	**-**	**-**	**20,192**	**20,192**	**-**
Construction	**-**	**-**	**750**	**750**	**11,145**	**11,895**	**-**
Home equity	**-**	**-**	**-**	**-**	**9,519**	**9,519**	**-**
Consumer	**-**	**-**	**-**	**-**	**15,105**	**15,105**	**-**
	$ -	**$ -**	**$ 1,799**	**$ 1,799**	**$ 146,339**	**$ 148,138**	**$ -**

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	$ -

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, 2014 and 2013.

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, 2014 and 2013, the Bank sold loans held for sale for total proceeds of $1,539,000 and $7,862,000, respectively. The loan sales resulted in realized gains of $155,000 and $680,000 for the years ended December 31, 2014 and 2013, respectively. There were no SBA loans held for sale at December 31, 2014 and 2013.

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 $11,266,000 and $13,287,000 at December 31, 2014 and 2013, respectively. The following summarizes the activity pertaining to mortgage servicing rights using the amortization method for the years ended December 31, 2014 and 2013 (in thousands):

		2014		2013
Balance, beginning	**$**	**267**	$	143
Additions		**35**		150
Disposals		**(55)**		-
Amortization		**(28)**		(26)
Balance, Ending	**$**	**219**	$	267

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2014 and 2013 are as follows (in thousands):

	Estimated Useful Lives		**2014**		2013
Leasehold improvements	10 - 20 years	**$**	**929**	$	926
Computer equipment and software	3 - 5 years		**794**		700
Automobiles	3 years		**205**		163
Bank unique equipment	5 years		**193**		182
Furniture, fixtures and equipment	3 - 10 years		**280**		277
Building	40 years		**1,687**		1,687
Land			**1,200**		1,200
			5,288		5,135
Accumulated depreciation			**(1,443)**		(1,175)
		$	**3,845**	$	3,960

Depreciation and amortization expense charged to operations amounted to $308,000 and $311,000 for the years ended December 31, 2014 and 2013, respectively.

6. Deposits

The components of deposits at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Demand, non-interest bearing	**$ 17,423**	$ 17,433
Demand interest bearing	**9,001**	6,084
Money market accounts	**18,229**	14,242
Savings accounts	**59,573**	59,576
Time, $100,000 and over	**16,725**	14,153
Time, other	**8,975**	8,638
	$ 129,926	$ 120,126

Included in money market deposits are brokered deposits of $3,007,000 and $2,427,000 at December 31, 2014 and 2013, respectively.

At December 31, 2014, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31,	
2015	$ 6,065
2016	10,143
2017	3,418
2018	2,409
2019	3,648
Thereafter	17
	$ 25,700

Included in time deposits are brokered deposits of $2,500,000 and $-0- at December 31, 2014 and 2013, 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, 2014 and 2013 were $366,000 and $-0-, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). At December 31, 2014, the Bank has a total borrowing capacity with the FHLB of $72,300,000. FHLB advances at December 31, 2014 totaled $12,965,000, of which $9,165,000 were long term with a weighted-average interest rate of 1.4% maturing through 2019 and $3,800,000 were short-term with a weighted-average interest rate of 0.27%.

FHLB advances at December 31, 2013 totaled $7,665,000 of which $4,665,000 were long term with a weighted-average interest rate of 1.30% maturing through 2018 and $3,000,000 were short-term with a weighted-average interest rate of 0.25%.

Long-term debt at December 31, 2014 consists of the following FHLB advances (in thousands):

		Amount	Weighted Average Rate
Fixed rate advances maturing:			
2016	$	3,000	1.06%
2017		2,500	1.24%
2018		1,665	1.73%
2019		2,000	1.82%
	$	9,165	

Long-term debt at December 31, 2013 consisted 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, 2014 (in thousands):

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):

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

Rent expense for leases for the years ended December 31, 2014 and 2013 was $56,000 and $50,000, 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, 2014 and 2013, 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 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, 2014 and 2013.

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, 2014 and 2013 are as follows (in thousands):

	2014	2013
Current	**$ -**	$ -
Deferred	**(448)**	(473)
	$ (448)	$ (473)

The components of the net deferred tax asset at December 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 565	$ 489
Organization and start-up costs	142	160
Nonqualified stock options	21	21
Net operating loss carryforwards	64	483
Cash basis conversion	-	117
Other	41	1
Total tax assets	833	1,271
Deferred tax liabilities:		
Depreciation	(103)	(109)
Deferred loan costs	(143)	(144)
Servicing asset	(74)	(91)
Unrealized gain on available-for-sale securities	(19)	(11)
Other	(34)	-
Total deferred tax liabilities	(373)	(355)
Net Deferred Tax Asset, Included in Other Assets	$ 460	$ 916

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 $189,000 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 $2,828,000 and $2,683,000 at December 31, 2014 and 2013, respectively. Loans originated for related parties totaled $276,000 and $644,000 and payments received were $131,000 and $207,000 for the years ended December 31, 2014 and 2013, respectively. Deposits of related parties totaled $3,696,000 and $1,968,000 as of December 31, 2014 and 2013, respectively.

12. Share-Based Compensation

Organizers of the Bank were issued a total of 100,000 "organizer warrants" for their efforts during the organization and start-up of the Bank. These warrants were immediately exercisable, 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, 2014, 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 equal percentages each year over an initial term no shorter than three years.

There were no stock options grants or forfeitures during the years ended December 31, 2014 and 2013. At December 31, 2014, the weighted average remaining contractual term of stock options outstanding was 4 years with an aggregate intrinsic value of $-0- and at December 31, 2013, the weighted average remaining contractual term of stock options outstanding was 5 years with an aggregate intrinsic value of $-0-.

There were no additional warrants granted during the years ended December 31, 2014 and 2013. 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 years ending December 31, 2014 and 2013, no awards were granted.

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, 2014 and 2013 (in thousands):

	2014	2013
Unfunded commitments under lines of credit	**$ 23,869**	$ 22,736
Unfunded commitments under letters of credit	**263**	73

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, 2014.

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, 2014, 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, 2014 and 2013.

The Bank's actual capital amounts and ratios at December 31, 2014 and 2013 are presented below (dollar amounts in thousands):

December 31, 2014	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)	**$ 14,393**	**10.0%**	**$ ≥11,482**	**≥8.00%**	**$ ≥14,353**	**≥10.0%**
Tier 1 capital (to risk weighted assets)	**12,625**	**8.8%**	**≥ 5,741**	**≥4.00%**	**≥ 8,612**	**≥ 6.0%**
Tier 1 capital (to average assets)	**12,625**	**8.1%**	**≥ 6,266**	**≥4.00%**	**≥ 7,832**	**≥ 5.0%**

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%

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.

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, 2014 and 2013 are as follows (in thousands):

December 31, 2014	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	**$ 1,558**	**$ -**	**$ 1,558**	**$ -**

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	$ -

Residential mortgage backed securities are comprised of FHLMC and GNMA pass through certificates at December 31, 2014 and 2013.

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. The valuations 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, 2014 and 2013 are summarized below (in thousands):

December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	**$ 345**	**$ -**	**$ -**	**$ 345**

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

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, 2014 and 2013 (dollars in thousands):

December 31, 2014	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	**$ 345**	Appraisal of collateral	Appraisal discounts Liquidation expenses	0-20% (10)% 0-10% (0)%

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

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 a portion of the Corporation's assets and liabilities at December 31, 2014 and 2013:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the consolidated balance sheets 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 fixed rate 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, 2014 and 2013 and, therefore, not disclosed.

The fair values, and related carrying amounts, of the Corporation's financial instruments were as follows at December 31, 2014 and 2013 (in thousands):

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 1,912**	**$ 1,912**	$ 2,389	$ 2,389
Securities available-for-sale	**1,558**	**1,558**	1,901	1,901
Restricted investments in bank stocks	**691**	**691**	627	627
Loans, net	**146,376**	**147,031**	129,337	130,531
Mortgage servicing asset	**219**	**219**	267	272
Accrued interest receivable	**430**	**430**	425	425
Liabilities				
Deposits	**129,926**	**129,448**	120,126	120,331
Short term borrowings	**4,166**	**4,166**	3,000	3,000
Long-term debt	**9,165**	**8,975**	4,665	4,534
Accrued interest payable	**43**	**43**	24	24
Off Balance Sheet Asset (Liability)				
Commitments to extend credit	**-**	**-**	-	-
Standby letters of credit	**-**	**-**	-	-

13. Subsequent Event

In December 2013, Victory Bancorp entered into a merger agreement with Huntingdon Valley Bank which provided for the conversion of Huntingdon Valley Bank from a mutual to stock institution and the simultaneous merger of Victory with and into Huntingdon Valley Bank. Both Victory and Huntingdon Valley Bank believed that the proposed merger was advantageous for both banks and their respective constituents. The decision of the parties to enter into the merger agreement followed six months of discussion with the parties' bank regulators regarding the feasibility of the proposed merger. Notwithstanding the initial advice of the bank regulators that the parties could file an application to merge, the parties were advised in January 2015 that due to policy concerns regarding mutual conversions/mergers that were raised by FDIC staff during their review of the applications, the application to merge would not be accepted for further processing. As such, the parties withdrew the applications and terminated the merger agreement in January 2015.

NOTES

NOTES

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
Suburban 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,** Victory Community Leader; **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
Noel Billingsley, Commercial Relationship Manager, VP
Lisa Highlands, Commercial Relationship Manager, VP
Alexander Kroll, Commercial Relationship Manager, SVP
Jon Swearer, Commercial Relationship Manager, SVP
H. Steen Woodland II, Commercial Relationship, SVP
Benjamin Major, Junior Commercial Relationship Manager
Joseph Giunta, Business Development
Vince Raffeo, Business Development
Deborah Lee, Credit Department Manager, VP
Matthew Melcher, Senior Credit Analyst
Sarah Benson, Credit Analyst
Jodi Moore, Administrative Assistant
Leslie Unger, Lead Administrative Assistant

RETAIL TEAM

Saul Rivkin, Chief Retail Officer, VP
Jennifer Gilbert, Leader of Retail Team
Chelsey Craig, Banking Center Representative
Mary Locricchio, Consumer Lending and Banking Center Representative
Diana Stephens, Banking Center Assistant Manager
Thomas Moore, Courier

OPERATIONS AND ADMINISTRATIVE TEAM

Robert Schultz, Chief Financial Officer, Chief Operating Officer and Compliance Officer
Denise Bowie, Loan Documentation Clerk
Christine Carlozzi, Staff Accountant and Human Resources Administrator
Donna Colella, Operations Manager, AVP
Pamela Havrilla, Loan Administration Manager, AVP
Danae Soley, Loan Documentation Specialist
Shelly Stockmal, Victory Community Leader
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
Kathy Arentz, Administrative Assistant


90
100
110
120
180

VICTORY
BANCORP

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