



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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OVERVIEW

The Victory Bancorp enjoyed its best year ever in 2015, showing steady improvement in all key areas and maintaining solid credit quality in its loan portfolio. We generated consistent growth in loans, deposits, and total assets, and have maintained adequate loan loss reserves. The Bank has reached an asset size where new growth contributes significantly to the overall efficiency of the Bank, and we are now operating more efficiently than at any time in our company's history.

During the course of 2015, in order to provide for continued growth and to fully retire \$3.4 million of US Treasury Department Small Business Lending Fund (SBLF) preferred stock, we issued \$5 million of new, subordinated debt. Our Bank was one of only about 400 that were approved for this SBLF investment from the US Treasury approximately 5 years ago, but the dividend payable to the Treasury was poised to increase substantially in early 2016. The issuance of the subordinated debt allowed us to save a considerable amount of future interest expense and provided room for continued growth in our assets.



FINANCIAL RESULTS

I am pleased to report the following results:

- Total assets grew from \$157,000,000 to \$177,000,000, and loans net of allowance for losses grew from \$146,000,000 to \$165,000,000.
- Our allowance for losses remained very stable, declining slightly from \$1,768,000, to \$1,762,000, and charge-offs net of recoveries were \$278,000 or less than 0.17% of average loans.
- Non-accrual loans totaled \$1,072,000 at year end, as compared with \$1,799,000 at year end, 2014.
- Net interest margin remained a healthy 4.33%, a slight decline from 4.50% in 2014. Price competition remains severe in the lending arena, but we continue to have one of the highest margins in Pennsylvania.
- Deposits grew from \$130,000,000 to \$141,000,000, and we maintained an attractive mix of low cost transaction accounts and savings accounts. 14% of our deposits are held in non-interest bearing accounts.
- The Company's cost of interest-bearing funds increased from 0.90% to 0.95% from 2014 to 2015.
- Based upon solid loan and deposit growth, the Company's core driver of earnings, net interest income, increased approximately \$406,000, from \$6,424,000 to \$6,830,000.
- After-tax earnings increased 68% from \$605,000 to \$1,014,000.
- Non-interest income declined somewhat, from \$379,000 in 2014 to \$272,000 in 2015, primarily as a result of reduced demand for SBA-backed business loans, the guaranteed portions of which the Bank has historically sold at auction at a gain.
- The Bank continues to be "Well Capitalized" for regulatory capital purposes as a result of the retention of earnings and our subordinated debt issuance in 2015.
- Return on equity improved from 4.5% in 2014 to 7.5% in 2015.

A CHANGING WORLD AND MARKETPLACE

TECHNOLOGY AND PEOPLE

While our technology offerings are “state-of-the art” and include things like remote deposit capture from scanners, cell phones and iPads, on-line banking and bill payment, we also believe that technology is mostly taken for granted today by people from all generations and backgrounds and that good banking remains primarily a “people business.” Better bankers can offer better advice, build stronger relationships, and do a better job of solving problems for our clients. In short, we believe that we can build and maintain a strategic competitive advantage by employing a superior work force.

Recruiting and keeping a team of better bankers is crucial to our success, doing this well is a discipline; a challenging and sometimes expensive series of tasks:

- We constantly recruit superior bankers to our team. We have clearly defined the objectives for 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 provide a comprehensive education and training program, using both internal and external training resources. We teach our team about our 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 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 dovetails perfectly with the Bank’s target strategy of making loans to small- to medium-sized businesses and professional practices. Not a traditional “community bank,” 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” institution. We are totally immersed in relationship-based banking, where every client is carefully cultivated, and every loan is custom underwritten. Our job is to understand our clients’ needs and wants, and to find ways to create a “win” for them and for the Bank. We seek to truly understand our clients, their businesses and their values, and then serve them as best we can.

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. Despite strong national SBA lending activity, this trend has softened locally over the past 30 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 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.



MORTGAGE BANKING

I am pleased to report that The Victory Bank is now a residential mortgage lender. In partnership with another established bank and mortgage company, we have begun providing a full array of residential mortgages to our clients, including conventional fixed rate loans, ARMS, FHA/VA loans, and jumbo loans, at competitive prices and delivered The Victory Bank way, with a focus on high quality and top-flight client service.

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 comparable to the very largest institutions. However, 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." Fundamentally, growth in quality balance-sheet assets generates incremental revenue that grows a good deal faster than expenses.

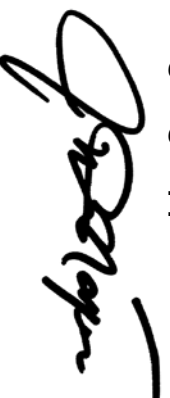
We are currently completing preparation of a securities offering for filing with our applicable regulators through which we intend to offer up to \$6,000,000 in new common stock. Prior to commencement of this proposed offering, our offering materials must be reviewed and declared effective by the Securities and Exchange Commission on the Federal level and also by similar securities agencies in each state where we intend to sell stock. We currently expect to begin sales in the late spring of 2016. However, the timing of the offering is subject to the regulatory review process. The details and terms of this offering will be provided to prospective investors by way of a traditional offering circular and subscription documents. We also expect to list our existing and future common shares on the over-the-counter stock market during 2016, also known as the "pink sheets," so that our existing and future shareholders will have a more efficient method to buy and sell shares of our bank holding company.

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

The Victory Bank is a member of both the PA Bankers Association, where I am a board member and an officer, and the Pa Community Bankers (PaCB). Many other members of our team are involved at the state and national levels. As a result we are fortunate to spend time with many of our banking peers, and despite the reputational damage done to the banking industry by some Wall Street banks a few years ago, I believe our industry has gotten a "bad rap," and I remain a staunch advocate for the banking industry in this state. I am constantly reminded and amazed 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. Our internal calculations show that we invested approximately 2,500 hours of community service just in the last year. Moreover, as a small-business lender, we have generated over \$360,000,000 in small business loans over the past eight years, loans that inevitably lead to growth, employment and regional prosperity. All of us at The Victory Bank are sincerely proud of what we do and of how we do it, and we hope that you as the owners of this company share our commitment and pride in this important community work. 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.



"The Victory Bank enjoyed its best year ever in 2015, showing steady improvement in all key areas and maintaining solid credit quality in its loan portfolio."



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, 2015 and 2014, 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.

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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, 2015 and 2014, 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 14, 2016

Consolidated Balance Sheets
(in thousands, except share data)

December 31,	2015	2014
Assets		
Cash and due from banks	\$ 2,684	\$ 1,912
Cash and cash equivalents	2,684	1,912
Securities available-for-sale	1,098	1,558
Loans receivable, net of allowance for loan losses of \$1,762 at December 31, 2015 and \$1,768 at December 31, 2014	165,378	146,376
Premises and equipment, net	3,657	3,845
Restricted investment in bank stocks	1,002	691
Accrued interest receivable	451	430
Other real estate owned	273	282
Bank owned life insurance	1,385	1,346
Other assets	787	894
Total Assets	\$ 176,715	\$ 157,334
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 19,735	\$ 17,423
Interest-bearing	121,636	112,503
Total deposits	141,371	129,926
Borrowings	19,407	13,331
Subordinated debt	4,915	-
Accrued interest payable and other liabilities	321	716
Total Liabilities	166,014	143,973
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		
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	(2,176)	(2,968)
Accumulated other comprehensive income	15	36
Total Stockholders' Equity	10,701	13,361
Total Liabilities and Stockholders' Equity	\$ 176,715	\$ 157,334

Consolidated Statements of Income
(in thousands)

Years Ended December 31,	2015	2014
Interest Income		
Interest and fees on loans	\$ 7,990	\$ 7,411
Interest on investment securities	82	69
Other interest income	3	3
Total Interest Income	8,075	7,483
Interest Expense		
Deposit	1,046	946
Borrowings	199	113
Total Interest Expense	1,245	1,059
Net interest income	6,830	6,424
Provision for Loan Losses	272	231
Net Interest Income After Provision for Loan Losses	6,558	6,193
Non-Interest Income		
Service charges and activity fees	128	130
Net gains on sales of loans	31	155
Other income	94	94
Total Non-Interest Income	253	379
Non-Interest Expenses		
Salaries and employee benefits	3,079	3,016
Occupancy and equipment	473	462
Legal and professional fees	307	243
Merger related costs	-	196
Advertising and promotion	59	137
Loan expenses	153	117
Data processing costs	689	618
Supplies, printing and postage	81	90
Telephone	32	32
Entertainment	82	106
Mileage and tolls	41	51
Insurance	77	75
FDIC insurance premiums	107	63
Dues and subscription	50	47
Shares tax	109	107
Other	135	159
Total Non-Interest Expense	5,474	5,519
Income before income taxes	1,337	1,053
Income Taxes	(323)	(448)
Net income	1,014	605
Preferred Stock Dividends	222	217
Net Income Available to Common Stockholders	\$ 792	\$ 388

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income
(in thousands)

Years Ended December 31,	2015	2014
Net Income	\$ 1,014	\$ 605
Other Comprehensive (Loss) Income		
Unrealized holding (loss) gain arising on securities available- for-sale	(32)	23
Tax effect	11	(8)
Other comprehensive (loss) income	(21)	15
Total Comprehensive Income	\$ 993	\$ 620

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity
(in thousands)

	Preferred Stock	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2014	\$ 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
Redemption of SBLF	(3,431)	-	-	-	-	(3,431)
Net income	-	-	-	1,014	-	1,014
Other comprehensive income	-	-	-	-	(21)	(21)
Cash dividends on preferred stock	-	-	-	(222)	-	(222)
Balance, December 31, 2015	\$ 2,616	\$ 1,025	\$9,221	\$ (2,176)	\$ 15	\$ 10,701

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	2015	2014
Cash Flows from Operating Activities		
Net income	\$ 1,014	\$ 605
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	272	231
Depreciation and amortization	298	308
Deferred income taxes	64	448
Net amortization of investment securities	3	5
Earnings on bank owned life insurance	(39)	(40)
Net realized gains on sale of loans held for sale	(31)	(155)
Origination of loans held for sale	(335)	(1,384)
Proceeds from sale of loans held for sale	366	1,539
Net gain on sale of real estate owned	(13)	-
Increase in accrued interest receivable	(21)	(5)
(Increase) decrease in other assets	54	24
Increase in accrued interest payable	40	19
(Decrease) increase in other liabilities	(435)	127
Net Cash Provided by Operating Activities	1,243	1,722
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Proceeds from maturities, calls and principal pay downs	425	361
Net increase in loans	(19,547)	(17,552)
Proceeds from the sale of real estate owned	295	-
Purchase of restricted investment in bank stocks	(311)	(64)
Purchases of premises and equipment	(110)	(193)
Net Cash Used in Investing Activities	(19,248)	(17,448)
Cash Flows from Financing Activities		
Net increase in deposits	11,445	9,800
Net proceeds from issuance of subordinated debt	4,915	-
Redemption of preferred stock	(3,431)	-
Cash dividends on preferred stock	(222)	(217)
(Retirement of) proceeds from long-term borrowing	(3,000)	4,500
Net increase in short-term borrowing	9,076	1,166
Net Cash Provided by Financing Activities	18,783	15,249
Net increase (decrease) in cash and cash equivalents	772	(477)
Cash and Cash Equivalents, Beginning	1,912	2,389
Cash and Cash Equivalents, Ending	\$ 2,684	\$ 1,912
Supplementary Cash Flows Information		
Income taxes paid	\$ 350	\$ -
Interest paid	\$ 1,205	\$ 1,040
Supplementary Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	\$ 273	\$ 282

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, 2015, the Corporation had 306 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, 2015 through April 14, 2016, 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.

Notes to Consolidated Financial Statements

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, 2015 and 2014, 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. 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. 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, less the discount retained, 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 MSR's on the date of sale. To determine the fair value of mortgage servicing rights (MSR's), 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 MSR's 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 MSR's 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 sheets. 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.

Notes to Consolidated Financial Statements

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.

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.

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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, 2015 and 2014 and Federal Home Loan Bank of Pittsburgh (FHLB) stocks totaling \$941,500 and \$631,000 at December 31, 2015 and 2014, respectively.

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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, 2015.

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, 2015 or 2014.

Federal and state tax returns for the years 2012 through 2014 are open for examination as of December 31, 2015.

Comprehensive Income (Loss)

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 sheets, such items along with net income are components of comprehensive income (loss).

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, 2015 and 2014, expense attributable to the Plan amounted to \$61,000 and \$58,000, respectively.

Notes to Consolidated Financial Statements

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, 2015 and 2014, compensating balances totaled \$150,000.

3. Securities Available-for-Sale

The amortized cost and fair value of securities as of December 31, 2015 and 2014 is summarized as follows (in thousands):

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	\$ 1,075	\$ 24	\$ (1)	\$ 1,098
	\$ 1,075	\$ 24	\$ (1)	\$ 1,098
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

Residential mortgage-backed securities are comprised of FHLMC and GNMA pass through certificates at December 31, 2015 and 2014.

Notes to Consolidated Financial Statements

The unrealized losses and related fair value of investment securities available for sale with unrealized losses less than 12 months and those with unrealized losses 12 months or longer as of December 31, 2015 are as follows (in thousands):

December 31,	2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Residential mortgage-backed securities	\$ 129	\$ (1)	\$ -	\$ -	\$ 129	\$ (1)
Total	\$ 129	\$ (1)	\$ -	\$ -	\$ 129	\$ (1)

There was one individual investment security in an unrealized loss position less than 12 months as of December 31, 2015 and there were no investment securities in an unrealized loss position as of December 31, 2014. The unrealized loss position at December 31, 2015 is the result of interest rate changes and do not represent other than temporary impairment of the security.

The amortized cost and fair value of securities as of December 31, 2015 and 2014, 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).

	2015		2014	
	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	1,075	1,098	1,503	1,558
	\$ 1,075	\$ 1,098	\$ 1,503	\$ 1,558

Notes to Consolidated Financial Statements

4. Loans Receivable

The composition of loans receivable at December 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Commercial term	\$ 22,538	\$ 19,389
Commercial mortgage	79,736	72,038
Commercial line	20,051	20,192
Construction	18,567	11,895
Home equity	7,868	9,519
Consumer	18,415	15,105
Total loans	167,175	148,138
Deferred fees, net	(35)	6
Allowance for loan losses	(1,762)	(1,768)
Net Loans	\$ 165,378	\$ 146,376

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, 2015 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2015 (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	\$ 211	\$ -	\$ -	\$ (25)	\$ 186	\$ -	\$ 186
Commercial mortgage	672	150	-	112	634	59	575
Commercial line	179	130	2	117	168	-	168
Construction	102	-	-	44	146	-	146
Home equity	60	-	-	(3)	57	-	57
Consumer	93	-	-	20	113	-	113
Unallocated	451	-	-	7	458	-	458
	\$ 1,768	\$ 280	\$ 2	\$ 272	\$1,762	\$ 59	\$1,703

Notes to Consolidated Financial Statements

Loans Receivables			
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	\$ 22,538	\$ 128	\$ 22,410
Commercial mortgage	79,736	979	78,757
Commercial line	20,051	34	20,017
Construction	18,567	-	18,567
Home equity	7,868	-	7,868
Consumer	18,415	-	18,415
	\$ 167,175	\$ 1,141	\$ 166,034

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

Notes to Consolidated Financial Statements

Impaired Loans

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2015 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	\$ 128	\$ 308	\$ -
Commercial mortgage	788	1,062	-
Commercial line	34	165	-
Construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
With an allowance recorded:			
Commercial term	\$ -	\$ -	\$ -
Commercial mortgage	191	191	59
Commercial line	-	-	-
Construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Total:			
Commercial term	\$ 128	\$ 308	\$ -
Commercial mortgage	979	1,253	59
Commercial line	34	165	-
Construction	-	-	-
Home equity	-	-	-
Consumer	-	-	-

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	\$ 128	\$ -
Commercial mortgage	893	10
Commercial line	139	4
Construction	-	-
Home equity	-	-
Consumer	-	-
With an allowance recorded:		
Commercial term	\$ -	\$ -
Commercial mortgage	250	4
Commercial line	-	-
Construction	-	-
Home equity	-	-
Consumer	-	-
Total:		
Commercial term	\$ 128	\$ -
Commercial mortgage	1,143	14
Commercial line	139	4
Construction	-	-
Home equity	-	-
Consumer	-	-

Notes to Consolidated Financial Statements

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	-	-

Notes to Consolidated Financial Statements

Loans Receivable on Nonaccrual Status

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Commercial term	\$ 128	\$ 175
Commercial mortgage	910	874
Commercial line	34	-
Construction	-	750
Home equity	-	-
Consumer	-	-
	\$ 1,072	\$ 1,799

Interest income recognized on loans on non-accrual status during the years ended December 31, 2015 and 2014 was \$18,000 and \$24,000, respectively. Additional interest income that would have been recognized on non-accrual loans, had the loans been performing in accordance with the original terms of their contracts totaled \$86,000 and \$51,000 for the years ended December 31, 2015 and 2014, respectively.

At initial measurement, foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell, and are titled Other real estate owned on the consolidated balance sheets. As of December 31, 2015 and 2014, there are \$273,000 and \$282,000, respectively, of foreclosed assets. As of December 31, 2015 and 2014, no consumer residential mortgages were foreclosed on or received via a deed in lieu transaction prior to the period end. As of December 31, 2015 and 2014, the Company has not initiated formal foreclosure proceedings on any consumer residential mortgages.

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, 2015 and 2014 (in thousands):

December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	\$ 22,267	\$ 33	\$ 238	\$ -	\$ 22,538
Commercial mortgage	78,553	273	494	416	79,736
Commercial line	19,141	876	-	34	20,051
Construction	18,567	-	-	-	18,567
Home equity	7,868	-	-	-	7,868
Consumer	18,415	-	-	-	18,415
	\$ 164,811	\$ 1,182	\$ 732	\$ 450	\$ 167,175

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

Notes to Consolidated Financial Statements

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, 2015 and 2014 (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
December 31, 2015							
Commercial term	\$ -	\$ -	\$ 128	\$ 128	\$ 22,410	\$ 22,538	\$ -
Commercial mortgage	-	-	910	910	78,826	79,736	-
Commercial line	-	-	34	34	20,017	20,051	-
Construction	-	-	-	-	18,567	18,567	-
Home equity	-	-	-	-	7,868	7,868	-
Consumer	-	-	-	-	18,415	18,415	-
	\$ -	\$ -	\$ 1,072	\$ 1,072	\$ 166,103	\$ 167,175	\$ -
December 31, 2014							
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	\$ -

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.

Notes to Consolidated Financial Statements

There was one performing trouble debt restructuring and no defaults within twelve months of restructuring during the year ended December 31, 2015. There were no troubled debt restructurings or defaults within twelve months of restructuring during the year ended December 31, 2014. The commercial mortgage loan was modified for a six month temporary payment reduction in 2015.

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, 2015 and 2014, the Bank sold loans held for sale for total proceeds of \$366,000 and \$1,539,000, respectively. The loan sales resulted in realized gains of \$31,000 and \$155,000 for the years ended December 31, 2015 and 2014, respectively. There were no SBA loans held for sale at December 31, 2015 and 2014.

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 \$10,225,000 and \$13,682,000 at December 31, 2015 and 2014, respectively. The following summarizes the activity pertaining to mortgage servicing rights using the amortization method for the years ended December 31, 2015 and 2014 (in thousands):

		2015	2014
Balance, beginning	\$	219	\$ 267
Additions		6	35
Disposals		(28)	(55)
Amortization		(28)	(28)
Balance, Ending	\$	169	\$ 219

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2015 and 2014 are as follows (in thousands):

	Estimated Useful Lives	2015	2014
Leasehold improvements	10 - 20 years	\$ 935	\$ 929
Computer equipment and software	3 - 5 years	877	794
Automobiles	3 years	180	205
Bank unique equipment	5 years	207	193
Furniture, fixtures and equipment	3 - 10 years	285	280
Building	40 years	1,687	1,687
Land		1,200	1,200
		5,371	5,288
Accumulated depreciation		(1,714)	(1,443)
		\$ 3,657	\$ 3,845

Notes to Consolidated Financial Statements

Depreciation and amortization expense charged to operations amounted to \$298,000 and \$308,000 for the years ended December 31, 2015 and 2014, respectively.

6. Deposits

The components of deposits at December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Demand, non-interest bearing	\$ 19,735	\$ 17,423
Demand interest bearing	12,144	9,001
Money market accounts	18,609	18,229
Savings accounts	63,682	59,573
Time, \$250,000 and over	5,963	3,436
Time, other	21,238	22,264
	\$ 141,371	\$ 129,926

Included in money market deposits are brokered deposits of \$7,033,000 and \$3,007,000 at December 31, 2015 and 2014, respectively.

At December 31, 2015, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31,

2016	\$ 12,328
2017	5,684
2018	3,244
2019	4,410
2020	1,501
Thereafter	34
	\$ 27,201

Included in time deposits are brokered deposits of \$2,277,000 and \$2,500,000 at December 31, 2015 and 2014, 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, 2015 and 2014 were \$242,000 and \$366,000, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). At December 31, 2015, the Bank has a total borrowing capacity with the FHLB of \$83,351,000. FHLB advances at December 31, 2015 totaled \$19,165,000, of which \$6,165,000 were long term with a weighted-average interest rate of 1.56% maturing through 2019 and \$13,000,000 were short-term with a weighted-average interest rate of 0.58%.

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%.

Notes to Consolidated Financial Statements

Long-term debt at December 31, 2015 consists of the following FHLB advances (in thousands):

	Amount	Weighted Average Rate
Fixed rate advances maturing:		
2017	\$ 2,500	1.24%
2018	1,665	1.73%
2019	2,000	1.82%
	<hr/>	
	\$ 6,165	

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%
	<hr/>	
	\$ 9,165	

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

Subordinated Debt

On October 15, 2015, the Corporation closed a pooled private offering of \$5.0 million of subordinated debt, net of offering costs of \$86,000. Unamortized offering costs were \$85,000 at December 31, 2015. The Company may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of \$100,000, on or after October 1, 2020 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on October 1, 2025. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Subordinated Loan Agreement.

The subordinated debt may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures have a fixed rate of interest of 3.35% to 3.95% through February 28, 2016 at which time the interest rate will increase to 6.75% to 7.35% until the debt is paid off or matures. The debt is subordinated to the claims of general creditors, is unsecured, and is ineligible as collateral for a loan by the Company.

8. 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.

In 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 (SBLF) 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.

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.

SBLF Redemption

On November 23, 2015, the Corporation redeemed all of the 3,431 outstanding shares of the Series F Preferred Stock. The aggregate redemption price of the Series F Preferred Stock was approximately \$3.43 million, including dividends accrued but unpaid through the redemption date. The redemption of the Series F Preferred Stock terminates the Company's participation in the SBLF program in full.

9. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Current	\$ 259	\$ -
Deferred	64	448
	\$ 323	\$ 448

Notes to Consolidated Financial Statements

The components of the net deferred tax asset at December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Deferred tax assets:		
Allowance for loan losses	\$ 546	\$ 565
Organization and start-up costs	125	142
Nonqualified stock options	21	21
Net operating loss carryforwards	-	64
Other	-	41
Total tax assets	692	833
Deferred tax liabilities:		
Depreciation	(58)	(103)
Deferred loan costs	(145)	(143)
Servicing asset	(57)	(74)
Unrealized gain on available-for-sale securities	(8)	(19)
Other	(17)	(34)
Total deferred tax liabilities	(285)	(373)
Net Deferred Tax Asset, Included in Other Assets	\$ 407	\$ 460

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 deductible and non-deductible merger expenses.

10. 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). There were loans receivable from related parties totaling \$2,228,000 and \$2,828,000 at December 31, 2015 and 2014, respectively. Loans originated for related parties totaled \$78,000 and \$276,000 and payments received were \$678,000 and \$131,000 for the years ended December 31, 2015 and 2014, respectively. Deposits of related parties totaled \$3,453,000 and \$3,696,000 as of December 31, 2015 and 2014, respectively.

11. Share-Based Compensation

Organizers of the Corporation were issued a total of 100,000 "organizer warrants" for their efforts during the organization and start-up of the Bank. These warrants were immediately exercisable, expire in 10 years and enabled the warrant holder to purchase one share of common stock at \$10.00 per share for each warrant exercised. At December 31, 2015, there were 100,000 warrants outstanding, which expire in 2018.

In 2008, the Board of Directors adopted the 2008 Stock Option Plan ("2008 Plan").

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.

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.

There were no stock options granted during the years ended December 31, 2015 and 2014. There were 2,678 stock options forfeited in 2015 and no forfeitures in 2014. At December 31, 2015 and 2014, there were 64,640 and 67,318 options outstanding, respectively. At December 31, 2015, the weighted average remaining contractual term of stock options outstanding was 3 years with an aggregate intrinsic value of \$0 and at December 31, 2014, the weighted average remaining contractual term of stock options outstanding was 4 years with an aggregate intrinsic value of \$-0-.

There were no additional warrants granted during the years ended December 31, 2015 and 2014.

In 2013, the Board of Directors adopted the 2013 Equity Incentive Plan ("2013 Plan"). 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, 2015 and 2014, no awards were granted.

Notes to Consolidated Financial Statements

12. 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, 2015 and 2014 (in thousands):

	2015	2014
Unfunded commitments under lines of credit	\$ 28,928	\$ 23,869
Unfunded commitments under letters of credit	701	263

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, 2015.

13. 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.

Information presented for December 31, 2015 reflects BASEL III capital requirements that became effective January 1, 2015. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of Common Equity Tier 1 Capital, 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, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

Notes to Consolidated Financial Statements

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, 2015 and 2014.

The Bank's actual capital amounts and ratios at December 31, 2015 and 2014 are presented below (dollar amounts in thousands):

December 31, 2015	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)	\$ 16,882	10.2%	\$ ≥13,267	≥8.0%	\$ ≥16,584	≥10.0%
Tier 1 capital (to risk weighted assets)	15,120	9.1%	≥ 7,463	≥4.5%	≥10,780	≥ 6.5%
Common equity Tier 1 capital (to risk-weighted assets)	15,120	9.1%	≥ 9,950	≥6.0%	≥13,267	≥ 8.0%
Tier 1 capital (to average assets)	15,120	8.7%	≥ 6,950	≥4.0%	≥8,687	≥ 5.0%

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	≥8.0%	\$ ≥14,353	≥10.0%
Tier 1 capital (to risk weighted assets)	12,625	8.8%	≥5,741	≥4.0%	≥8,612	≥6.0%
Tier 1 capital (to average assets)	12,625	8.1%	≥6,266	≥4.0%	≥7,832	≥5.0%

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

14. 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.

Notes to Consolidated Financial Statements

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.

Notes to Consolidated Financial Statements

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, 2015 and 2014 are as follows (in thousands):

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2015	Total			
Residential mortgage-backed securities	\$ 1,098	\$ -	\$ 1,098	\$ -

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014	Total			
Residential mortgage-backed securities	\$ 1,558	\$ -	\$ 1,558	\$ -

Residential mortgage backed securities are comprised of FHLMC and GNMA pass through certificates at December 31, 2015 and 2014.

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.

Notes to Consolidated Financial Statements

Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2015 and 2014 are summarized below (in thousands):

<i>December 31, 2015</i>	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 953	\$ -	\$ -	\$ 953
<i>December 31, 2014</i>	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

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, 2015 and 2014 (dollars in thousands):

<i>December 31, 2015</i>	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 953	Appraisal of collateral	Appraisal discounts Liquidation expenses	0-5% (3)% 10 %
<i>December 31, 2014</i>	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	\$ 345	Appraisal of collateral	Appraisal discounts Liquidation expenses	0-20% (10)% 0-10% (0)%

Notes to Consolidated Financial Statements

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, 2015 and 2014:

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 less costs to dispose upon transfer of the loans to OREO. Subsequently, OREO assets are carried at the lower of carrying value or fair value less costs to dispose. 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.

Notes to Consolidated Financial Statements

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.

Subordinated Debt (Carried at Cost)

Fair values of privately placed subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit-risk characteristics, terms and remaining maturity.

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, 2015 and 2014 and, therefore, not disclosed.

Notes to Consolidated Financial Statements

The fair values, and related carrying amounts, of the Corporation's financial instruments were as follows at December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	\$ 2,684	\$ 2,684	\$ 1,912	\$ 1,912
Securities available-for-sale	1,098	1,098	1,558	1,558
Restricted investments in bank stocks	1,002	1,002	691	691
Loans, net	165,378	164,993	146,376	147,031
Mortgage servicing asset	169	169	219	219
Accrued interest receivable	451	451	430	430
Liabilities				
Deposits	141,371	140,930	129,926	129,448
Short term borrowings	13,242	13,242	4,166	4,166
Long-term debt	6,165	6,050	9,165	8,975
Subordinated debt	4,915	4,915	-	-
Accrued interest payable	83	83	43	43
Off Balance Sheet Asset (Liability)				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-

NOTES

Board of Directors



Alan S. Apt
President and CEO
Aptcor Commercial Realtors



Matthew "Bo" Bates
Chief Executive Officer
Evans Network of Companies



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



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



Steven D. Gilmore, P.E.
President and CEO
Gilmore and Associates, Inc.



Karl Glocker
President Emeritus
Glocker and Co.



Kevin L. Johnson, P.E.
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
Resnick Amsterdam Leshner, PC



Our Team



COMMERCIAL TEAM

Richard Graver, President – The Victory Bancorp/
Chief Banking and Chief Lending Officer –
The Victory Bank

Noel Billingsley, Commercial Relationship
Manager & Workout Specialist, VP

Joseph Giunta, Business Development

Lisa Highlands, Commercial Relationship
Manager, VP

Alexander Kroll, Senior Commercial Relationship
Manager, SVP

Benjamin Major, Commercial Relationship Manager

Danielle Millar, Administrative Assistant

Vince Raffeo, Business Development

Mary Ann Riggins, Business Development

Jon Swearer, Senior Commercial Relationship
Manager, SVP

Leslie Unger, Lead Administrative Assistant

H. Steen Woodland II, Senior Commercial
Relationship Manager, SVP

OPERATIONS TEAM

Robert Schultz, Chief Financial Officer, Chief
Operating Officer & Compliance Officer

Denise Bowie, Loan Documentation Clerk

Christine Carlozzi, Staff Accountant & Human
Resources Administrator

Donna Colella, Retail Operations Manager, AVP

Pamela Havrilla, Loan Administration Manager, AVP

Mary Locricchio, Deposit Operations & Consumer
Loan Specialist

Jodi Moore, Loan Operations Clerk

Danae Soley, Loan Documentation Specialist

Dennis Zielinski, Bank Secrecy Act, Security &
Emergency Preparedness Officer



RETAIL TEAM

Saul Rivkin, Chief Retail Officer, SVP

Chelsey Craig, Personal Banker & Electronic Banking Specialist

Jennifer Gilbert, Leader of Retail Team & Bank Ambassador

Diana Liriano, Assistant Branch Manager

Warren Major, Personal Banker

Thomas Moore, Courier

CREDIT TEAM

Eric Offner, Chief Credit Officer, EVP

Sarah Benson, Credit Analyst

Deborah Lee, Credit Department Manager, SVP

Matthew Melcher, Senior Credit Analyst

ADMINISTRATIVE TEAM

Joseph Major, Bank Leader, CEO & Chairman

Shelly Stockmal, Victory Community Leader, VP

Kelly Taylor, Executive Assistant

WYOMISSING LOAN OFFICE TEAM

Tony D'Antonio, Senior Commercial Relationship Manager, SVP

Kathy Arentz, Administrative Assistant

Keith Chesler, Commercial Relationship Manager, VP



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