VICTORY BANCORP | **2016 ANNUAL REPORT**

VICTORY BANCORP

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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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Dear Shareholder,

Please accept our sincere thanks for your support as shareholders and for taking the time to read this letter and review our annual report. This letter will summarize the most significant events and financial results from 2016 for **Victory Bancorp,** and this annual report offers a special emphasis on the people who make up our team.

We deeply believe that more than anything else, it has been the quality and commitment of our team of bankers that has made our company grow and succeed. In past generations this may not have been as true as it is today. At one time banks served primarily as a "security intermediary," a place to keep your hard earned money safe from theft. People chose a bank because it had a substantial vault and safe deposit boxes. Over the years, banking transformed and became more about service as the country become blanketed with bank branches and as ATM machines popped up like dandelions on the front lawn.

But today, people rarely handle much money except in electronic form, most deposits are made electronically, and what could be easier than paying your bills from your phone or iPad, anywhere and anytime? The service, security and convenience that banks provide today are much more about electronic systems and cyber security than anything else.

So – given the way banking has changed and become more electronic, why does **The Victory Bank** focus so much strategic attention on the "people side" of banking? Some would argue that people do not matter much anymore, but for several reasons, we believe that developing a superior group of bankers is *more important than ever*, and this strategy has been the bedrock of our bank's success to date:

1. Our industry has become very systems dependent, meaning that the client experience depends on the constant flawless operations of technology and systems, and the accurate and secure flow of information. What the clients do not see is that these systems are **NOT** flawless, and require the non-stop supervision, intervention and management of skilled people to keep things running safely and smoothly; and
2. Because of these changes, people choose to bank with us mostly *because they trust us to look out for their best interests*, not because we have a vault or some ATM machines. We add value for our clients by conducting our business in an utterly trustworthy manner, by becoming valued consultants for most of them, serving as an integral part of their businesses and personal lives.

BETTER BANKERS

The Victory Bank was founded to serve as a "niche" bank with special expertise in serving the local business and professional communities. It is our goal to provide our clients with a very high level of skill and expertise in this regard, to strive to operate more effectively and efficiently in this area than any other bank in our marketplace. To reach this challenging goal, we have hired and trained an elite team of bankers who we believe really know how to do this work. While our retail bankers and our team of commercial relationship managers are the most visible parts of the team, backing them up are bankers with extensive experience in areas like credit and underwriting, deposit operations, IT and on-line banking, loan documentation and servicing, accounting, regulatory compliance, security, finance and management.

It is important to consider that populating a bank with a superior work force is not easy and will not happen with out dedication and discipline. Offering common work-place platitudes, and proclaiming that "our people are our most important asset," does not create a high-quality team. We have committed a substantial amount of resources to this process, and relentlessly work to fill every position in this bank with a committed, energized and engaged expert in that field. Recent market disruptions caused by the sale of other well-known local banking companies have opened the doors for us to recruit new and highly-qualified members to our team. In addition, we have built customized development plans for all of our bankers. We invest hundreds of hours every year in training and education, in the constant pursuit of building a superior team of bankers, a team that can provide our clients with notably superior advice and service.

We also believe that our clients should be treated with the utmost respect and that their dealings with us must be a positive, even a joyful and uplifting experience. We seek out team members who are naturally caring, energized and engaged, and for whom the intrinsic rewards of doing a great job for our clients resonate deeply.

CAPITAL RAISE

Many of you know that we conducted a very successful capital raise in 2016, closing on just over $3.3 million in the common stock of **Victory Bancorp**, the bank holding company for **The Victory Bank**. We also received commitments for an additional $1.1 million, which was closed in early 2017.

So, why would a bank holding company like **Victory Bancorp** sell more stock? Basically, **The Victory Bank** has been growing at a rate that requires more capital than it has been able to generate through retained earnings. As the bank has grown, it has become more efficient, and therefore more profitable, but because banks are required by law to hold a certain percentage of their total assets as capital it needed more capital to continue that process without interruption. To that end, a bank holding company like **Victory Bancorp** builds its capital base by retaining its consolidated earnings or through the sale of new shares. In this case, because of this successful capital raise, **Victory Bancorp** can downstream capital to **The Victory Bank** as needed to allow for ongoing growth and improved results.

We are very pleased to note that many of our "new" investors were insiders, board members and existing share holders, and we were also fortunate to receive substantial support in this offering from existing clients and other members of the local community. To all of you who invested, new and old, please accept our sincere appreciation for your support of **Victory Bancorp**.

MORTGAGE BANKING AND REFINANCING STUDENT DEBT

For the first time in 2016 the bank began making residential mortgage loans on a larger scale. Our mortgage operation serves local borrowers and existing clients, providing a full array of mortgage banking services and products, including Jumbo loans, FHA and VA loans, adjustable products (e.g., a so-called 5/1 ARM), and conventional "conforming," 30-year fixed rate mortgages. Our rates are extremely competitive and we believe that our service has been excellent. We make sure we take care of our mortgage clients consistent with ***"The Victory Bank Way!"***

Likewise, we have recently begun offering a highly specialized lending product designed to refinance existing student loan debt to college graduates and holders of advanced degrees and credentials. Many former students are trying to cope with a whole series of student loans created during both undergraduate and graduate studies. These loans often have confusing maturity schedules, differing rates and a series of different payments. Our product can successfully refinance and consolidate these obligations into one more manageable loan at reasonable borrowing rates. This initiative is very early in development at the bank but we expect it to consistently grow.

FINANCIAL RESULTS

We are pleased to report the following consolidated results for Victory Bancorp:

- Total assets grew approximately 13%, from $177 million to just over $200 million, and total loans, net of allowance for losses, grew approximately 12%, from $166 million to $185 million.
- The allowance for loan losses remained stable, increasing slightly from $1,762,000 to $1,865,000 at year-end.
- Non-performing loans declined from $1,072,000 at year-end 2015, to $882,000 at year end, representing approximately .47% of total loans.
- Net interest margin remained strong and stable at 4.35%.
- Deposits grew steadily, from $141 million to $155 million, and the bank maintained an attractive mix of low-cost transaction and savings accounts, along with certificates of deposits.
- Pre-tax earnings increased to $1,420,000, up from $1,337,000 for 2015.
- The bank's core driver of earnings, net interest income, increased approximately $688,000, from $6,830,000 to $7,518,000, based upon solid loan and deposit growth.
- Non-interest income increased from $253,000 in 2015 to $407,000 in 2016. Part of our growth in non-interest income was generated by the sales of mortgage loans into the secondary market.

SUMMARY

The Victory Bank and **Victory Bancorp** had a record year in 2016, with meaningful growth in all important areas. We successfully entered the mortgage banking business, further developed our team of "better bankers," expanded our commercial operations and raised a substantial amount of new capital. We have continued to recruit and develop a team of superior bankers, while generating the highest returns in the company's history.

All of this has been built upon the financial support and capital investments of our shareholders. We are looking forward to further growth and success and thank you for all you have done for the bank so far.

Joe Major,

Bank Leader

"SOME WOULD ARGUE THAT PEOPLE DO NOT MATTER MUCH ANYMORE, BUT FOR SEVERAL REASONS, WE BELIEVE THAT DEVELOPING A SUPERIOR GROUP OF BANKERS IS MORE IMPORTANT THAN EVER, AND THIS STRATEGY HAS BEEN THE BEDROCK OF OUR BANK'S SUCCESS TO DATE"

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

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Victory Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, 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.

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, 2016 and 2015, 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

Philadelphia, Pennsylvania
March 31, 2017

Victory Bancorp Inc

Consolidated Financial Statements

Consolidated Balance Sheets
(in thousands, except share data)

December 31,	**2016**	2015
Assets		
Cash and due from banks	**$ 2,357**	$ 2,684
Federal funds sold	**625**	-
Cash and cash equivalents	**2,982**	2,684
Securities available-for-sale	**3,797**	1,098
Loans receivable, net of allowance for loan losses of $1,865 at December 31, 2016 and $1,762 at December 31, 2015	**185,278**	165,378
Premises and equipment, net	**3,557**	3,657
Restricted investment in bank stocks	**1,188**	1,002
Accrued interest receivable	**512**	451
Other real estate owned	**123**	139
Bank owned life insurance	**1,426**	1,385
Other assets	**1,603**	921
Total Assets	**$ 200,466**	$ 176,715
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	**$ 22,838**	$ 19,735
Interest-bearing	**131,813**	121,636
Total deposits	**154,651**	141,371
Borrowings	**25,750**	19,407
Subordinated debt	**4,924**	4,915
Accrued interest payable and other liabilities	**456**	321
Total Liabilities	**185,781**	166,014
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
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding 1,460,094 and 1,025,464 shares at December 31, 2016 and 2015, respectively	**1,460**	1,025
Surplus	**12,044**	9,221
Accumulated deficit	**(1,438)**	(2,176)
Accumulated other comprehensive income	**3**	15
Total Stockholders' Equity	**14,685**	10,701
Total Liabilities and Stockholders' Equity	**$ 200,466**	$ 176,715

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income
(in thousands)

Years Ended December 31,	**2016**	2015
Interest Income		
Interest and fees on loans	**$ 9,051**	$ 7,990
Interest on investment securities	**70**	82
Other interest income	**5**	3
Total Interest Income	**9,126**	8,075
Interest Expense		
Deposits	**1,060**	1,046
Borrowings	**548**	199
Total Interest Expense	**1,608**	1,245
Net interest income	**7,518**	6,830
Provision for Loan Losses	**484**	272
Net Interest Income After Provision for Loan Losses	**7,034**	6,558
Non-Interest Income		
Service charges and activity fees	**143**	128
Net gains on sales of loans	**141**	31
Other income	**123**	94
Total Non-Interest Income	**407**	253
Non-Interest Expenses		
Salaries and employee benefits	**3,489**	3,079
Occupancy and equipment	**456**	473
Legal and professional fees	**288**	307
Advertising and promotion	**78**	59
Loan expenses	**205**	153
Data processing costs	**691**	689
Supplies, printing and postage	**85**	81
Telephone	**34**	32
Entertainment	**107**	82
Mileage and tolls	**36**	41
Insurance	**80**	77
FDIC insurance premiums	**104**	107
Dues and subscription	**62**	50
Shares tax	**135**	109
Other	**171**	135
Total Non-Interest Expense	**6,021**	5,474
Income before income taxes	**1,420**	1,337
Income Taxes	**(499)**	(323)
Net income	**921**	1,014
Preferred Stock Dividends	**183**	222
Net Income Available to Common Stockholders	**$ 738**	$ 792

See accompanying notes to consolidated financial statements.

Victory Bancorp Inc

Consolidated Statements of Comprehensive Income
(in thousands)

Years Ended December 31,	**2016**	2015
Net Income	**$ 921**	$ 1,014
Other Comprehensive Loss		
Unrealized holding loss arising on securities available-for-sale	**(18)**	(32)
Tax effect	**6**	11
Other comprehensive loss	**(12)**	(21)
Total Comprehensive Income	**$ 909**	$ 993

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, 2015	$ 6,047	$ 1,025	$ 9,221	$ (2,968)	$ 36	$ 13,361
Redemption of preferred stock	(3,431)	-	-	-	-	(3,431)
Net income	-	-	-	1,014	-	1,014
Other comprehensive loss	-	-	-	-	(21)	(21)
Cash dividends on preferred stock	-	-	-	(222)	-	(222)
Balance, December 31, 2015	2,616	1,025	9,221	(2,176)	15	10,701
Issuance of common stock	**-**	**435**	**2,823**	**-**	**-**	**3,258**
Net income	**-**	**-**	**-**	**921**	**-**	**921**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(12)**	**(12)**
Cash dividends on preferred stock	**-**	**-**	**-**	**(183)**	**-**	**(183)**
Balance, December 31, 2016	**$ 2,616**	**$ 1,460**	**$ 12,044**	**$ (1,438)**	**$ 3**	**$ 14,685**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	**2016**	2015
Cash Flows from Operating Activities		
Net income	**$ 921**	$ 1,014
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**484**	272
Depreciation and amortization	**273**	298
Deferred income taxes	**114**	64
Net amortization of investment securities	**1**	3
Earnings on bank owned life insurance	**(41)**	(39)
Net realized gains on sale of loans held for sale	**(141)**	(31)
Origination of loans held for sale	**(1,627)**	(335)
Proceeds from sale of loans held for sale	**1,768**	366
Net writedown/loss (gain) on sale of real estate owned	**16**	(13)
Increase in accrued interest receivable	**(61)**	(21)
(Increase) decrease in other assets	**(790)**	54
Increase in accrued interest payable	**62**	40
Amortization of debt issuance costs	**9**	-
Increase (decrease) in other liabilities	**73**	(435)
Net Cash Provided by Operating Activities	**1,061**	1,237
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Purchases	**(3,048)**	-
Proceeds from maturities, calls and principal pay downs	**330**	425
Net increase in loans	**(20,384)**	(19,547)
Proceeds from the sale of real estate owned	**-**	295
Purchase of restricted investment in bank stocks	**(186)**	(311)
Purchases of premises and equipment	**(173)**	(110)
Net Cash Used in Investing Activities	**(23,461)**	(19,248)
Cash Flows from Financing Activities		
Net increase in deposits	**13,280**	11,445
Net proceeds from issuance of subordinated debt	**-**	4,915
Net proceeds from issuance of common stock	**3,258**	
Redemption of preferred stock	**-**	(3,431)
Cash dividends on preferred stock	**(183)**	(222)
Retirement of long-term borrowing	**(500)**	(3,000)
Net increase in short-term borrowing	**6,843**	9,076
Net Cash Provided by Financing Activities	**22,698**	18,783
Net increase in cash and cash equivalents	**298**	772
Cash and Cash Equivalents, Beginning	**2,684**	1,912
Cash and Cash Equivalents, Ending	**$ 2,982**	$ 2,684
Supplementary Cash Flows Information		
Income taxes paid	**$ 655**	$ 350
Interest paid	**$ 1,546**	$ 1,205
Supplementary Schedule of Noncash Investing and Financing Activities		
Other real estate acquired in settlement of loans	**$ -**	$ 273

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, 2016, the Corporation had 387 common 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 March 31, 2017, the date these consolidated financial statements were available for issuance.

Reclassifications

Certain reclassifications have been made to the 2015 information to conform to the 2016 presentation. The reclassification had no effect on the consolidated statement of income or stockholders' equity.

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, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Montgomery County, Pennsylvania. Note 4 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its borrowers' ability to honor their contracts is influenced by the economy of Montgomery County and the surrounding areas.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, all of which mature within ninety days. Generally, federal funds are sold for one day periods.

Securities

Management determines the appropriate classification of debt investment securities at the time of purchase and re-evaluates such designation as of each balance sheet date. Securities that management has the positive intent and ability to hold until maturity are classified as held-to-maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums, or unaccreted discounts. At December 31, 2016 and 2015, the Corporation had no investment securities classified as held-to-maturity.

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

Management evaluates securities for other-than-temporary impairment on at least an annual basis, and more frequently when economic or market concerns warrant such evaluation. Declines in fair value of debt securities below their cost that are deemed to be other-than-temporary are separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. 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 MSRs on the date of sale. To determine the fair value of mortgage servicing rights (MSRs), the Bank uses market prices for comparable mortgage servicing contracts, when available, or alternatively, uses a valuation model that calculates the present value of estimated future net servicing income. In using this valuation method, the Bank incorporates assumptions that market participants would use in estimating future net servicing income, which includes estimates of the cost to service, the discount rate, custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, default rates, late fees and losses.

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

Serviced loans sold to others are not included in the accompanying consolidated balance 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.

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.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

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

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

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

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

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

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

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements is recorded over the shorter of the estimated useful life or lease term.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost, and consists of $60,000 common stock of the Atlantic Community Bankers Bank (ACBB) at December 31, 2016 and 2015 and Federal Home Loan Bank of Pittsburgh (FHLB) stocks totaling $1,127,900 and $941,500 at December 31, 2016 and 2015, respectively.

Income Taxes

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

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Corporation accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

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

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

In assessing the need for a valuation allowance, the Corporation carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. As a result of continued profitability and taxable income in recent years, the Corporation has concluded that no valuation allowance is required for the deferred tax assets at December 31, 2016.

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, 2016 or 2015.

Federal and state tax returns for the years 2013 through 2015 are open for examination as of December 31, 2016.

Comprehensive Income

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

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 14. 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, 2016 and 2015, expense attributable to the Plan amounted to $99,000 and $61,000, respectively.

Victory Bancorp Inc

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, 2016 and 2015, compensating balances totaled $150,000.

3. Securities Available-for-Sale

The amortized cost and fair value of securities as of December 31, 2016 and 2015 is summarized as follows (in thousands):

December 31, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	**$ 3,792**	**$ 13**	**$ (8)**	**$ 3,797**
	$ 3,792	**$ 13**	**$ (8)**	**$ 3,797**

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

Residential mortgage-backed securities are comprised of FHLMC, FNMA and GNMA pass through certificates at December 31, 2016 and 2015.

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, 2016 and 2015 are as follows (in thousands):

December 31, 2016	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	**$ 2,040**	**$ (6)**	**$ 106**	**$ (2)**	**$ 2,146**	**$ (8)**
Total	**$ 2,040**	**$ (6)**	**$ 106**	**$ (2)**	**$ 2,146**	**$ (8)**

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 were two individual investment securities in an unrealized loss position less than 12 months and one individual investment security in an unrealized loss position 12 months or more as of December 31, 2016. The unrealized loss positions at December 31, 2016 are the result of interest rate changes and do not represent other than temporary impairment of the security.

There was one individual investment security in an unrealized loss position less than 12 months as of December 31, 2015. 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, 2016 and 2015, 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).

	2016		2015	
	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	**3,792**	**3,797**	1,075	1,098
	$ 3,792	**$ 3,797**	$ 1,075	$ 1,098

4. Loans Receivable

The composition of loans receivable at December 31, 2016 and 2015 is as follows (in thousands):

	2016	2015
Commercial term	**$ 21,493**	$ 22,538
Commercial mortgage	**95,373**	79,736
Commercial line	**20,884**	20,051
Construction	**20,326**	18,567
Home equity	**7,516**	7,868
Consumer	**21,710**	18,415
Total loans	**187,302**	167,175
Deferred (fees) costs, net	**(159)**	(35)
Allowance for loan losses	**(1,865)**	(1,762)
Net Loans	**$ 185,278**	$ 165,378

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, 2016 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2016 (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	**$ 186**	**$ 316**	**$ -**	**$ 719**	**$ 589**	**$ 403**	**$ 186**
Commercial mortgage	**634**	**60**	**8**	**101**	**683**	**-**	**683**
Commercial line	**168**	**13**	**-**	**76**	**231**	**38**	**193**
Construction	**146**	**-**	**-**	**21**	**167**	**-**	**167**
Home equity	**57**	**-**	**-**	**(7)**	**50**	**-**	**50**
Consumer	**113**	**-**	**-**	**23**	**136**	**-**	**136**
Unallocated	**458**	**-**	**-**	**(449)**	**9**	**-**	**9**
	$ 1,762	**$ 389**	**$ 8**	**$ 484**	**$ 1,865**	**$ 441**	**$ 1,424**

Notes to Consolidated Financial Statements

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	**$ 21,493**	**$ 607**	**$ 20,886**
Commercial mortgage	**95,373**	**1,900**	**93,473**
Commercial line	**20,884**	**38**	**20,846**
Construction	**20,326**	**-**	**20,326**
Home equity	**7,516**	**-**	**7,516**
Consumer	**21,710**	**-**	**21,710**
	$ 187,302	**$ 2,545**	**$ 184,757**

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

	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

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, 2016 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	**$ 197**	**$ 392**	**$ -**
Commercial mortgage	**1,900**	**2,123**	**-**
Commercial line	**-**	**-**	**-**
With an allowance recorded:			
Commercial term	**$ 410**	**$ 710**	**$ 403**
Commercial mortgage	**-**	**-**	**-**
Commercial line	**38**	**51**	**38**
Total:			
Commercial term	**$ 607**	**$ 1,102**	**$ 403**
Commercial mortgage	**1,900**	**2,123**	**-**
Commercial line	**38**	**51**	**38**

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	**$ 161**	**$ 7**
Commercial mortgage	**852**	**45**
Commercial line	**-**	**-**
With an allowance recorded:		
Commercial term	**$ 285**	**$ 22**
Commercial mortgage	**-**	**-**
Commercial line	**51**	**2**
Total:		
Commercial term	**$ 446**	**$ 29**
Commercial mortgage	**852**	**45**
Commercial line	**51**	**2**

Notes to Consolidated Financial Statements

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	-
With an allowance recorded:			
Commercial term	$ -	$ -	$ -
Commercial mortgage	191	191	59
Commercial line	-	-	-
Total:			
Commercial term	$ 128	$ 308	$ -
Commercial mortgage	979	1,253	59
Commercial line	34	165	-

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

Loans Receivable on Nonaccrual Status

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2016 and 2015 (in thousands):

	2016	2015
Commercial term	**$ 521**	$ 128
Commercial mortgage	**323**	910
Commercial line	**38**	34
	$ 882	$ 1,072

Notes to Consolidated Financial Statements

Interest income recognized on loans on non-accrual status during the years ended December 31, 2016 and 2015 was $26,000 and $18,000, 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 $79,000 and $86,000 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, there are $123,000 and $139,000, respectively, of foreclosed assets. As of December 31, 2016 and 2015, no consumer residential mortgages were foreclosed on or received via a deed in lieu transaction prior to the period end. As of December 31, 2016 and 2015, 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, 2016 and 2015 (in thousands):

December 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	**$ 20,844**	**$ -**	**$ 574**	**$ 75**	**$ 21,493**
Commercial mortgage	**94,866**	**182**	**191**	**134**	**95,373**
Commercial line	**19,949**	**-**	**897**	**38**	**20,884**
Construction	**20,326**	**-**	**-**	**-**	**20,326**
Home equity	**7,516**	**-**	**-**	**-**	**7,516**
Consumer	**21,710**	**-**	**-**	**-**	**21,710**
	$ 185,211	**$ 182**	**$ 1,662**	**$ 247**	**$ 187,302**

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

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, 2016 and 2015 (in thousands):

December 31, 2016	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Commercial term	$ -	$ -	$ 521	$ 521	$ 20,972	$ 21,493	$ -
Commercial	-	-	323	323	95,050	95,373	-
Commercial line	-	-	38	38	20,846	20,884	-
Construction	-	-	-	-	20,326	20,326	-
Home equity	-	-	-	-	7,516	7,516	-
Consumer	-	-	-	-	21,710	21,710	-
	$ -	$ -	$ 882	$ 882	$ 186,420	$ 187,302	$ -

December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Commercial term	$ -	$ -	$ 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	$ -

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.

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There were five performing trouble debt restructurings and one default within twelve months of restructuring during the year ended December 31, 2016. The five performing restructured loans totaled $1.7 million, the largest of which was a $1.4 million commercial mortgage. The commercial mortgage was collateralized by property, currently for sale, appraised at $2.8 million; the borrower requested interest-only payments while the collateral was marketed for sale. The trouble debt restructure which defaulted during the year was a $67,000 term loan to a medical professional for which a reduced payment plan had been effected for six months. The loan subsequently was termed non-accrual due to non-payment. There was one performing trouble debt restructuring and no defaults within twelve months of restructuring during the year ended December 31, 2015. 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, 2016 and 2015, the Bank sold loans held for sale for total proceeds of $1,768,000 and $366,000, respectively. The loan sales resulted in realized gains of $141,000 and $31,000 for the years ended December 31, 2016 and 2015, respectively. There were no SBA loans held for sale at December 31, 2016 and 2015.

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 $8,397,000 and $10,225,000 at December 31, 2016 and 2015, respectively. The following summarizes the activity pertaining to mortgage servicing rights using the amortization method for the years ended December 31, 2016 and 2015 (in thousands):

	2016	2015
Balance, beginning	**$ 169**	$ 219
Additions	**33**	6
Disposals	**(32)**	(28)
Amortization	**(28)**	(28)
Balance, Ending	**$ 142**	$ 169

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2016 and 2015 are as follows (in thousands):

	Estimated Useful Lives	2016	2015
Leasehold improvements	10 - 20 years	$ 958	$ 935
Computer equipment and software	3 - 5 years	948	877
Automobiles	3 years	180	180
Bank unique equipment	5 years	180	207
Furniture, fixtures and equipment	3 - 10 years	295	285
Building	40 years	1,687	1,687
Land		1,200	1,200
		5,448	5,371
Accumulated depreciation		(1,891)	(1,714)
		$ 3,557	$ 3,657

Depreciation and amortization expense charged to operations amounted to $273,000 and $298,000 for the years ended December 31, 2016 and 2015, respectively.

6. Deposits

The components of deposits at December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Demand, non-interest bearing	$ 22,838	$ 19,735
Demand interest bearing	14,864	12,144
Money market accounts	18,687	18,609
Savings accounts	64,565	63,682
Time, $250,000 and over	7,812	5,963
Time, other	25,885	21,238
	$ 154,651	$ 141,371

Included in demand interest bearing are brokered deposits of $641,000 and $-0- at December 31, 2016 and 2015, respectively. Included in money market deposits are brokered deposits of $5,613,000 and $7,033,000 at December 31, 2016 and 2015, respectively.

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At December 31, 2016, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31,	
2017	$ 12,371
2018	10,184
2019	9,208
2020	1,531
2021	346
Thereafter	57
	$ 33,697

Included in time deposits are brokered deposits of $2,277,000 at December 31, 2016 and 2015.

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, 2016 and 2015 were $-0- and $242,000, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). At December 31, 2016, the Bank has a total borrowing capacity with the FHLB of $90 million. FHLB advances at December 31, 2016 totaled $25,750,000, of which $5,665,000 were long term with a weighted-average interest rate of 1.54% maturing through 2019 and $20,085,000 were short-term with a weighted-average interest rate of 0.80%.

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%.

Long-term debt at December 31, 2016 consists of the following FHLB advances (in thousands):

	Amount	Weighted Average Rate
Fixed rate advances maturing:		
2018	$ 3,665	1.39%
2019	2,000	1.82%
	$ 5,665	1.54%

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%
	$ 6,165	1.56%

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 million of subordinated debt, net of offering costs of $86,000. Unamortized offering costs were $76,000 and $85,000 at December 31, 2016 and 2015, respectively. 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 Capital Purchase Program. 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% during the period in 2015 for which the shares of Series F Preferred Stock was outstanding and 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.

On June 1, 2016, the Corporation offered for sale up to 800,000 of its Common Stock at $7.50 per share on a best efforts basis. The offering was conducted pursuant to an exemption from registration under Regulation A of the Securities Act of 1933, as amended. The offering was conditional upon the receipt and acceptance of a minimum of 400,000 shares of Common Stock before the termination date of the offering of December 31, 2016.

On December 21, 2016, the Corporation held an initial closing for 434,630 shares or $3.3 million. The Corporation down-streamed $60,000 to the Bank and maintained the remainder of the proceeds. On February 7, 2017, the Corporation held the final close on the Common Stock offering for 151,774 shares or $1.1 million. Offering costs of $232,000 were netted against the proceeds of the final close and consisted mainly of legal, accounting and marketing expenses.

9. Federal Income Taxes

The components of income tax expense for the years ended December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Current	**$ 385**	$ 259
Deferred	**114**	64
	$ 499	$ 323

The components of the net deferred tax asset at December 31, 2016 and 2015 are as follows (in thousands):

	2016	2015
Deferred tax assets:		
Allowance for loan losses	$ 429	$ 546
Organization and start-up costs	107	125
Nonqualified stock options	21	21
Total tax assets	557	692
Deferred tax liabilities:		
Depreciation	(63)	(58)
Deferred loan costs	(144)	(145)
Servicing asset	(48)	(57)
Unrealized gain on available-for-sale securities	(2)	(8)
Other	(1)	(17)
Total deferred tax liabilities	(258)	(285)
Net Deferred Tax Asset, Included in Other Assets	$ 299	$ 407

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 $3,710,000 and $2,228,000 at December 31, 2016 and 2015, respectively. Loans originated for related parties totaled $1,669,000 and $78,000 and payments received were $187,000 and $678,000 for the years ended December 31, 2016 and 2015, respectively. Deposits of related parties totaled $1,895,000 and $3,453,000 as of December 31, 2016 and 2015, 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, 2016, there were 100,000 warrants outstanding, which expire in 2018.

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

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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, 2016 and 2015. There were no forfeitures in 2016 and 2,678 stock options forfeited in 2015. At December 31, 2016 and 2015, there were 64,640 options outstanding. At December 31, 2016, the weighted average remaining contractual term of stock options outstanding was 2 years with an aggregate intrinsic value of $-0- and at December 31, 2015, the weighted average remaining contractual term of stock options outstanding was 3 years with an aggregate intrinsic value of $-0-.

There were no additional warrants granted during the years ended December 31, 2016 and 2015.

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, 2016 and 2015, no awards were granted.

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, 2016 and 2015 (in thousands):

	2016	2015
Unfunded commitments under lines of credit	**$ 37,308**	$ 28,928
Unfunded commitments under letters of credit	**724**	701

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, 2016.

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, 2016 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, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

The BASEL III rules also establish a "capital conservation buffer" of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital and would result in the following minimum ratios: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. The new capital conservation buffer requirement will be phased in beginning in January 2016 at 0.625% of risk-weighted assets and would increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations would establish a maximum percentage of eligible retained income that could be utilized for such actions.

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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, 2016 and 2015.

The Bank's actual capital amounts and ratios at December 31, 2016 and 2015 are presented below (dollar amounts in thousands):

December 31, 2016	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	**$ 18,397**	**10.1%**	**$ ≥14,594**	**≥8.0%**	**$ ≥15,734**	**≥8.625%**	**$ ≥18,243**	**≥10.0%**
Tier 1 capital (to risk weighted assets)	**$ 16,532**	**9.1%**	**$ ≥10,946**	**≥6.0%**	**≥12,086**	**≥6,625%**	**$ ≥14,594**	**≥ 8.0%**
Common equity Tier 1 capital (to risk-weighted assets)	**$ 16,535**	**9.1%**	**$ ≥ 8,209**	**≥4.5%**	**≥ 9,349**	**≥5.125%**	**$ ≥11,858**	**≥ 6.5%**
Tier 1 capital (to average assets)	**$ 16,532**	**8.4%**	**$ ≥ 7,845**	**≥4.0%**	**≥ 7,845**	**≥4.000%**	**$ ≥ 9,806**	**≥ 5.0%**

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%	≥ 9,950	≥6.0%	≥13,267	≥ 8.0%
Common equity Tier 1 capital (to risk-weighted assets)	15,120	9.1%	≥ 7,463	≥4.5%	≥10,780	≥ 6.5%
Tier 1 capital (to average assets)	15,120	8.7%	≥ 6,950	≥4.0%	≥ 8,687	≥ 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.

Determination of Fair Value

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

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

Fair Value Hierarchy

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

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

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. During the years ended December 31, 2016 and 2015, the Corporation made no transfers between levels.

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, 2016 and 2015 are as follows (in thousands):

December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Residential mortgage-backed securities	**$ 3,797**	**$ -**	**$ 3,797**	**$ -**

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

Residential mortgage backed securities are comprised of FHLMC, FNMA, and GNMA pass through certificates at December 31, 2016 and 2015.

The Corporation's available-for-sale investment securities, which include 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.

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Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2016 and 2015 are summarized below (in thousands):

December 31, 2016	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	**$ 118**	**$ -**	**$ -**	**$ 118**
Other real estate owned	**123**	**-**	**-**	**123**

December 31, 2015	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

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, 2016 and 2015 (dollars in thousands):

December 31, 2016	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	**$ 118**	Appraisal of collateral	Appraisal discounts Liquidation expenses	0% (0)% 10 %
Other real estate owned	**123**	Appraisal of collateral	Appraisal discounts Liquidation expenses	0-5% (3)% 10 %

December 31, 2015	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 953	Appraisal of collateral	Appraisal discounts Liquidation expenses	0-5% (3)% 10 %

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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, 2016 and 2015:

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.

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, 2016 and 2015 and, therefore, not disclosed.

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The fair values, and related carrying amounts, of the Corporation's financial instruments were as follows at December 31, 2016 and 2015 (in thousands):

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**$ 2,982**	**$ 2,982**	$ 2,684	$ 2,684
Securities available-for-sale	**3,797**	**3,797**	1,098	1,098
Restricted investments in bank stocks	**1,188**	**1,188**	1,002	1,002
Loans, net	**185,278**	**185,155**	165,378	164,993
Mortgage servicing asset	**142**	**142**	169	169
Accrued interest receivable	**512**	**512**	451	451
Liabilities				
Deposits	**154,651**	**133,117**	141,371	140,930
Short term borrowings	**20,085**	**20,085**	13,242	13,242
Long-term debt	**5,665**	**5,641**	6,165	6,050
Subordinated debt	**4,924**	**4,924**	4,915	4,915
Accrued interest payable	**145**	**145**	83	83
Off Balance Sheet Asset (Liability)				
Commitments to extend credit	**-**	**-**	-	-
Standby letters of credit	**-**	**-**	-	-

Notes

Notes

Shelly Stockmal – *Victory Community Leader*

Shelly Stockmal is our Victory Community Leader. What does that mean? This means Shelly handles things typically associated with Human Resources responsibilities and more. She embodies the culture and values of our bank, which has a serious commitment to employing a superior workforce, which we consider to be a "community". Shelly works hard to make sure we have the best employees. She ensures that we offer great benefits and training programs so our employees feel valued and supported.

Shelly also handles special projects for the bank and is willing to pitch in when help is needed in any area. She is known for her positive attitude and strong work ethic. She has nearly 30 years of banking experience and is an important part of our leadership team.

Shelly is also the Treasurer to the Board of the Greater Pottstown Society for Human Resources Management (SHRM). Greater Pottstown SHRM holds monthly meetings focused on educating local professionals involved in the field of Human Resources.

Shelly's community involvement also includes over 10 years of being a Girl Scout Leader and was honored with the Volunteer of the Year Award in 2016 by the Manatawny Service Unit in Pottstown. She serves as the Event Director of the Girl Scout Manatawny Service Unit and enjoys planning events for over 200 girls on a regular basis. Girl Scouts is the premier leadership program for girls in the world and allows her to further her passion of helping everyone develop their best abilities. She can often be seen in the community with her girls and is very proud of every one of them.

She also serves as an Extraordinary Minister of Holy Communion and Finance Council member at Saint Gabriel's Roman Catholic Church is Stowe.

Robert Schultz – *Chief Financial Officer*

Robert Schultz, CPA, obtained an accounting degree at the University of Delaware. He worked for 5 years in the public accounting field with Ernst & Young serving clients in retail, manufacturing and financial services. He began his career in banking with Founders' Bank in Bryn Mawr. He then moved on to help found Allegiance Bank, a de novo institution. In 2007 after 17 years at these two community Banks he helped Joe Major, Rich Graver and the Board of Directors found The Victory Bank. At Victory his work responsibilities have included accounting, compliance, human resources and information technology, as well as being the corporate secretary.

At the University of Delaware Mr. Schultz enjoyed playing collegiate soccer and rugby. He is married with two children in college. While not at work he volunteers with his church, enjoys watching his son play lacrosse and paddle boarding with his wife and daughter. The family's passion is working with Habitat for Humanity and other mountain housing ministries in North Carolina where they have spent a week each year for most of the past 22 years.

Saul Rivkin – *Director of Institutional Relationships*

Saul Rivkin's primary role at The Victory Bank is to develop and maintain strong, mutually beneficial relationships with institutional depositors such as: municipalities, school districts, hospitals, etc. Since beginning at the bank in 2007, he has consistently demonstrated that what he values most is ensuring that every client experience is nothing short of exceptional. Saul values every client relationship and takes personal responsibility to go beyond meeting expectations. His eighteen-year track record in the financial industry has produced many loyal clients and won him numerous banking awards.

Saul is a continuous learner and is known as the "go to person" when fellow employees or clients have a problem that needs to be solved. Saul is a graduate of the PA Bankers Advanced School of Banking where he earned honors, and a graduate of the American Bankers Association Stonier Graduate School of Banking where he earned a graduate degree and a Wharton Leadership Certificate.

Following his passion with automobiles, Saul enjoys collecting, working on, racing, and showing his cars. If you are quick enough, you can catch Saul racing his Audi S4 at various tracks on the East Coast, attending a "Cars & Coffee" event on a Saturday morning in West Chester, or attending many shows in one (or more) of his cars. He is currently an active volunteer with the Audi Club of North America Mid-Atlantic Chapter, a charter board member of *the Merkur Club of America and a board member of the Boyertown Museum of Historic Vehicles.*

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.

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

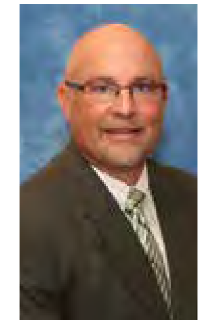
Joanne M. Judge, Esq.
CPA
Stevens & Lee

Joseph W. Major
Chairman of the Board / Bank Leader
The Victory Bank

Mary Beth Touey
Controller
Women's Health Care
Group of PA

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

Richard Graver – *Chief Lending & Delivery Officer*



Rich was born and raised in Boyertown. He now resides in Chester Springs with his wife, Holly. He has 2 adult children and one granddaughter.

He is active in the Tri County Chamber of Commerce and The PaBankers Association. In his spare time, he loves to play golf and read. He is a devout Philadelphia Eagles fan. He also enjoys boating and spends a lot of weekends at the Delaware shore.

Eric Offner – *Chief Credit Officer*

Eric has been married to the love of his life for 37 years. He also has five children who have provided many great adventures along the way. Two grandchildren means visits to the zoo, museums and many other activities all over again.

Enjoys reading fiction, classic movies of the '30s and '40s, traveling and constantly trying to play better golf.

Our Team

COMMERCIAL TEAM

Richard Graver, President – The Victory Bancorp/ Chief Lending & Delivery Officer – The Victory Bank

Joseph Giunta, Business Development

Kimberly Grohosky, Relationship Assistant II

Alexander Kroll, Senior Commercial Relationship Manager, SVP

Lisa Lightcap, Commercial Relationship Manager, VP

Benjamin Major, Commercial Relationship Manager, Bank Officer

Danielle Millar, Relationship Assistant II

Vince Raffeo, Business Development

Mary Ann Riggins, Business Development

Michael Senico, Commercial Relationship Manager, VP

Jon Swearer, Senior Commercial Relationship Manager, SVP

Leslie Unger, Lead Relationship Assistant

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

INSTITUTIONAL DEPOSITS

Saul Rivkin, Director of Institutional Relationships, SVP Director of Marketing and Product Development

OPERATIONS TEAM

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

Denise Bowie, Loan Documentation Clerk/Loan Administration

Christine Carlozzi, Staff Accountant

Donna Colella, Retail Operations Manager, AVP

Pamela Havrilla, Loan Administration Manager, AVP

Mary Locricchio, Deposit Operations Specialist

Jodi Moore, Loan Operations Specialist

Danae Soley, Loan Documentation Specialist

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

RETAIL TEAM

Jennifer Gilbert, Retail Team Leader, AVP

Alice Deviney, Banking Support Representative

Kaitlin Doyle, Personal Banker

Stephanie Frederick, Personal Banker

Diana Liriano, Branch Manager

Warren Major, Business Development/Electronic Banking Specialist

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

Brian Meyer, Senior Credit Analyst, VP

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

Keith Chesler, Commercial Relationship Manager, VP

Dana Perrott, Relationship Assistant II