2019 ANNUAL REPORT

HELPING HANDS

VICTORY BANCORP

THE VICTORY BANK STATEMENT OF PURPOSE

"We exist to help our clients fulfill their visions and dreams"

Our Values

Extraordinary Personal Service

- We deliver professional financial advice and good value in a convenient and highly responsive manner. Every contact is an opportunity to help our clients feel important and satisfied.

Respect for All, Teamwork and a Great Working Environment

- We believe that happiness and job satisfaction are integral parts of business success. We strive to make The Victory Bank ***the*** employer of choice for an exclusive team of professionals who joyfully seek purpose in their work and are fully engaged in the pursuit of excellence.
- We conduct ourselves with respect and tolerance for all, regardless of age, disability, gender, race, sexual preference, economic status, religion or political views.
- 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.
- We willingly accept the responsibilities of leadership. We consistently model and teach our core values, and gauge our effectiveness through the positive changes that we create.

Candor, Credibility and Integrity

- We communicate openly, honestly and directly, regardless of title or position. We do not pollute our work environment with gossip and negativity.
- Our decisions and actions consider the long-term best interests of our clients, team members, communities and shareholders.
- We deliver what we promise.
- We do what is ethically right. Business relationships must provide good value to our clients, and be fair and profitable to the Bank.
- Our values stand the challenges of business, and the tests of time. We do not compromise our values for personal or corporate gain.

Accountability and Efficiency

- We hold ourselves accountable to do our jobs well, and are relentlessly committed to excellence.
- We plan our work, set clear goals, and think systematically about the long-term implications of our decisions.
- We operate efficiently and without waste.

Innovation, Adaptation and Learning

- We are stewards of our team's collective talents and capabilities, committed to helping all team members reach their ultimate potential.
- We must always be in a state of growth, adapting to an evolving world through the improvement of our knowledge, processes and systems. 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.

"Perfection is our inspiration"

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"EXCEPTIONAL CLIENT EXPERIENCE"

FROM THE CHAIRMAN

Dear Shareholder,

Such a greeting, "Dear Shareholder," while technically accurate, is a remarkably inadequate way to greet the shareholders of Victory Bancorp. With so many of our shareholders also being our friends, clients, local professionals, and community leaders, it seems rather sterile and incomplete to ignore those contributions to the bank's success as we greet you in this annual report.

Victory Bancorp is a bank holding company that derives most of its results as the sole shareholder of The Victory Bank, a Pennsylvania chartered commercial bank. We appreciate your interest in our company and for taking a few minutes to review this annual report, which provides a summary of 2019 operations and results. Please note that this report is being published somewhat later in the year than in the past. The COVID-19 viral pandemic has disrupted the work of our auditors and tax accountants, and the work of companies that function as stock transfer agents for corporations of all types, including the one used by Victory Bancorp. As a result, the annual meeting for Victory Bancorp, normally held in May, has been delayed to July 21st of 2020, and production of this annual report and our proxy statement for the shareholder vote at the annual meeting have been likewise delayed.

Summary

In summary, in most areas, 2019 was simply the best year in Victory Bancorp's operating history. The company generated significant growth in loans, deposits, and earnings, while at the same time maintaining excellent credit quality. During 2019, the bank also made substantial contributions to our local communities in the form of donations, and provided over 2,300 hours of community service.

Strategy and Results

Throughout 2019, the bank remained true to its core strategy, serving as a highly personalized niche lender to businesses, professional practices, and families located primarily in Montgomery, Berks and Chester counties.

This is a growing market with a collective population of approximately 1.8 million people, offering excellent market demographics. Unemployment was low and continued to decline throughout the year, wages increased, real estate activities, both commercial and residential, were quite active, and, in general, the communities served by the bank appeared to be prosperous and economically diverse.

The bank continued to build its market presence throughout the year by delivering first-class banking services, primarily by attracting, training and retaining a markedly superior workforce coupled with the judicious use of modern technology. Since opening, The Victory Bank has focused on delivering ***an exceptional client experience*** to every customer and prospect. Loan and deposit pricing is fair to both the clients and to the bank without an overreliance on fees or "add on" charges.

Throughout the year, the bank also invested considerable time and resources into doing things faster, a proactive initiative we call," Speed Matters," with the goal of streamlining and improving the speed and efficiency of account opening, loan approvals and other essential bank functions.

Assets, Loans, Deposits and Earnings

During 2019, total assets of the Bancorp grew from $252 million to $279 million. About 87% of the bank's loans on the balance sheet were commercial loans and the remaining loans were consumer loans, basically unchanged from 2018 on a percentage basis. Net of allowance for losses, total loans grew from $228 million to $243 million and the bank processed and closed approximately $88 million in loans for the year.

The allowance for loan losses increased from $2.096 million at year-end 2018 to $2.213 million at year-end 2019, while the bank's overall credit metrics improved year-to-year. Nonperforming assets declined from $510,000 at year-end 2018 to $298,000 at year-end 2019, and non-accruing loans declined from $417,000 at year-end 2018 to $160,000 at year-end 2019.

Deposits grew from $224 million at year-end 2018 to $248 million at year-end 2019, with time deposits representing approximately 15% of total deposits, and the remainder consisting of consumer, commercial and municipal deposits. Non-interest bearing demand deposits represented approximately 19% of total deposits. To supplement bank funding and provide for liquidity, the bank maintains borrowing lines through the Federal Home Loan Bank system and Atlantic Community Bankers Bank. Total unsecured borrowings decreased from $4.28 million at year-end 2018 to $3.0 million at year-end 2019. Victory Bancorp also issued $3.0 million of 10-year term, subordinated debt in March of 2019, and held a total of $7.927 million of subordinated debt on the balance sheet at year-end. This debt has been issued from time to time in support of general corporate purposes, and has been "down-streamed" to the bank to support the bank's capital ratios as the bank has continued to grow, and also used to support the payment of the coupon on the debt and cash dividends to shareholders.

The bank's largest source of revenue is the interest income received on its loan and investment portfolios, showing steady growth consistent with year-to-year overall balance sheet growth. Interest income increased from $12.396 million in 2018 to $14.354 million in 2019. Net of interest expense, interest income grew from $9.706 million in 2018 to $10.739 million in 2019. In addition, the bank generated income by charging modest fees and by selling certain loans into the secondary markets including mortgage loans and loans guaranteed by the Small Business Administration. For 2019, total non-interest income increased from $415,000 in 2018 to $541,000 in 2019.

Non-interest expenses were controlled and precisely on budget, increasing from $7.392 million in 2018 to $8.111 million in 2019. Pretax income increased from $2.436 million in 2018 to $2.745 million in 2019. Net income available to common stockholders increased from $1.90 million to $2.127 million in 2019, an increase of 12 percent, and earnings per common share increased from $.97 per share to $1.09 per share for 2019, and to $1.06 fully diluted. At year-end 2019, the total number of Victory Bancorp common shares outstanding was 1,950,077 shares. Total stockholder's equity increased from $17.620 million at December 31, 2018 to $19.778 million at December 31, 2019, and as a result, book value per share increased from $9.04 per share to $10.14 per share at year-end 2019.

2019 year-end capital ratios for The Victory Bank were:

Total capital to risk weighted assets of 11.3%
Tier 1 capital to risk weighted assets of 10.4%
Common stock Tier 1 capital to risk weighted assets of 10.4%
Tier 1 capital to average assets of 9.6%

As a result of continued growth and improved earnings, Victory Bancorp declared and paid a total of $194 thousand in cash dividends to its common shareholders in 2019.

Helping Hands

When people consider banking with The Victory Bank, we want them to know that we believe it is our mission to help them reach their goals, and accomplish the things they want to accomplish.

This year's annual report features photographs reflective of that community-based philosophy. You will see friends and neighbors, local businesspeople, and members of our banking team, all of whom are some way involved in building valuable enterprises in our local community, both for profit and non-profit.

At The Victory Bank, local deposit dollars are gathered from businesses and local people and virtually 100% of these dollars are lent directly back into our local communities. I believe it is impossible to overstate the critical importance of having local banks headquartered in your community that are available to supply much-needed credit and solve financial problems. This approach is far different from a large national or international institution, or from the many non-banks that are promoting "bank-like" services on the internet, and *never has this been more evident than the past few weeks.*

And unlike credit unions, our bank pays our fair share of federal income taxes and a state "capital shares taxes" in support of our communities. Please remember that our Board of Directors, and almost all of our investors, who invested the equity needed to create the bank (and see it through its early days!), are people who live and work in your local communities. Having local investors and a local Board of Directors with a vested interest to see that the bank succeeds makes our bank unique in our communities and is a huge differentiator from regional and national banks.

And lastly, please remember that the bank makes substantial direct contributions to many local charitable endeavors and our team literally volunteers thousands of hours of time in support of this critical work. It is often our own hands that are helping others.

"But what is happening right now, in light of a national pandemic and the economic disruption of 2020?"

As we write this letter in late-May 2020, the excellent results of the bank's 2019 operations seem like a story from the distant past.

Of course, the basic purpose of the 2019 annual report and the upcoming annual shareholder meeting is to report to our shareholders about our 2019 results, and to elect directors and approve our auditors, but the profundity of recent events calls us to discuss in this letter some of the many changes that have taken place during this unprecedented and unpredictable year of 2020.

There is no doubt that banking is an essential industry. In simple terms, money is nothing other than stored value, a means of providing a safe and convenient payment system for people around the world, and to preserve and transfer the fruits of society's collective education, work, and productivity. As an intermediary between human productivity and human need, and as a place to store value, banking serves an absolutely essential function in civilization. Without a functioning financial and banking system, it is no exaggeration to suggest that society would be facing anarchy. This means that while many businesses serving Pennsylvania were ordered closed this spring, banking has been operating at full and even expanded capacity.

The banking industry is known for operating under mountains of policies and procedures, and like all banks, The Victory Bank has maintained a "pandemic flu" policy since its early days of operations. We have also built and tested electronic banking capabilities and remote working arrangements for many years. As matters began to deteriorate quickly in early March, the bank relied on these years of preparatory work, and in approximately 3 days had successfully arranged for three quarters of its workforce to be working safely and securely from remote locations, mostly from their homes. Fully describing the scope of these efforts is far beyond the confines of this letter, but please understand that it included thousands of items and hundreds of decisions, and the concerted and cooperative efforts every member of our team to make it happen.

Operating an essential retail business like a bank branch includes all of those challenges and many more, including sanitation, masks and staggered work schedules for our dedicated retail bankers. Fortunately, when we built our retail banking facility we invested in high-quality, drive-through facilities, which we had upgraded only a few months earlier. The bank has long provided extensive online banking services for its customers; in fact, prior to the COVID-19 outbreak, over 70% of all the bank's deposits were processed electronically, and have been for years. By prior appointment, our clients have been permitted to enter our retail facility for loan closings and for other in-person necessities, and while these arrangements have been less than perfect and a few people have been understandably frustrated about it, overall this approach seems to be working quite well. We have opened hundreds of new accounts using a combination of the drive-through, our on-line services and a really old-fashioned technology called a telephone!

And speaking of the telephone, many of you know that we don't allow voicemail in The Victory Bank. When the telephone rings at our bank during normal business hours, a human being always answers that phone and tries to solve the customer's problem on the spot. Having most of our people working from home has made this a challenging task at times, but we have stuck to our approach and served our clients as personally as we can.

And yes, the bank has continued to make consumer and commercial loans and to underwrite each one individually, as has been our past practice. In the face of catastrophically altered business conditions and general shut-downs, many of our existing business customers have also sought and received temporary assistance from the bank in the form of modified or suspended payment terms and conditions.

In addition and of no less importance, to benefit our communities and our clients, the bank made a strategic decision to dive "head first," into the Small Business Administration's Paycheck Protection Program lending plan ("PPP"). These plans were created in a hurry by Congress, and since creation, the United States Department of Treasury and the SBA have been forced to create the particulars of the program "on the fly". Sparing the details, The Victory Bank has approved an astonishing 560 loans under the PPP program, totaling approximately $61 million, in less than four weeks. We have done this with 75% of our workforce operating remotely, and please note that the bank would typically underwrite and close about 500 loans in an entire year, so it is fair to describe this as a monumental accomplishment. These funds have gone to our existing customers and also to many other businesses located in our local markets. Note that at least 75% of the dollars funded to these customers must be used for maintaining payroll, i.e., keeping people employed, to qualify for forgiveness under the SBA's rules.

It is our fervent hope and belief that these loans will help many small businesses and professional practices in our local community not only keep much of their workforce intact but also to ensure their very survival, which is critical to the long-term future of our communities. And while the bank's credit metrics have remained stable so far, our estimates regarding loan quality in the future suggest a notably more challenging operating environment, and in response, the bank has begun to substantially increase its allowances for loan losses.

Our work on the PPP loans is far from complete. A documentation and loan forgiveness process has been announced by the SBA, and we will undoubtedly be deeply involved in helping our clients comply with these requirements. Despite the unprecedented disruption and chaos surrounding us, we will also continue making conventional and SBA loans as part of the essential operations of a community-based bank. That's why this bank exists - to provide essential services to our local communities and help create stability and prosperity for all, while generating an excellent rate of return for our investors.

Thanks to Our Shareholders and Our Team

None of this could have been accomplished without the support of our clients and our dedicated team of bankers. Our goal is to ensure that every position in the company is filled with good bankers who, more importantly, are good and trustworthy human beings. We believe in, and every day remind our team, about the core values of honesty, fairness, and teamwork.

We focus a tremendous amount of time and resources on building our team of bankers, offering competitive compensation, benefits and personal flexibility, and we continue to invest heavily in training for every banker who is a part of our team. We try to fill every position with people who are smart and dedicated, and for whom the intrinsic reward of doing a job well brings them great satisfaction. Our goal is to keep our staff turnover as low as possible so that our clients are dealing with someone they are proud to know and trust.

Lastly, without your support as investors and as customers, we simply could not have made it this far, nor would we be able to look forward to even greater accomplishments on your behalf in the future. Please accept our sincere offer of thanks for all that you have done for this company and for your communities.

Best Regards,

Joe Major
Bank Leader

The Victory Bank is proud to have been able to approve over $61 million in loans to help over 500 businesses through the Small Business Administration's (SBA) Paycheck Protection Program (PPP).

Thousands of jobs were retained due to these efforts.

Being able to retain employees is crucial for a successful business. These loans have provided funds for businesses to keep employees as well as use a portion for rent and utilities during mandated closures.

Being a small business means having very few owners, or just one. When economic downturns occur, it's the owner who struggles to maintain cash-flow, meet payroll, and keep operations running. Without the funds provided from the Paycheck Protection Program, many owners would have faced laying off their employees, or perhaps closing their doors permanently. This, in turn, allows businesses to keep their head above water, so to speak, with the necessary capital to remain in business. Now, the company's employees remain stable with an income and thus are able to support communities through paying taxes and general consumer buying.

I certainly appreciate the professionalism you carried out in your duties.
Lois Trench-Hines, Chief Executive Officer

Thank you for servicing my PPP loans. The fact that I was not an existing customer, and yet I got my loans in the first wave of funding is very much appreciated. I'm so glad that I called Victory!
Rich Krumrine, Founder / Vice President

The PPP funding we received will allow us to continue to pay our employees. The Victory Bank exhibited true professionalism expediting this loan.
Mindy & Thad Fortin, & Rich Miller

Jon Swearer did a great job for our family business and helped one of my clients get a PPP loan. My client was absolutely thrilled.
Craig A. Styer, Esq.

One of your values mentions striving to be the employer of choice for an exclusive team of professionals. You have accomplished that with Jon. I hope to have a long relationship with him and Victory. In conclusion, Nick and I, our employees, our vendors and our clients thank the entire Victory Bank organization.
Dane Moyer

I just wanted to personally thank you on behalf of The Gambone Group for the outstanding job that Rich, Ben and your administrative team did on processing our PPP Loan. We feel very fortunate to have received our funding primarily due to the constant communication and diligent follow up of Ben and your team.
Joseph R. Gambone Jr., President

My experience dealing with Victory Bank helping one of my client's get the PPP Loan was EXCELLENT! Thank you for always making customer service your #1 priority! And thank you Jon Swearer for your assistance!
Audrey Faust, MBA

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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 (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years ended December 31, 2019 and 2018, 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 audits 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, 2019 and 2018, and the results of their operations and their cash flows for the years ended December 31, 2019 and 2018 in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

May 8, 2020

Consolidated Financial Statements

The Victory Bancorp, Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

December 31,	2019	2018
Assets		
Cash and due from banks	$ 7,367	$ 5,914
Federal funds sold	10,803	212
Cash and cash equivalents	18,170	6,126
Securities available-for-sale	11,084	9,696
Loans receivable, net of allowance for loan losses of $2,213 at December 31, 2019 and $2,096 at December 31, 2018	243,131	228,261
Premises and equipment, net	3,298	3,388
Restricted investment in bank stocks	474	715
Accrued interest receivable	716	811
Other real estate owned	-	93
Bank owned life insurance	1,548	1,507
Other assets	872	1,135
Total Assets	$ 279,293	$ 251,732
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	$ 48,060	$ 38,841
Interest-bearing	199,734	184,938
Total deposits	247,794	223,779
Borrowings	3,000	4,280
Subordinated debt	7,927	4,941
Accrued interest payable and other liabilities	794	1,112
Total Liabilities	259,515	234,112
Stockholders' Equity		
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding 1,950,077 shares at December 31, 2019 and 2018	1,950	1,950
Surplus	14,212	14,158
Retained earnings	3,480	1,547
Accumulated other comprehensive income (loss)	136	(35)
Total Stockholders' Equity	19,778	17,620
Total Liabilities and Stockholders' Equity	$ 279,293	$ 251,732

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Income

(in thousands, except share and per share data)

Years Ended December 31,	2019	2018
Interest Income		
Interest and fees on loans	$ 13,949	$ 12,111
Interest on investment securities	299	216
Other interest income	106	69
Total Interest Income	14,354	12,396
Interest Expense		
Deposits	2,984	2,073
Borrowings	631	617
Total Interest Expense	3,615	2,690
Net interest income	10,739	9,706
Provision for Loan Losses	424	293
Net Interest Income After Provision for Loan Losses	10,315	9,413
Non-Interest Income		
Service charges and activity fees	242	191
Net gains on sales of loans	-	108
Other income	299	116
Total Non-Interest Income	541	415
Non-Interest Expenses		
Salaries and employee benefits	4,955	4,502
Occupancy and equipment	496	479
Legal and professional fees	403	427
Advertising and promotion	108	85
Loan expenses	149	115
Data processing costs	1,012	868
Supplies, printing and postage	128	110
Telephone	32	34
Entertainment	121	131
Mileage and tolls	36	34
Insurance	39	35
FDIC insurance premiums	94	123
Dues and subscription	72	67
Shares tax	209	187
Other	257	195
Total Non-Interest Expense	8,111	7,392
Income before income taxes	2,745	2,436
Income Taxes	(618)	(536)
Net Income Available to Common Stockholders	$ 2,127	$ 1,900
Basic earnings per common share	$ 1.09	$ 0.97
Diluted earnings per common share	$ 1.06	$ 0.97
Weighted Average Common Shares Outstanding:		
Basic	1,950,077	1,950,077
Diluted	2,010,077	1,950,077

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Comprehensive Income
(in thousands)

Years Ended December 31,		**2019**		2018
Net Income	**$**	**2,127**	$	1,900
Other Comprehensive Gain				
Unrealized holding gain arising on securities available-for-sale		**219**		-
Tax effect		**(48)**		-
Other comprehensive gain		**171**		-
Total Comprehensive Income	**$**	**2,298**	$	1,900

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Stockholders' Equity
(in thousands, except per share data)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance, January 1, 2018	$ 1,950	$ 14,158	$ (197)	$ (35)	$ 15,876
Net income			1,900		1,900
Cash dividends on common stock at $0.08 per share			(156)		(156)
Balance, December 31, 2018	1,950	14,158	1,547	(35)	17,620
Net income			2,127		2,127
Other comprehensive income				171	171
Share-based compensation		54			54
Cash dividends on common stock at $0.10 per share			(194)		(194)
Balance, December 31, 2019	$ 1,950	$ 14,212	$ 3,480	$ 136	$ 19,778

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,	**2019**	2018
Cash Flows from Operating Activities		
Net income	**$ 2,127**	$ 1,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**424**	293
Depreciation and amortization	**261**	259
Share-based compensation	**54**	-
Deferred income taxes	**85**	(76)
Net amortization of investment securities	**(14)**	2
Earnings on bank owned life insurance	**(41)**	(41)
Net realized gains on sale of loans held for sale	**-**	(108)
Origination of loans held for sale	**-**	(1,825)
Proceeds from sale of loans held for sale	**-**	1,933
Net write down/loss on sale of real estate owned	**33**	6
Amortization of debt issuance costs	**11**	8
(Decrease)/increase in accrued interest receivable	**95**	(164)
Decrease/(increase) in other assets	**130**	(176)
(Decrease)/increase in accrued interest payable	**(16)**	14
(Decrease)/increase in other liabilities	**(302)**	334
Net Cash Provided by Operating Activities	**2,847**	2,359
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Purchases	**(3,078)**	(4,878)
Proceeds from maturities, calls and principal pay downs	**1,923**	1,142
Net increase in loans	**(15,294)**	(24,348)
Proceeds from the sale of real estate owned	**60**	-
Sale/(purchase) of restricted investment in bank stocks	**241**	(9)
Purchases of premises and equipment	**(171)**	(165)
Net Cash Used in Investing Activities	**(16,319)**	(28,258)
Cash Flows from Financing Activities		
Net increase in deposits	**24,015**	34,585
Net proceeds from issuance of subordinated debt	**2,975**	-
Cash dividends on common stock	**(194)**	(156)
Advances/(Repayments) of long-term borrowing	**1,000**	(3,665)
Net (decrease) in short-term borrowing	**(2,280)**	(2,015)
Net Cash Provided by Financing Activities	**25,516**	28,749
Net increase in cash and cash equivalents	**12,044**	2,850
Cash and Cash Equivalents, Beginning	**6,126**	3,276
Cash and Cash Equivalents, Ending	**$ 18,170**	$ 6,126
Supplementary Cash Flows Information		
Income taxes paid	**$ 736**	$ 430
Interest paid	**$ 3,631**	$ 2,676

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

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, 2019, the Corporation had 375 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.

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.

The Victory Bancorp, Inc.

Notes to Consolidated Financial Statements

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, 2019 and 2018, 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 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.

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Notes to Consolidated Financial Statements

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 (MSRs) 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, 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.

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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.

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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 and general 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.

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

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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, 2019 and 2018 and Federal Home Loan Bank of Pittsburgh (FHLB) stock totaling $414,000 and $655,000 at December 31, 2019 and 2018, respectively.

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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.

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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, 2019.

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, 2019 or 2018.

Federal and state tax returns for the years 2016 through 2018 are open for examination as of December 31, 2019.

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, 2019 and 2018, expense attributable to the Plan amounted to $138,000 and $124,000, respectively.

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Share-Based Compensation

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

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the fair value of the Corporation's common stock at the date of grant is used for restricted stock awards.

Earnings per Share

Basic earnings per share ("EPS") represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes all potentially dilutive common shares outstanding during the period. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method.

The following table sets forth the composition of basic and diluted earnings per share.

Years Ended December 31,	**2019**	2018
	(In thousands, except for share and per share data)	
Basic EPS		
Net income available to common stockholders	**$ 2,127**	$ 1,900
Basic weighted average shares outstanding	**1,950,077**	1,950,077
Plus: effect of dilutive options	**60,000**	-
Diluted weighted average common shares	**2,010,077**	1,950,077
Earnings per share:		
Basic	**$ 1.09**	$ 0.97
Diluted	**$ 1.06**	$ 0.97

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, 2019 and 2018, compensating balances totaled $150,000, included in cash and due from banks.

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3. Securities Available-for-Sale

The amortized cost and fair value of securities as of December 31, 2019 and 2018 is summarized as follows (in thousands):

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	**$ 10,909**	**$ 178**	**$ (3)**	**$ 11,084**
	$ 10,909	**$ 178**	**$ (3)**	**$ 11,084**

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed securities	$ 9,740	$ 55	$ (99)	$ 9,696
	$ 9,740	$ 55	$ (99)	$ 9,696

Residential mortgage-backed securities are comprised of FHLMC, FNMA and GNMA pass through certificates at December 31, 2019 and 2018.

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, 2019 and 2018 are as follows (in thousands):

December 31, 2019	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	**$ 1,529**	**$ (3)**	**$ -**	**$ -**	**$ 1,529**	**$ (3)**
Total	**$ 1,529**	**$ (3)**	**$ -**	**$ -**	**$ 1,529**	**$ (3)**

December 31, 2018	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	$ 885	$ (13)	$ 3,724	$ (86)	$ 4,609	$ (99)
Total	$ 885	$ (13)	$ 3,724	$ (86)	$ 4,609	$ (99)

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There was one individual investment security in an unrealized loss position less than 12 months as of December 31, 2019. The unrealized loss position at December 31, 2019 is the result of interest rate changes and does not represent other than temporary impairment of the security.

There were two individual investment securities in an unrealized loss position less than 12 months and five individual investment securities in an unrealized loss position 12 months or more as of December 31, 2018. The unrealized loss positions at December 31, 2018 are 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, 2019 and 2018, 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):

	2019		2018	
	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	**10,909**	**11,084**	9,740	9,696
	$ 10,909	**$ 11,084**	$ 9,740	$ 9,696

4. Loans Receivable

The composition of loans receivable at December 31, 2019 and 2018 is as follows (in thousands):

	2019	2018
Commercial term	**$ 23,549**	$ 20,959
Commercial mortgage	**123,745**	119,410
Commercial line	**24,504**	26,330
Construction	**42,166**	33,588
Home equity	**8,019**	4,534
Consumer	**23,657**	25,817
Total loans	**245,640**	230,638
Deferred (fees) cost, net	**(296)**	(281)
Allowance for loan losses	**(2,213)**	(2,096)
Net Loans	**$ 243,131**	$ 228,261

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Notes to Consolidated Financial Statements

Allowance for Loan Losses and Recorded Investment in Loans Receivable

The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2019 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2019 (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	$ 381	$ 179	$ -	$ 25	$ 227	$ -	$ 227
Commercial mortgage	865	2	4	22	889	-	889
Commercial line	272	-	-	(38)	234	-	234
Construction	287	-	-	156	443	92	351
Home equity	34	-	-	119	153	-	153
Consumer	257	130	-	140	267	-	267
	$ 2,096	$ 311	$ 4	$ 424	$ 2,213	$ 92	$ 2,121

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 23,549	$ 122	$ 23,427
Commercial mortgage	123,745	71	123,674
Commercial line	24,504	-	24,504
Construction	42,166	92	42,074
Home equity	8,019	-	8,019
Consumer	23,657	-	23,657
	$ 245,640	$ 285	$ 245,355

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The following tables summarize the activity in the allowance for loan losses by loan class for the year ended December 31, 2018 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2018 (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	$ 308	$ 7	$ 25	$ 55	$ 381	$ 164	$ 217
Commercial mortgage	783	96	89	89	865	-	865
Commercial line	286	-	5	(19)	272	-	272
Construction	198	-	-	89	287	-	287
Home equity	40	-	-	(6)	34	-	34
Consumer	192	20	-	85	257	72	185
Unallocated	-	-	-	-	-	-	-
		-					
	$ 1,807	$ 123	$ 119	$ 293	$ 2,096	$ 236	$ 1,860

	Loans Receivables		
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Commercial term	$ 20,959	$ 206	$ 20,753
Commercial mortgage	119,410	78	119,332
Commercial line	26,330	-	26,330
Construction	33,588	92	33,496
Home equity	4,534	-	4,534
Consumer	25,817	72	25,673
	$ 230,638	$ 448	$ 230,190

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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, 2019 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ 122	$ 332	$ -
Commercial mortgage	71	113	-
Commercial Line	-	-	-
Construction	-	-	-
With an allowance recorded:			
Commercial term	$ -	$ -	$ -
Commercial mortgage	-	-	-
Commercial Line	-	-	-
Construction	92	92	92
Total:			
Commercial term	$ 122	$ 332	$ -
Commercial mortgage	71	113	-
Commercial Line	-	-	-
Construction	92	92	92

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ 178	$ 7
Commercial mortgage	72	3
Construction	20	2
Consumer	-	-
With an allowance recorded:		
Commercial term	$ -	$ -
Commercial mortgage	-	-
Construction	-	-
Consumer	92	-
Total:		
Commercial term	$ 178	$ 7
Commercial mortgage	72	3
Construction	20	2
Consumer	92	-

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The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2018 and for the year then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial term	$ 27	$ 57	$ -
Commercial mortgage	78	158	-
Construction	92	92	-
Consumer	-	-	-
With an allowance recorded:			
Commercial term	$ 179	$ 179	$ 164
Commercial mortgage	-	-	-
Construction	-	-	-
Consumer	72	72	72
Total:			
Commercial term	$ 206	$ 236	$ 164
Commercial mortgage	78	158	-
Construction	92	92	-
Consumer	72	72	72

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ 32	$ -
Commercial mortgage	255	7
Construction	78	4
Consumer	-	-
With an allowance recorded:		
Commercial term	$ 182	$ 8
Commercial mortgage	-	-
Construction	-	-
Consumer	74	-
Total:		
Commercial term	$ 214	$ 8
Commercial mortgage	255	7
Construction	78	4
Consumer	74	-

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Loans Receivable on Nonaccrual Status

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2019 and 2018 (in thousands):

	2019	2018
Commercial term	$ **26**	$ 206
Commercial mortgage	**42**	47
Construction	**92**	92
Consumer	**-**	72
	$ **160**	$ 417

Interest income recognized on loans on non-accrual status during the years ended December 31, 2019 and 2018 was $0 and $16,000, 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 $23,000 and $18,000 for the years ended December 31, 2019 and 2018, 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, 2019, and 2018, there are $0 and $93,000, respectively, of foreclosed assets. As of December 31, 2019, and 2018, no consumer residential mortgages were foreclosed on or received via a deed in lieu transaction prior to the period end. As of December 31, 2019, and 2018, 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, 2019 and 2018 (in thousands):

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	**$ 23,428**	**$ -**	**$ 95**	**$ 26**	**$ 23,549**
Commercial mortgage	**122,603**	**783**	**359**	**-**	**123,745**
Commercial line	**24,312**	**192**	**-**	**-**	**24,504**
Construction	**42,074**	**-**	**92**	**-**	**42,166**
Home equity	**8,019**	**-**	**-**	**-**	**8,019**
Consumer	**23,657**	**-**	**-**	**-**	**23,657**
	$ 244,093	**$ 975**	**$ 546**	**$ 26**	**$ 245,640**

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December 31, 2018	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	$ 20,603	$ 183	$ 146	$ 27	$ 20,959
Commercial mortgage	119,247	117	-	46	119,410
Commercial line	26,330	-	-	-	26,330
Construction	33,496	-	92	-	33,588
Home equity	4,534	-	-	-	4,534
Consumer	25,817	-	-	-	25,817
	$ 230,027	$ 300	$ 238	$ 73	$ 230,638

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, 2019 and 2018 (in thousands):

December 31, 2019	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	**$ 19**	**$ 79**	**$ 164**	**$ 262**	**$ 23,287**	**$ 23,549**	**$ 138**
Commercial mortgage	**-**	**-**	**42**	**42**	**123,703**	**123,745**	**-**
Commercial line	**-**	**-**	**-**	**-**	**24,504**	**24,504**	**-**
Construction	**-**	**-**	**92**	**92**	**42,074**	**42,166**	**-**
Home equity	**69**	**45**	**-**	**114**	**7,905**	**8,019**	**-**
Consumer	**279**	**-**	**-**	**279**	**23,378**	**23,657**	**-**
	$ 367	**$ 124**	**$ 298**	**$ 789**	**$ 244,851**	**$ 245,640**	**$ 138**

December 31, 2018	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	$ -	$ 197	$ 206	$ 403	$ 20,556	$ 20,959	$ -
Commercial mortgage	-	-	47	47	119,363	119,410	-
Commercial line	-	-	-	-	26,330	26,330	-
Construction	-	-	92	92	33,496	33,588	-
Home equity	59	-	-	59	4,475	4,534	-
Consumer	17	-	72	89	25,728	25,817	-
	$ 76	$ 197	$ 417	$ 690	$ 229,948	$ 230,638	$ -

Modifications

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

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

There were two performing troubled debt restructurings at December 31, 2019. There were zero defaults within twelve months of restructuring during the year ended December 31, 2019. The first performing restructured loan totaled $29,000 which was a commercial mortgage while the second was a term loan totaling $96,000.

There was one performing troubled debt restructurings at December 31, 2018. There were zero defaults within twelve months of restructuring during the year ended December 31, 2018. The one performing restructured loan totaled $31,000 which was a commercial mortgage.

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, 2019 and 2018, the Bank sold loans held for sale for total proceeds of $0 and $1,933,000, respectively. The loan sales resulted in realized gains of $0 and $108,000 for the years ended December 31, 2019 and 2018, respectively. There were no SBA loans held for sale at December 31, 2019 and 2018.

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 $7,426,000 and $10,573,000 at December 31, 2019 and 2018, respectively. The following summarizes the activity pertaining to mortgage servicing rights using the amortization method for the years ended December 31, 2019 and 2018 (in thousands):

	2019	2018
Balance, beginning	**$ 173**	$ 177
Additions	**-**	45
Disposals	**(38)**	(3)
Amortization	**(31)**	(46)
Balance, Ending	**$ 104**	$ 173

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5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2019 and 2018 are as follows (in thousands):

	Estimated Useful Lives	2019	2018
Leasehold improvements	10 - 20 years	$ 991	$ 967
Computer equipment and software	3 - 5 years	1,164	1,116
Automobiles	3 years	197	194
Bank unique equipment	5 years	225	201
Furniture, fixtures and equipment	3 - 10 years	340	325
Building	40 years	1,687	1,687
Land		1,200	1,200
		5,804	5,669
Accumulated depreciation		(2,506)	(2,281)
		$ 3,298	$ 3,388

Depreciation and amortization expense charged to operations amounted to $261,000 and $259,000 for the years ended December 31, 2019 and 2018, respectively.

6. Deposits

The components of deposits at December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Demand, non-interest bearing	$ 48,060	$ 38,841
Demand interest bearing	43,268	36,174
Money market accounts	66,895	52,688
Savings accounts	51,430	51,330
Time, $250 and over	13,316	16,029
Time, other	24,825	28,717
	$ 247,794	$ 223,779

There were no brokered deposits included in demand interest bearing or money market deposits as of December 31, 2019 and 2018.

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At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31,		
2020	$	23,908
2021		12,196
2022		1,870
2023		70
Thereafter		97
	$	38,141

Included in time deposits are brokered deposits of $372,000 and $2,275,000 at December 31, 2019 and 2018, respectively.

7. Borrowings

The Corporation has a $1,000,000 unsecured line of credit with a correspondent bank with an interest rate of 5.75%. Borrowings on the line of credit at December 31, 2019 and 2018 were $0 and $250,000, respectively.

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, 2019 and 2018 were $0.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). At December 31, 2019, the Bank has a total borrowing capacity with the FHLB of $97 million. FHLB advances at December 31, 2019 totaled $3,000,000, of which $3,000,000 were long term with a weighted-average interest rate of 1.81% maturing through 2024 and $0 were short-term.

FHLB advances at December 31, 2018 totaled $4,030,000, of which $2,000,000 were long term with a weighted-average interest rate of 1.82% maturing through 2019 and $2,030,000 were short-term with a weighted-average interest rate of 2.62%.

Long-term borrowings at December 31, 2019 and 2018 consisted of FHLB borrowings with the following maturity dates and interest rates:

		2019		2018
Fixed note at 1.81%, maturing on August 6, 2024	**$**	**3,000**	$	-
Fixed note at 1.82%, maturing on June 3, 2019	**$**	**-**	$	2,000
	$	**3,000**	$	2,000

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 $50,000 and $60,000 at December 31, 2019 and 2018, 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 had a fixed rate of interest of 3.35% to 3.95% through February 28, 2016 at which time the interest rate increased 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.

On March 14, 2019, the Corporation closed a pooled private offering of $3 million of subordinated debt, net of offering costs of $25,000. Unamortized offering costs were $23,000 at December 31, 2019. 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 March 14, 2024 at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 14, 2029. 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 had a fixed rate of interest of 6.5% through March 14, 2024 at which time the interest rate will float quarterly at Libor or the Libor Benchmark plus 390 basis points 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.

9. Federal Income Taxes

The components of income tax expense (benefit) for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Current	$ **533**	$ 612
Deferred	**85**	(76)
	$ **618**	$ 536

A reconciliation of the statutory federal income tax at a rate of 21% to federal income tax expense included in the statements of income for the years ended December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Federal income tax at statutory rate	$ **604**	$ 512
Bank owned life insurance income	**(9)**	(9)
Non-deductible dues	**6**	5
Non-deductible meals and entertainment	**17**	28
	$ **618**	$ 536

The components of the net deferred tax asset at December 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ **317**	$ 367
Organization and start-up costs	**33**	44
Nonqualified stock options	**14**	13
Unrealized gain on available-for-sale securities	**(37)**	9
Total deferred tax assets	**327**	433
Deferred tax liabilities:		
Depreciation	**(55)**	(16)
Deferred loan costs	**(107)**	(107)
Servicing asset	**(22)**	(36)
Total deferred tax liabilities	**(184)**	(159)
Net Deferred Tax Asset, Included in Other Assets	$ **143**	$ 274

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 $4,634,000 and $5,036,000 at December 31, 2019 and 2018, respectively. Loans originated for related parties totaled $488,000 and $354,000 and payments received were $86,000 and $284,000 for the years ended December 31, 2019 and 2018, respectively. Deposits of related parties totaled $2,613,000 and $3,591,000 as of December 31, 2019 and 2018, respectively.

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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, 2017, there were 100,000 warrants outstanding, which expired in 2018.

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

The 2008 Plan enables the Board of Directors to grant stock options to employees, directors, consultants, and other individuals who provide services to the Bank. The shares subject to or related to options under the 2008 Plan are authorized and unissued shares of the Corporation. The maximum number of shares that may be subject to options under the 2008 Plan is 205,092, all of which may be issued as incentive stock options and as non-qualified stock options. Incentive stock options are subject to limitations under Section 422 of the Internal Revenue Code. The Corporation has reserved, for the purposes of the 2008 Plan, out of its authorized and unissued shares, such number of shares. The 2008 Plan will terminate ten years from stockholder approval. Options may not be granted with an exercise price that is less than 100% of the fair market value of the Corporation’s common stock on the date of grant. Options may not be granted with a term longer than 10 years. However, any incentive stock option granted to any employee who, at the time such option is granted, owns more than 10% of the voting power of all classes of shares of the Corporation, its parent or of a subsidiary may not have a term of more than five years. Options will vest and be exercisable at such time or times and subject to such terms and conditions as determined by the Board of Directors. Generally, options will vest over a vesting period of equal percentages each year over an initial term no shorter than three years.

The fair value of each option granted during 2009 was estimated at $3.91 on the date of grant using the Black-Scholes option-pricing model.

There were 0 stock options granted during the year ended December 31, 2018. There were 64,240 stock options forfeited in 2018. At December 31, 2018, 0 options outstanding.

There were no additional warrants granted during the years ended December 31, 2019 and 2018.

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.

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	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term
Options Outstanding, January 1	-	$ -	-
Options Granted	210,000	7.25	9
Options exercised	-	-	-
Options forfeited	6,000	7.25	-
Options Outstanding, December 31	204,000	7.25	9
Options Exercisable, December 31	-	-	-
Authorized	210,000		

The Company determined the expected life of the stock options using the expected life of the stock options using a simplified method approach allowed for plain-vanilla share options. The risk-free interest rate is based on an average of the 7-year and 10-year treasury rate on January 1, 2019. Expected volatility was determined using the calculated value method of an option pricing model that substitutes the historical volatility of an appropriate industry/sector index for the expected volatility.

	2019
Dividend yield	1.01%
Expected volatility	27%
Risk-free interest rate	2.61%
Expected life (in years)	10.00
Assumed forfeiture rate	10%

At December 31, 2019, the intrinsic value of the 204,000 options outstanding was $616,080.

Information regarding share-based compensation for the year ended December 31, 2019 is set forth below:

	2019
Stock based compensation expense recognized	$ 54,000
Number of unvested stock options	204,000
Fair value of unvested stock options	$ 530,000
Amount remaining to be recognized as expense	$ 476,000

The remaining amount of $476,000 will be recognized ratably as expense through 2025.

Victory Bank entered into a Supplemental Executive Retirement Plan (SERP) with the CEO that provides annual retirement benefits starting December 31, 2018 and continuing until the earlier of a Separation of Service or January 1, 2028. The SERP requires the Bank to provide an Annual Contribution and Interest Credit on each December 31. The Bank accrued $110,000 and $53,000 SERP liability as of December 31, 2019 and December 31, 2018, respectively.

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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, 2019 and 2018 (in thousands):

	2019	2018
Unfunded commitments under lines of credit	**$ 65,282**	$ 55,975
Unfunded commitments under letters of credit	**703**	761

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, 2019.

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, 2019 and 2018 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, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

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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.

As of December 31, 2019, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt correction action. To be categorized as well capitalized, the Bank must maintain minimum Common Equity Tier 1 ("CET 1"), Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios as set forth in the table (in thousands):

December 31, 2019	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)	**$ 28,115**	**≥11.3%**	**$ ≥19,916**	**≥8.0%**	**$ ≥22,841**	**≥10.5%**	**$ ≥23,131**	**≥10.0%**
Tier 1 capital (to risk weighted assets)	**$ 25,902**	**≥10.4%**	**$ ≥14,937**	**≥6.0%**	**$ ≥18,215**	**≥ 8.5%**	**$ ≥18,504**	**≥ 8.0%**
Common equity Tier 1 capital (to risk-weighted assets)	**$ 25,902**	**≥10.4%**	**$ ≥11,203**	**≥4.5%**	**$ ≥14,746**	**≥ 7.0%**	**$ ≥15,035**	**≥ 6.5%**
Tier 1 capital (to average assets)	**$ 25,902**	**≥ 9.6%**	**$ ≥10,795**	**≥4.0%**	**$ ≥ 9,946**	**≥ 4.0%**	**$ ≥12,433**	**≥ 5.0%**

December 31, 2018	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)	$ 24,556	10.6%	$ ≥18,510	≥8.0%	$ ≥22,849	≥9.875%	$ ≥23,138	≥10.0%
Tier 1 capital (to risk weighted assets)	$ 22,460	9.7%	$ ≥13,883	≥6.0%	$ ≥18,221	≥7.875%	$ ≥18,510	≥ 8.0%
Common equity Tier 1 capital (to risk-weighted assets)	$ 22,460	9.7%	$ ≥10,412	≥4.5%	$ ≥14,750	≥6.375%	$ ≥15,040	≥ 6.5%
Tier 1 capital (to average assets)	$ 22,460	9.0%	$ ≥ 9,937	≥4.0%	$ ≥ 9,937	≥4.000%	$ ≥12,422	≥ 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.

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Determination of Fair Value

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

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

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.

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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, 2019 and 2018, 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, 2019 and 2018 are as follows (in thousands):

December 31, 2019	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	**$ 11,084**	**$ -**	**$ 11,084**	**$ -**

December 31, 2018	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	$ 9,696	$ -	$ 9,696	$ -

Residential mortgage backed securities are comprised of FHLMC, FNMA, and GNMA pass through certificates at December 31, 2019 and 2018.

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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There were no assets and liabilities measured at fair value on a non-recurring basis at December 31, 2019. Assets and liabilities measured at fair value on a non-recurring basis at December 31, 2018 are summarized below (in thousands):

December 31, 2018	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$ 154	$ -	$ -	$ 154
Other real estate owned	93	-	-	93

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, 2019 and 2018 (dollars in thousands):

December 31, 2018	Total	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 154	Appraisal of collateral	Appraisal discounts	0% (0)%
			Liquidation expenses	12 %
Other real estate owned	93	Appraisal of collateral	Appraisal discounts	8%
			Liquidation expenses	7 %

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, 2019 and 2018:

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

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compare the valuation model inputs and results to widely available published industry data for reasonableness.

The fair values, and related carrying amounts, of the Corporation's financial instruments were as follows at December 31, 2019 and 2018 (in thousands):

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	$ **18,170**	$ **18,170**	$ 6,126	$ 6,126
Securities available-for-sale	**11,084**	**11,084**	9,696	9,696
Restricted investments in bank stocks	**474**	**474**	715	715
Loans, net	**243,131**	**249,139**	228,261	226,214
Mortgage servicing asset	**104**	**104**	173	173
Accrued interest receivable	**716**	**716**	811	811
Liabilities				
Deposits	**247,794**	**247,969**	223,779	208,583
Short term borrowings	**0**	**0**	2,280	2,280
Long-term debt	**3,000**	**2,958**	2,000	1,990
Subordinated debt	**7,927**	**7,927**	4,941	4,941
Accrued interest payable	**137**	**137**	153	153
Off Balance Sheet Asset (Liability)				
Commitments to extend credit	-	-	-	-
Standby letters of credit	-	-	-	-

15. Revenue Recognition

The Corporation adopted Topic 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of Topic 606 did not result in a change to the accounting for any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled.

Management determined that revenue derived from financial instruments, including revenue from loans and investment securities, along with non-interest income resulting from gains (losses) from the sale of investment securities or SBA loans, commitment and other loan related fees as well as income from bank owned life insurance are not within the scope of Topic 606. As a result, no changes were made during the period related to these sources of revenue.

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Topic 606 is applicable to non-interest income streams such as service charges on deposits and other non-interest income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges and Activity Fees on Deposits

Service charges on deposit accounts consist of monthly ATM Income, Wire Transfer Fees, Non-Sufficient Funds Charges, and other Deposit related fees. The Corporation's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Corporation's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. The Corporation's performance obligation for wire transfers and returned deposit fees, are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Other

Other fees are primarily comprised of Remote/Mobile Deposit Fees and other service charges. Other noninterest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2019 and 2018.

	2019	2018
Non-Interest Income		
In-scope of Topic 606		
Service Charges and Activity Fees on Deposits	**$ 241**	$ 191
Other	**30**	27
Non-Interest Income (in-scope of Topic 606)	**271**	218
Non-Interest Income (out-of-scope of Topic 606)	**270**	197
Total Non-Interest Income	**$ 541**	$ 415

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Corporation's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Corporation satisfies its performance obligation and revenue is recognized. The Corporation does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2019, and December 31, 2018, the Corporation did not have any contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Corporation utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Bank did not capitalize any contract acquisition cost.

16. Subsequent Events

In preparing these consolidated financial statements, the Bank evaluated the events and transactions that occurred from December 31, 2019 through May 8, 2020, the date these consolidated financial statements were available for issuance.

As of January 1, 2020, the Bank has become a member of the Federal Reserve System and the Federal Reserve Bank will be the Bank’s primary Federal regulator. The Bank purchased Federal Reserve Stock on January 2, 2020.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the coronavirus as a pandemic, based on the rapid increase in exposure globally.

On March 27, 2020, the President of the United States signed into law the Coronavirus Aid, Relief and Economic Security (“CARES”) Act in response to the coronavirus pandemic. This legislation aims at providing relief for individuals and businesses that have been negatively impacted by the coronavirus pandemic.

The CARES Act includes a provision for the Company to opt out of applying the “troubled-debt restructuring” (“TDR”) accounting guidance in ASC 310-40 for certain loan modifications. Loan modifications made between March 1, 2020 and the earlier of i) December 30, 2020 or ii) 60 days after the President declares a termination of the COVID-19 national emergency are eligible for this relief if the related loans were not more than 30 days past due as of December 31, 2019. The Bank adopted this provision.

The full impact of the coronavirus continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, capital, liquidity and future results of operations. Management is actively monitoring the global situation and the impact on its financial condition, capital, liquidity, operations, industry and workforce. Given the daily evolution of the coronavirus and the global responses to curb its spread, the Company is not able to estimate the effects of the coronavirus on its results of operations, financial condition, capital or liquidity for fiscal year 2020. Subsequent to December 31, 2019, the Bank obtained additional borrowings with FHLB in the amount of $7.5 million to increase liquidity.

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In addition, the adverse economic effects of the coronavirus may lead to an increase in credit risk on the Bank's commercial and residential loan portfolios. Likewise, the Bank is also monitoring the fluctuations in the markets as it pertains to interest rates and value of our investments for other than temporary impairment.

While the Company continues to evaluate these disruptions, if they continue, they will have an adverse effect on the Company’s results of future operations, financial position, including liquidity in 2020.

HELPING HANDS

Always ready to lend a helping hand, our employees go above and beyond to support our local communities.

In 2019, team members volunteered over 2,300 hours of their personal time to various charitable causes. In addition, the Bank has held monthly Business Seminars that are available to anyone in our community, free of charge. Topics range from networking, payroll and accounting, to cybersecurity. More seminars will be scheduled after the pandemic. We have partnered with many area Chambers of Commerce to promote the Bank and participate in numerous community events.

The Victory Bank donated 300 totes to the Pottstown Cluster of Religious Communities to support their food distribution to the Pottstown School District

The Victory Bank collected 113 pounds of donations for Preston's Pantry

VICTORY BANCORP

Business Seminar

Joe Major teaches Leadership course at Bankwork$®

The Victory Bank receives Chamber Champion Award from TriCounty Chamber of Commerce

Victory Bank hosts Girl Scouts for Business Etiquette Badge

Business Seminar

The Victory Bank donates to Good Samaritan Services of Chester and Lancaster Counties

Bill Vitiello receives Volunteer of the Year Award from TriCounty Chamber of Commerce

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.
Chief Executive Officer
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
Retired Controller
Women's Health Care
Group of PA

Dennis R. Urffer, CPA
Retired Senior Director
HBK CPAs & Consultants

EXECUTIVE LEADERSHIP TEAM

Shelly Stockmal, SHRM-SCP
Victory Community Leader

Robert Schultz
Chief Financial Officer

Richard Graver
Chief Lending Officer

Eric Offner
Chief Credit Officer

OUR TEAM

COMMERCIAL TEAM

Richard Graver, Chief Lending Officer

Jeremy Bucci, Commercial Relationship Manager, VP

Joseph Giunta, Business Development

Rose Hoffman, Relationship Assistant

Alexander Kroll, Senior Commercial Relationship Manager, SVP

Michael Larimer, Commercial Relationship Manager, VP

Benjamin Major, Commercial Relationship Manager, VP

Warren Major, Business Development

Vince Raffeo, Business Development

Mary Ann Riggins, Business Development

Michael Senico, Commercial Relationship Manager, VP

Sharon Stofflet, Relationship Assistant

Jon Swearer, Senior Commercial Relationship Manager, SVP

Leslie Unger, Relationship Assistant Team Leader

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

INSTITUTIONAL DEPOSITS

Bill Vitiello, Institutional & Business Development Manager, AVP

OPERATIONS TEAM

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

Denise Bowie, Loan Operations Specialist

Christine Carlozzi, Staff Accountant, Bank Officer

Donna Colella, Deposit Operations Manager, AVP

Kaitlin Doyle, Loan Documentation Specialist

Pamela Havrilla, Loan Administration Manager, AVP

Mary Locricchio, Deposit Operations Specialist, Bank Officer

Charlotte Mathias, Loan Operations Clerk

Danielle Millar, Loan Documentation Specialist

Diana Scott, BSA Analyst & Deposit Operations Specialist, Bank Officer

Sally Shirk, Loan Operations Manager

Dennis Zielinski, Bank Secrecy Act & Security Officer

RETAIL TEAM

Jennifer Bittenbender, Team Leader & Bank Ambassador, AVP

Amanda Bucci, Banking Support Representative

Stephanie Frederick, Personal Banker & IRA Specialist

Betsy Knott, Assistant Branch Manager, Bank Officer

Thomas Moore, Courier

Ashley Mossie, Personal Banker, Electronic Banking & IRA Specialist, Bank Officer

Bristol Sauer, Personal Banker & Electronic Banking Specialist

CREDIT TEAM

Eric Offner, Chief Credit Officer, EVP

Kimberly Grohosky, Credit Analyst

Deborah Lee, Credit Department Manager, SVP

Matthew Melcher, Senior Credit Analyst, AVP

Brian Meyer, Senior Credit Analyst, VP

ADMINISTRATIVE TEAM

Joseph Major, Bank Leader, President, CEO & Chairman

Nicole Crocker, Marketing & Corporate Communications Leader

Shelly Stockmal, Victory Community Leader, VP

Kelly Taylor, Executive Assistant & Investor Relations

WYOMISSING LOAN OFFICE TEAM

Tony D'Antonio, Senior Commercial Relationship Manager, SVP

Sarah Benson, Commercial Loan Portfolio Manager, Bank Officer

Dana Perrott, Relationship Assistant

HELPING HANDS

VICTORY BANCORP

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