



Milestones

December 2011

Dear Friends, Shareholders and Clients:

We are pleased to report that The Victory Bank closed another profitable quarter on September 30, 2011, and has shown consistent growth while maintaining excellent asset quality throughout the year. Despite difficult external operating conditions, we expect that the 4th quarter of 2011 will be our best yet, as the bank continues to implement a client-focused strategy and to stick to its core values in managing the company.

Some Key Facts

- **Growth and Margins** – Total bank assets grew to \$99,698,000 at the end of September, and are now well past \$100mm. Loans grew to \$84,352,000, and the bank now holds over \$89,930,000 in deposits. In order to remain competitive and to generate a fair margin to the bank, deposit rates

offered at the bank have been steadily declining, and the bank is currently generating a net interest margin of 3.91%. Historically, this is a strong number, but over the next few months it is likely that the bank will begin to experience some shrinkage in its margins, along with most of the banks in the United States.

- **Competition and margin pressure** – This compression is being caused by a number of factors. Over the past 3-4 years, some local banks had been essentially “out of the market” when it came to loans, in part because they did not hold enough capital to continue to grow, and because those banks were plagued with legacy loans that were in default. However, most of the banks in our trade area are now seeking asset growth and are actively seeking loan growth, and price competition for high-quality loans is growing. Moreover, with interest rates at historical lows and being artificially held down by the monetary policies of the Federal



Joseph W. Major, Chairman & CEO

Reserve, banks will not be able to lower their cost of funds much further, no matter how low loan rates may fall.

- **Not a lot of extra fees, but a good amount of SBA income**– The Victory Bank was founded on the premise of being open and transparent to its clients, and in not charging a lot of “junk fees” for its services. We believe in straightforward and fair pricing on everything that we do. Sometimes, maintaining this posture is difficult; we are often asked to justify our pricing for the services that we provide. After we explain what we are doing, most of our prospective clients “get it,” and deeply appreciate the fact that they are not going to be surprised nor misled in any way. We have

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Dr. Robert J. Funk:

Finding service that mirrors his own

Dr. Robert J. Funk knows what he likes in a bank—the same kind of close, personal attention he gives his dental patients in his hometown of Royersford.

Which is why it was easy for him to choose The Victory Bank.

“They’re a good small-town bank,” he says. “That’s what we want because that’s what we are—we’re a small-town practice with high standards.”

Dr. Funk has been in practice for 26 years. He took over the practice his father, Dr. Richard B. Funk, started in 1951. It consists of Dr. Funk, a secretary, a hygienist, a dental assistant, and Dr. Funk’s wife, Bev, who serves as the business manager.

For many years the practice happily did business with a “small, neighborly” local bank. Then that local bank disappeared, taken over by a large, outside bank and, as Dr. Funk put it, “everything we wanted in a bank was gone.”

His accountant recommended The Victory Bank. “My wife went over there and it embodied all the things we wanted in a bank,” Dr. Funk said. They liked it so well they transferred their personal banking as well as the practice’s banking.

While Dr. Funk values and pursues small-town values and service, he also has



kept his practice abreast of the latest technological developments in dental science, making it the equal of any family dental practice anywhere.

His computerized equipment can produce a finished crown for a patient in two hours—virtually while the patient waits. No need to make repeated visits or deal with the inconvenience of a temporary crown.

He uses a laser scanner to detect tooth decay. All of the x-rays are digitized. He works with a local sleep center to fashion custom devices to help treat sleep apnea. In addition, he fabricates oral devices that will provide immediate relief

from headaches caused by nighttime clenching and grinding.

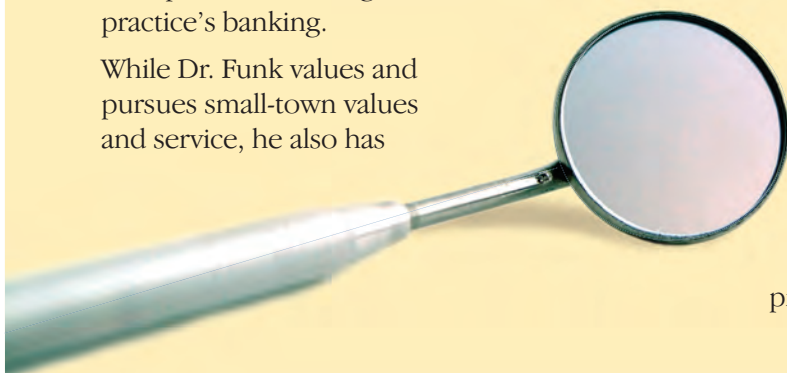
For the past 21 years, Dr. Funk has been the dentist at Parkhouse Providence Pointe, a geriatric and rehabilitation center, where he serves several hundred residents two mornings a week.

During Dr. Funk’s free time, he and his wife enjoy camping, landscaping, motorcycling, and tending to their dogs, cats, parrot, and horses. The couple has two sons, David, 24, a graduate of St Josephs University, and Matt, 21, who goes to culinary school at Johnson and Wales College in Providence, R.I.

Dr. Funk has used The Victory Bank to consolidate several business loans into a convenient, single loan and has refinanced a mortgage with a company recommended by The Victory Bank. The practice also makes regular use of The Victory Bank’s Remote Deposit Services. “We can do the check scans immediately,” Dr. Funk says. “For anyone who’s in business they understand that’s a quick turnaround—the quicker you deposit your money the quicker it’s in the bank.”

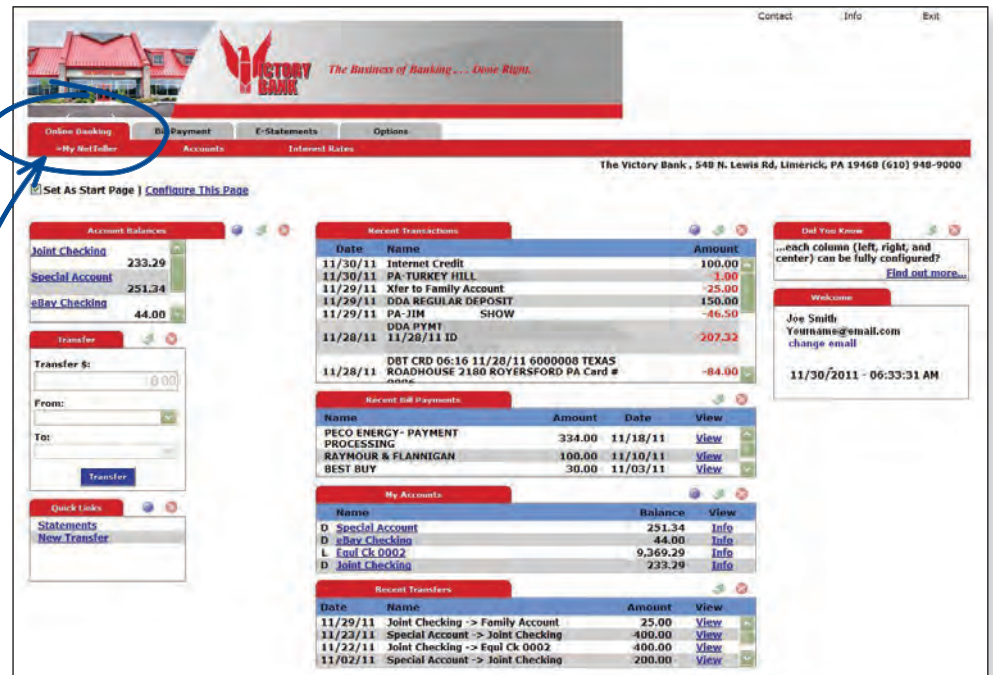
Still, even with the technology that’s available, it’s the personal service that always matters. Dr. Funk explains, “Bev wants to be able to walk into the bank and have people say, ‘Hey, how are you doing today, Bev?’ ” At The Victory Bank she can count on it.

Dr. Funk may be reached at www.drrobertjfung.com or 610.948.4010.



Online Banking Gets a Fresh New Look!

Online Banking users now have the option to customize the look and functionality of their home page with a few simple clicks. The new “My Netteller” home page features include “widgets” that permit you to view recent bill payments and transfers, view multiple account balances, transfer money between accounts, quick-links and more! To view your “My Netteller” home page, simply click on the words “My Netteller” located just below the “Online Banking” tab. In addition, you may modify the contents, remove and add “widgets,” change how they’re arranged and what accounts may be included. You may also check the box and set “My Netteller” as your new start page, or continue to use your current home page. The choice is yours!



Happy Holidays from The Victory Bank!

One of the real joys of the Holiday Season
is the opportunity to say Thank You and wish you a
New Year filled with health, happiness and prosperity.
In honor of our clients and to serve the greater community,
we are making a donation to **Southeastern Veterans' Center**,
Spring City, PA, in lieu of holiday cards.



The Business of Banking...Done Right.

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been successfully generating a significant amount of non-interest income by making loans via the Federal SBA programs. We have chosen to auction the guaranteed portions of some of these loans in the secondary market, and have received significant premiums at closing. This is reflected in the fact that we have generated \$572,000 in non-interest income YTD, well ahead of our annual forecast.

- **Excellent asset quality** – Making loans under current economic conditions is a great challenge. Many prospective borrowers approach us because they have been pushed out of their existing bank, and or have been denied credit. Often their personal or business situations have been severely compromised by the poor economic conditions of the past several years. We have done our best to serve the credit needs of the local economy, grow the bank, and at the same time maintain enviable asset quality. At September 30, 2011, our loan loss reserves stood at 1.22% of total loans, and our percentage of non-performing loans was at 0.43%.

Strategy and Plans for the Future

- **Stay focused on the fundamentals** – We do not believe in some kind of business magic or hocus-pocus. Generating excellent margins and profits comes from doing the right things, in a consistent way over a long period of time. In our business, this means making good loans that get paid back, providing stellar client service, investing in and using the best of modern technology, and controlling costs through ever improving efficiency. Since opening, we have analyzed and underwritten loans using time-

“Generating excellent margins and profits comes from doing the right things, in a consistent way over a long period of time.”

—Joe Major

tested methods and ratios, and by using common sense. We also believe in knowing our customers and in doing business with people of high character in whom we have personal faith. Sometimes this means we cannot accommodate the requests of prospective clients, but we are committed to communicating the reasons for our decisions with every client in a sincere and personal way. Our values inspire us to treat every client and prospect with respect, and to let them know that their well-being really matters to every banker who is part of our team. No exceptions.

- **Expansion of our commercial team and support staff** – Over the past few months we have added two more highly experienced commercial bankers to our team, Tony D’Antonio and Alex Kroll, both Senior Vice Presidents. Both of these gentleman have brought stellar credentials and a wealth of commercial banking experience, and both have “hit the ground running” when it comes to new business development. As a result of their efforts and the ongoing efforts of our entire team, our backlog of loans under consideration is at an all-time high, despite the external operating conditions.
- **Continued emphasis on electronic delivery** – Most of our clients enjoy a very personal relationship with our bankers, and at the same time take full advantage

of the advanced technology platform that we offer. Typically, the bank receives in excess of 60% of its incoming deposit dollars by way of remote capture, scanned directly into our operating system from the desktops at the client’s places of business. This is as true for clients that operate in the immediate vicinity of the bank as it is for clients that are much further away. The advantages of the system are overwhelming. Deposits are made over extended hours without the loss of time associated with gathering traditional deposits together and taking them to the bank, and virtually all the items clear overnight, and are available for the client the next morning. In addition, this technology is inexpensive and dependable.

- **Growth in SBA lending** – The Victory Bank was recently honored as one of the region’s top 25 SBA lenders, and we have worked diligently to develop our expertise in this important area. We have also been able to provide loans to worthy borrowers that might have otherwise not been able to obtain credit for their businesses. This has proven to be an extremely valuable tool for the bank and we intend to continue to grow in this area.

Other important developments

- **SBLF program, TARP paid off** – In September of 2010, the Federal government approved investing up to \$30 billion into smaller banks

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**COMING FIRST
QUARTER 2012:**

Victory Mobile Banking

Enjoy convenient and secure access to your Victory Bank accounts anytime, anywhere with Victory Mobile Banking.* Check balances, transfer funds, pay bills and review current bank transactions on the go with your mobile device.

*Mobile banking is a free service to online banking clients of The Victory Bank. Message and data rates may apply from your mobile carrier.



The Victory Bank Statement of Purpose

We exist to optimize the financial lives of our clients. The Victory Bank Client Experience is defined by fairness and good advice, by convenience, speed and responsiveness, and by integrity and respect.

Values

The Victory Bank Team achieves success through high personal and corporate character, by sharing valuable experience and knowledge, and by exhibiting consistent, daily behavior that benefits our clients.

We value:

- **Extraordinary Personal Service** – Every client contact is an opportunity to better our clients' lives, leaving them feeling valued, important and satisfied. Perfection of The Victory Bank Client Experience is our inspiration.
- **Ethical Behavior** – We always strive to do what is right and best for the long-term interests of our clients, team members and shareholders.
- **Personal and Corporate Integrity** – Our values stand the challenges of business, and the tests of time. We do not compromise our values for personal or corporate gain.
- **Candor** – Open, honest and direct communication is expected throughout the organization regardless of title or position. Pollution of our work environment with gossip and negativity is not acceptable.
- **Respect for All** – We conduct business so that all constituencies are served, regardless of age, gender, race, sexual preference, disability, religious or political views, and in a way that benefits our team members, our local communities and our shareholders.
- **Credibility** – We do what we promise.
- **Consistency and Excellence** – We love doing things right the first time, and are relentlessly committed to excellence.
- **Planning, Efficiency and Systematic Thinking** – We establish clear plans and goals, designed to ensure the success of the bank. We carefully consider the long-term implications of our decisions, and operate efficiently and without waste.
- **A Learning Organization** – We are committed to the never-ending improvement of our systems and technology, and to constantly bettering our individual knowledge and skills.
- **Creativity and Innovation** – We recognize and reward those team members who find better ways to do things. Change and experimentation are encouraged, and mistakes are viewed as opportunities to learn and improve. When things go wrong, we focus on solutions and learning rather than blame.
- **A Great Working Environment** – The safety and satisfaction of our team members is fundamental to meeting our goals. Our long-term goal is to make The Victory Bank the employer of choice.
- **Teamwork** – We recognize and celebrate the importance and power of teamwork, of working in a collaborative way where individual recognition is secondary to accomplishing the common good.

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

PROFILE: Tony D'Antonio

Meet the Victory stakeholders. With each quarterly newsletter, we'll introduce you to the people that make the difference at The Victory Bank.

Building customer relationships the right way

"Trust" is a word that occurs frequently in Tony D'Antonio's conversation.

He considers trust one of the most important ingredients in his relationship with banking customers. "There has to be trust at both ends," the veteran of close to 20 years in banking says. "It's necessary for developing a win-win for both of us."

The opportunity to build customer relationships the right way is one of the key reasons Tony joined The Victory Bank last May as a vice president and commercial relationship manager and recently was promoted to Senior Vice President.

In his old job, with a larger, more impersonal, bank, he saw that commercial customers, given the troubled economy, were beginning to doubt they had a committed partner willing to help them, especially with lending.

The Victory Bank, he's happy to tell his customers now, "is really looking to be a partner with them, to help them with their businesses. The Victory Bank is out there willing to lend, eager to lend. It's refreshing. Businesses are relieved to know that there is credit available out there. We can assure them we're going to do

everything we can to work with them."

Tony is helping The Victory Bank enlarge its presence in the Berks County market, working with many kinds of service businesses—law firms, physicians' and dentists' practices, accounting firms—along with small manufacturing companies and real estate agencies.

He's not only enjoying the renewed sense that he's able to do more for customers now, but he's also savoring being part of a problem-solving culture at The Victory Bank. He says he's glad to be part of a team that sees every customer as important, is willing to share information and ideas, and is comfortable working together to offer the best products and services and the most efficient delivery systems.

Tony says the team at The Victory Bank always puts the customer first. "You get to know your customers, you get to know their businesses," he says. "That's very helpful for the customers. They're not just a number. We truly believe we have their best interests at heart. It's not just about doing a deal and moving on. We want to grow with them over time.



Tony D'Antonio, Senior Vice President, Commercial Relationship Manager

Every customer is important. We listen and try to play a big part in their business. You try to learn as much as you can about their business. It's really about them and our customers like that."

Tony is active with the Phoenixville Chamber of Commerce and is a member of the Exeter Township Economic Advisory Council; he

also is active with the Berks County Chamber of Commerce and the Reading Berks Commercial Industry Council.

He and his wife, Bobbi, also a banker, live in Exeter Township. "We try not to talk too much about business," Tony jokes. The family consists of Nick, 15, and Taylor, 18, both students at Exeter High School, and Cory, 24, a recent marketing graduate of Shippensburg University. In his free time, Tony likes to play golf and work out at the gym and enjoys traveling with the family.

"Everybody on our team has the same goal," Tony says. "We wear many hats, but we all want to help our customers. It's a great feeling to be part of it. This has been a great move for me coming here, better even than I thought it would be."

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(under \$10 Billion in assets) via the Small Business Lending Fund (SBLF), enhancing their capital positions and helping these smaller banks to provide more loans to small businesses. Vastly different than the now-infamous Federal Troubled Asset Relief Program (TARP), this program was designed to bolster small business lending without any cost to the taxpayers, since the banks would be paying a “coupon” (interest) to the Federal Government for the entire time that they held this investment as capital, with the rate paid to the government determined by how much growth in small business lending that the banks achieved. After a period of about 5 years, the interest rate being paid is designed to increase, in part to motivate the banks to replace this capital with other capital from outside sources, so that the government will be paid back in full. The Treasury Department was given the job of going through the applications and determining which had merit, with a special emphasis on the underlying strength of the applicant banks, so that the program would not incur much in the way of losses from troubled banks. By design, the program also required any applicants that were holding previous TARP investments from Treasury to pay them off contemporaneously with the new SBLF investment.

Over 900 banks applied for about \$10 billion in new capital under this program, and we are pleased to announce that The Victory Bank was one of approximately 330 banks that were approved. Net of TARP, the bank received

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—Joe Major

an additional \$1.3 million in SBLF capital, helping us to continue on our path of growth, driven primarily with loans to small, local businesses.

- **Building acquisition** – As of the end of October, we are also pleased to announce that the bank has acquired its headquarters property from its former landlord. While the building was originally made available to the bank only as a build to suit property subject to a long-term lease, changes in market conditions facilitated a successful negotiation of a contract to purchase. The location and facility have proven to be an excellent combination and has helped the bank grow its base of customers and local deposits at a rather remarkable pace, and from an accounting standpoint, the bank will be substantially more profitable as the owner of the facility, now, and over the long-term.

To summarize, thus far in 2011 The Victory Bank raised \$2.7 million in new equity capital, paid off its TARP investment, and netted \$1.3 million in additional capital via the SBLF program. We have purchased our headquarters building, added

several key lenders and support personnel to our team, and have continued to invest in cutting edge technology that will save our clients’ time and energy, and upgraded servers and software. The bank has maintained excellent asset quality and has very consistently grown its deposits, loans, investment portfolio and capital, and continued to build its allowance for loan losses. Most importantly, the bank has generated a profit in each of the first three quarters and built its retained earnings, and now holds over \$100 million in assets.

Thanks to all of you who believed in this project and have supported it through your investments and through your patronage and referrals. Your support has been the source of much of our initial growth and success, and we would encourage you to continue to refer local people and businesses to the bank. Please understand that we are fully committed to deliver a high quality client experience to every prospect and client, providing them with good advice, high integrity and excellent service.

Sincerely Yours,



Joseph W. Major

Chairman and CEO, The Victory Bank

'Cloud computing' improves efficiency and cuts costs

Puzzled by the buzz about “cloud computing”? “Business people are asking what is the ‘cloud’? How can it benefit us?” says John Noonan, creative director and principal of True Blue Media, a company near Philadelphia that specializes in websites and online marketing and helps its clients work on and over the Web.

Some liken cloud computing to buying electricity over a grid. With a grid, you don’t need to build a generator and make your own electricity. With cloud computing, you’re utilizing shared resources in the form of software and data over the Internet.

As Noonan explains, “Cloud computing really boils down to a virtual way of doing business.”

For example, when Noonan designs a website for a client he invites the client to look at a draft and provide feedback on a private website. A meeting to discuss the website likely will take place as an online meeting in virtual space rather than everyone sitting down together in a physical conference room.

Noonan says the term “cloud computing” is quite broad and covers a num-

ber of functions that utilize online or remote resources.

“In some cases it’s about employees working from home and being able to access the same information as if they were in the office,” he says. “It’s also about working with contractors who are not part of the company or even located in the same area but have access to the same information as employees, whether it’s files or software.”

He adds, “Generally, it’s about utilizing the Internet to do business efficiently when you’re not located in the same place.” That can apply to doing meetings online “instead of flying over to Japan,” working with software that’s installed on a remote server instead of your office computer, or even just backing up your data over the Internet to an off-site server rather than backing up to a disk in your office.

Noonan notes that customers of The Victory Bank who use its popular Remote Deposit Capture service can be considered users of cloud technology. “I would consider that cloud computing,” he says. “That not only sends the information to The Victory Bank and makes a deposit in your online account, but it also scans it for record-


keeping as well. I would consider a lot of the online banking functionalities that have come out in the last few years to be cloud computing. You don’t have to go to a physical location anymore.”

Noonan acknowledges that people in their twenties and thirties, having grown up with computers, are more comfortable with the concept than the older generation, but he points out that the bottom line is the clincher in any argument. He says one of his clients, a Fortune 500 office solutions firm, saved an estimated \$100 million by moving its customer service activities online.

“I think it’s really in the numbers,” Noonan declares. “I think that a business owner, whatever business he or she is in, always speaks the language of money. Cloud computing has to be presented in terms of money—cost savings mostly.

“Being able to work with people remotely cuts down on the overhead costs for your business. Cloud computing is really about improving efficiencies and cutting costs.”

For more information on True Blue Media call 610.392.9936 or visit www.truebluemedia.com.

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