



Milestones

December 2013

Dear Friends, Shareholders and Clients:

Fall Greetings from all of us at The Victory Bank!

As I sit in my office composing this letter we are experiencing the turmoil of autumn weather, with dark clouds swirling outside and cold rain gusting and blowing hard against the windows. But if you came inside one of our buildings you would see that the lights are on and you would find a focused and productive group of bankers committed to efficiently providing an unmatched client experience.

Likewise, in the face of unpredictable and turbulent outside conditions, The Victory Bank continues to grow larger and more profitable. In many ways things are better than they were two and three years ago. Some businesses are really busy, others just so-so, and most of our clients remain very cautiously optimistic about the local economy. But no one is exuberant, and businesses and professionals are being extremely cautious when it comes to expansion and hiring. This translates into modest demand for credit from our existing client



Joseph W. Major, Chairman and Bank Leader

base, and so we continue to win new business from prospects willing to leave larger banks and banks that are not really connected to the local market (or are owned by banks from other countries as are Citizens Bank and Santander).

Outside conditions are extremely difficult. We all know that the Federal Reserve is doing everything it can to keep interest rates low to help stimulate investments and job growth, but this is also leading to reduced margins for all banks, ours included. Competition among banks is the

fiercest I have seen in my career, and while it is hard to measure the amount of harm being inflicted on our society by our elected government's inability to function very well, we all know it is there. Some of the economists are estimating a 1-2% reduction in economic growth because of these problems, which may not sound like a lot, but that translates into billions of dollars of income, millions of jobs, and the difference between financial security and financial ruin for a lot of good people. As I watch the political class trying to assess blame and gain political advantage instead of working together to solve problems and take care of this nation, I can only shake my head in disgust. The answers are not so simple. Obviously we can't fix these problems from our small banking operation in Limerick, but there is no doubt that the political gridlock is making things extra hard for our business, for all banks and for all of the good people that we serve.

Despite all of that, we are now servicing almost 1,000 loans, primarily to small businesses and professional practices, and over 3,000 deposit accounts. We will likely close over \$50 million of new loans in 2013, and are a very active SBA lender, helping many new and small businesses that would otherwise not be "bankable" in our current regulatory environment. Generally, 75% or more of the deposit dollars reach our bank by some electronic means like Remote Check Capture and ACH, and this trend is likely to continue to grow. We introduced Victory Mobile Banking

“Clients can receive text messages regarding their bank accounts and are using their mobile devices to deposit checks, pay bills, check account balances and transfer funds.”

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this summer, and now have people signing up for this additional service rather briskly. Certainly the fact that it's FREE makes this an easy sale, but industry statistics would indicate that we have reached a "tipping point" when it comes to mobile access and delivery of banking services, and there will be no turning back. Clearly there are far fewer checks being written by businesses and individuals as people use alternative payment systems like on-line bill payment, but being able to use a smart phone or tablet to snap a photo and deposit that occasional check you receive seems like an extremely attractive convenience for many of our clients. Clients can also receive text messages regarding their bank accounts, and are using their mobile devices to deposit checks, pay their bills, check their account balances and to transfer funds. Personally, I use all of these features and find them to be incredibly easy to use and convenient, but remember that we don't have a voice mail system. If you need to speak with us just call, and we will answer the telephone!

Overall we were quite pleased with our third quarter results, which represented the twelfth quarter in a row of profitability of the bank (three years). Interest income has grown from \$1.479 million in the third quarter a year ago to \$1.718 million this quarter. Total assets grew from \$122 million to \$141 million, and pre-tax income grew from \$166,000 to \$323,000. Overall loan quality remains

strong, and the bank has continued to build its provision for loan losses, from \$1.341 million to \$1.645 million over the past four quarters.

Strategically, the bank remains focused primarily on small business lending, but our consumer offerings have expanded quite nicely. Many local people have found that banking with us is markedly better than dealing with some kind of international mega-bank. They appreciate the skill and positive attitudes exhibited by our team on a daily basis, and that we don't try to "fee our clients to death!" We have also added to our team of experienced commercial bankers (Relationship Managers, we call them), whose jobs are to build our commercial lending totals, provide "white glove" service to our existing clients, and keep a vigilant eye on credit quality.

The last few months of the year look like they are going well and are right on plan. We are wrapping up our budgets for the next three years now, and will continue to give our best to our clients and our shareholders. Please feel free to reach out to us anytime in person or on the telephone if we can answer your questions about the bank or about your personal or business financial needs, and thank you so much for your loyal support.

Sincerely Yours,



Joseph W. Major
Chairman and Bank Leader



Help bring a message of hope

to needy children during this holiday season by donating an unwrapped toy or by making a monetary donation to the "Toys For Tots Foundation."

The Victory Bank is an official drop off site and will accept monetary donations and toys for 0-2 years, 3-7 years and 8-12 years of age. Some ideas are age appropriate toys, games, arts & crafts, books, sports balls, etc. Deadline for drop off is December 13, 2013.



Mobile Deposit Sweepstakes iPad® Winner!

Saul Rivkin, Vice President – Chief Retail Officer, presents a new iPad® to Rick Megni, CMIT Solutions of Pottstown.

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For Grand Slam Malvern, Banking with The Victory Bank is a Slam Dunk

What's more fun than owning a business that's all about fun? Not much, says Steve Cook, co-owner of Grand Slam at 11 E. Lancaster Avenue in Malvern.

Grand Slam is a 30,000 square foot facility that uniquely combines sports training and play with family entertainment. The business opened in 1984 with batting cages and baseball/softball training and has grown to include a state of the art Laser Tag arena, blacklight mini golf, a large arcade with interactive and video games, moon bounce recreation, and lots of birthday parties. In addition to being the leading instructional facility for baseball and softball, Grand Slam offers basketball instruction, league play, dodgeball, volleyball, and team building for corporate groups and getaways.

"My son, Dan, and I bought the business in 2004," said Steve. "My son and I were in a different business at the time, providing service and installation support for sports facilities. But we loved this place. We had many positive experiences with it. The owners were actually clients of ours. I used to bring my son here for baseball practice. And my son worked here when he was in college. So when the business went up

for sale, we bought it and have never looked back."

Dan met his wife, Jill, at Grand Slam. Dan's best friend, Randy Graham, who along with Dan run the day-to-day operations of the business, met his wife at Grand Slam, too. Steve's wife, Dorothy, and daughter, Terri, also contribute, making this truly a family entertainment center!

"It's very important for us to have a strong, almost personal, relationship with our bank," said Steve. "That's what drew me to them."

Steve's first banking relationship was with a larger bank, with which he did business for more than 20 years. When that bank started to go in a different direction, Steve decided to look for alternatives. A business colleague and investor at Grand Slam recommended Jim Phillips at The Victory Bank.

"Jim was familiar with our business, because his son took baseball lessons here," Steve explains. "As it turned out, The Victory Bank is the perfect partner for what we wanted."

At first, Steve was concerned that there wasn't a Victory Bank branch close to Grand Slam. Then Jim explained that



Randy Graham, Manager, with Grand Slam Owners Steve and Dan Cook. Below, the arcade and the laser tag arena at Grand Slam in Malvern.

most of their banking business could be transacted remotely. The Grand Slam staff appreciates not having to leave the business during the day to do their banking.

"We scan our checks into our account, and all of our daily payables are done remotely, too," he said. "Unfortunately, I don't get into the bank regularly, but it's beautiful... unlike any bank I've ever seen. A grand piano in the lobby? I plan to making my way there to see the pianist on Christmas Eve."

As a small business owner, Steve appreciates being treated as a priority each time he connects with someone at the bank.

"Whether I visit the bank in person or over the phone, they know who I am and they know my name."

To learn more about Grand Slam visit www.grandslammalvern.com or call 610.647.6622.



2013 Year-End Tax Planning Advice

As the end of 2013 approaches, it's time to focus on last-minute moves you can make to save taxes—both on your 2013 return and in future years.

For most individuals, the ordinary federal income tax rates for 2013 will be the same as last year: 10%, 15%, 25%, 28%, 33%, and 35%. However, the fiscal cliff legislation, passed early this year, increased the maximum rate for higher-income individuals to 39.6% (up from 35%). This change affects taxpayers with taxable income above \$400,000 for singles, \$450,000 for married joint-filing couples, and \$425,000 for heads of households. In addition, the new 0.9% Medicare tax and 3.8% Net Investment Income Tax (NIIT) potentially kick in when modified adjusted gross income (or earned income in the case of the Medicare tax) goes over \$200,000 for unmarried, \$250,000 for married joint-filing couples, which can result in a higher-than-advertised federal tax rate for 2013.

Despite these tax increases, the current federal income tax environment remains relatively favorable by historical standards. The following presents a few tax-saving

ideas for your business and you to get started.

Business Tax Considerations

If Purchasing Equipment, Software, and Certain Real Property.

If you have plans to buy business equipment, i.e. computers, office furniture, equipment, vehicles, or other tangible business property or to make certain improvements to real property, you might consider doing so before year-end to capitalize on the following generous, but temporary tax breaks:

- **Larger Section 179 Deduction.**

Your business may be able to take advantage of the temporarily increased Section 179 deduction. The Section 179 deduction allows an eligible business to claim first-year depreciation write-offs for the entire cost of new and used equipment and software additions. (Limits apply to the deductions for most vehicles.) For tax years beginning in 2013, the maximum Section 179 deduction is \$500,000. For tax years beginning in 2014, however, the maximum deduction is scheduled to drop to \$25,000.

- **Section 179 Deduction for Real Estate.**

Real property costs are generally ineligible for the Section 179 deduction. An exception applies to tax years beginning in 2013. Under the exception, your business can immediately deduct up to \$250,000 of qualified costs for restaurant buildings and improvements to interiors of retail and leased nonresidential buildings. The \$250,000 Section 179 allowance for these real estate expenditures is part of the overall \$500,000 allowance. This temporary real estate break will not be available for tax years beginning after 2013 unless Congress extends it.

If your business is expected to have a tax loss for 2013 (or be close) the allowable Section 179 deduction will be limited to the amount of your business income before the 179 deduction.

- **50% First-year Bonus**

Depreciation. Above and beyond the bumped-up Section 179 deduction, your business can also claim first-year bonus depreciation equal to 50% of the cost of most new (not used) equipment and software placed in service by December 31 of this year. Used equipment is not subject to bonus depreciation. For a new passenger auto or light truck used for business and subject to the luxury auto depreciation limitations, the 50% bonus depreciation break increases the maximum first-year depreciation deduction by \$8,000 for vehicles placed in service this year. The 50% bonus depreciation break will expire on December 31, 2013 unless extended by Congress. First-year bonus depreciation deductions can create or increase a Net Operating Loss (NOL) for your business's 2013 tax year. You

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THE VICTORY BANK STATEMENT OF PURPOSE

We exist to optimize the financial lives of our clients.

VALUES

At The Victory Bank, we value:

Extraordinary Personal Service – The Victory Bank delivers fair value and professional advice in a convenient and highly responsive manner. Every contact is an opportunity to help our clients feel valued, important and satisfied.

Respect – We conduct ourselves with respect and tolerance for all, regardless of age, disability, gender, race, sexual preference, economic status, religion or political views.

Ethical Behavior and Fairness – In every action we strive to consider the long-term best interests of our clients, team members, communities and shareholders, and to always do what is ethically right. Business relationships must provide good value to our clients, and be fair and profitable to the Bank.

Personal and Corporate Integrity – Our values stand the challenges of business, and the tests of time. We do not compromise our values for personal or corporate gain.

Candor – Open, honest and direct communication is expected throughout the organization regardless of title or position. Pollution of our work environment with gossip and negativity is not acceptable.

Credibility – We do what we promise.

Consistency and Excellence – We do things right the first time, and are relentlessly committed to excellence.

Planning, Efficiency and Systematic Thinking – We establish well-defined strategic plans, set clear goals, and think systematically about the long-term implications of our decisions. We operate efficiently and without waste.

A Learning Organization – We are stewards of our team's collective talents and capabilities, committed to helping all team members reach their ultimate potential. We are committed to the never-ending improvement of our knowledge, processes, systems and technology.

Adaptation and Innovation – We know that we must always be in a state of growth and change, adapting to an evolving marketplace. We recognize those individuals who innovate and challenge the status quo. Mistakes are viewed as opportunities to learn and improve, and when things go wrong, we focus on solutions rather than blame.

A Great Working Environment – We believe that joy, satisfaction and happiness are an integral part of success. We strive to make The Victory Bank *the* employer of choice for an exclusive team of professionals who are, without exception, fully engaged in the pursuit of excellence, and committed to the safety, satisfaction and happiness of the group.

Teamwork – We recognize and celebrate the importance and power of teamwork, where individual recognition is secondary to working in a collaborative way in pursuit of common goals.

Leadership – Every Team Member proudly wears the mantle of leadership. We strive to model and teach our core values at all times, and gauge our effectiveness as leaders through the positive changes that we create.

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



Happy Holidays from The Victory Bank!

One of the 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, The Victory Bank will make a donation to the following organizations in lieu of holiday cards and statement inserts.

In the Chester/ Montgomery County area:

Olivet Boys & Girls Club
of Pottstown



In Berks County:

Berks Women in Crisis



Your Smartphone Just Got Smarter.

The **Victory Bank's Mobile Banking Service*** helps you bank securely and conveniently, anytime, anywhere on your web-enabled mobile device. View account balances, transfer funds between accounts, pay bills to existing payees, and view alerts.



Victory Mobile Deposit*

Deposit a check on the go or accept a check payment from a customer.

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The Business of Banking...Done Right.

*The Victory Bank's Mobile Banking, Mobile Deposit and Mobile Text are free services available to consumer and business online banking clients. Mobile Deposit and Mobile Swipe require enrollment, approval, and deposit limits may apply. Mobile Swipe is subject to a monthly fee and transaction charge. Consult your mobile carrier for details on specific access fees and charges that may apply.

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PROFILE: Noreen Cobourn

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

When The Victory Bank opened its doors in 2008, Noreen Cobourn was there. A veteran banker, she was issued an invitation to join the new bank that was so tempting, she couldn't resist.

"The enthusiasm shown by Rich (Graver, Chief Banking Officer) and Joe (Major, Chairman and Bank Leader) when they asked me to come on board was so contagious, I had to say yes," said Noreen. "They knew they were creating something different and new, and I wanted to be a part of it."

Noreen is The Victory Bank's loan operations manager. In this role, she oversees the preparation, quality and delivery of all loan documents in time for loan closing. It requires a sharp eye for detail, years of experience, an ability to work well with other team members, and of course, a sense of humor.

"I work with all of the lenders, loan clerks and the loan administration department to make sure we have the right documents for the file, for example, the promissory note, collateral, security agreement or mortgage, and guarantee documents, if applicable," she said. "This is a great group of professionals who all chip in

to help the process flow smoothly."

A banker for more than 25 years, Noreen started her career a part-time teller and worked her way up the ladder, next to a customer service position, and then into the commercial side of the bank as an administrative assistant. It was on the lending side that she found where her special talents for efficiency and process improvement were most effective.

"I miss my work in the branches, dealing directly with customers and sharing daily victories with my co-workers, but I'm happy to say I still get to interact regularly with customers and co-workers outside the loan department," Noreen said. "We all share a sense of pride in what we do."

Noreen works with various charitable organizations, including "Santa's Brigade," a charity The Victory Bank has supported since its beginning, increasing their commitment year after year. Santa's Brigade matches companies with charities to provide for the less fortunate during the holiday season.



"Last year, the Brigade delivered 1,311 gifts to needy families," said Noreen. "Our employees have always been generous, and it gives me a warm feeling to know that I work with such wonderful and caring people."

A resident of Collegetown, Noreen

is a graduate of West Philadelphia Catholic High School for Girls. She earned her Banking Certificate from AIB as well as her Consumer and Commercial Lending Certificates. Noreen has raised six children, has five grandchildren and was thrilled to learn she is soon to be a great-grandmother. With two labs, Mudd and Buster, to keep her very busy, she is also an avid knitter who enjoys selling her hats and scarves.

Noreen is also a chief proponent of The Victory Bank. "We're truly unique. Our building is amazing... our quality of service is second-to-none... we're very up to speed technologically, having recently introduced mobile banking... and we are true to our commitment to having strong relationships with our customers."

The Victory Bank Ups Its Small Business Lending By 114%

The Victory Bank is one of seven local banks that participate in the Small Business Lending Fund (SBLF), which encourages lending to small businesses by providing capital to qualified community banks with assets of less than \$10 billion. The Fund is part of the Small Business Jobs Act of 2010. In order to qualify, the bank had to be deemed

financially healthy by regulators. The U.S. Treasury Department accepted only a third of the 900+ banks that applied to participate in the SBLF.

The Victory Bank has increased its small business lending by 114% since the program began. Combined loan growth of all seven local banks participating in the SBLF was 65%, higher than the national average of 28%.



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can then carry back a 2013 NOL to 2011 and 2012 and collect a refund of taxes paid in those years.

Consider Employing Your Child.

If you are self-employed, don't miss one last opportunity to employ your child before the end of the year. Tax benefits result from shifting income (which is not subject to the Kiddie tax) from you to your child, who normally is in a lower tax bracket or may avoid tax entirely due to the standard deduction. There may also be payroll tax savings since wages paid by sole proprietors to their children age 17 and younger are exempt from both social security and unemployment taxes. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to an IRA. Children with IRAs, particularly Roth IRAs, have a great start on retirement savings since the compounded growth of the funds can be significant.

Remember a couple of things when employing your child. First, the wages paid must be reasonable given the child's age and work skills. Second, if the child is in college, or is entering soon, having too much earned income may have a detrimental impact on the student's

need-based financial aid eligibility.

Individual Tax Considerations

One way to reduce your 2013 tax liability is to look for additional deductions. Here's a few suggestions to get you started:

Make Charitable Gifts of Appreciated Stock.

If you have appreciated stock, held for more than a year and you plan to make significant charitable contributions before year-end, keep your cash and donate the stock (or mutual fund shares) instead. You avoid paying tax on the appreciation, and you are able to deduct the donated stock's full value. If you want to maintain a position in the donated securities, you can immediately buy back a like number of shares.

If the stock is now worth less than when you acquired it, sell the stock, take the loss, and then give the cash to the charity. If you give the stock to the charity, your charitable deduction will equal the stock's current depressed value and no capital loss will be available. Also, if you sell the stock at a loss, you can't immediately buy it back as this will trigger the wash sale rules. This means your loss won't be deductible, but instead will be added to the basis in the new shares.

Review the Use of the Standard Deduction.

For 2013, the standard

deduction is \$12,200 for married taxpayers filing joint returns. For single taxpayers, the amount is \$6,100. Currently, it looks like these amounts will be about the same for 2014. If your total itemized deductions are normally close to these amounts, you may be able to leverage the benefit of your deductions by bunching deductions in every other year, allowing you to time your itemized deductions so that they are high in one year and low in the next. You claim actual expenses in the year they are bunched and take the standard deduction in the intervening years.

Through careful planning, it's possible your 2013 tax liability can still be significantly reduced, but don't delay. The longer you wait, the less likely it is that you'll be able to achieve a meaningful reduction. The ideas discussed in this article are a good way to get you started with year-end planning, but they're no substitute for personalized professional assistance.

For additional help with strategies on reducing your tax bill, contact the professionals at Maillie LLP.



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