2014 Annual Report

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Forward Looking Statements

When used in this annual report, or in any written or oral statement made by us or our officers, directors or employees, the words and phrases “will result,” “expect,” “will continue,” “anticipate,” “estimate,” “project,” or similar terms are intended to identify “forward-looking statements.” A variety of factors could cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in any forward-looking statements. Some of the risks and uncertainties that may affect our operations, performance, development and results, the interest rate sensitivity of our assets and liabilities, and the adequacy of our loan loss allowance, include, but are not limited to:

- deterioration in local, regional, national or global economic conditions which could result in, among other things, an increase in loan delinquencies, a decrease in property values, or a change in the real estate turnover rate;
- changes in market interest rates or changes in the speed at which market interest rates change;
- changes in laws and regulations affecting the financial service industry;
- changes in public policy initiatives and regulatory philosophy;
- adverse weather conditions or other severe climate occurrences;
- the acceptability of alternate quasi-currencies or other products that affect banks as financial intermediaries
- changes in the public’s perception of financial institutions in general and banks in particular;
- changes in competition; and
- changes in consumer preferences by our customers or the customers of our business borrowers.

Please do not place undue reliance on any forward-looking statement, which speaks only as of the date made. There are many factors, including those described above, that could affect our future business activities or financial performance and could cause our actual future results or circumstances to differ materially from those we anticipate or project. We do not undertake any obligation to update any forward-looking statement after it is made.

Table of Contents

To Our Stockholders

2014 was a year of transition for our Company. We implemented our strategy of generating more loan opportunities by hiring a new business development officer as well as establishing connections with other financial institutions for loan participations. We anticipate our loan portfolio increasing in 2015 as a result of these efforts, and we plan to continue to firmly adhere to our current prudent underwriting standards.

The economy has showed signs of strength but the growth is uneven and subject to external and international forces. The Federal Reserve has completed its QE3 initiative and has indicated that it will increase short term rates, albeit in a measured manner, sometime in 2015. This translates into a continuing low interest rate environment for the foreseeable future. We are seeking additional avenues to address the impact on our Company and we are confident that we can generate more net income in 2015.

We are constantly monitoring our costs in an effort to operate in a most efficient manner. According to our FFIEC Peer Group Report, our non-interest expenses are below 75 percent of our peers, which clearly demonstrates our success. In July 2014, we purchased Bank Owned Life Insurance (“BOLI”) policies on the majority of our upper tier officers, and we are the beneficiary of the policies. These BOLI policies provide tax exempt interest that helps to defray the costs of our existing benefit plans. We are continually exploring additional methods to increase our Company’s profitability.

In January 2015, we began to trade on the OTC Marketplace OTCQX Banks. The OTCQX Banks was created exclusively for banks and bank holding companies. The OTCQX Banks provides a better platform, transparency and visibility for our stock at a cost to us that is far less expensive than other reasonable trading alternatives.

Our earnings rose to $1.3 million or $0.72 basic earnings per common share in 2014, which is a 21% increase from 2013. Due to a recent tax law change, our future New York State tax rate and our overall effective tax rate will be reduced. This, however, required us to set up a valuation allowance against a portion of our existing tax asset, as we expect to lose the future tax benefit that we had previously recorded. This was a one-time increase in our New York State tax expense of approximately $177,000, which correspondingly reduced our net income. We have managed our non-performing loans portfolio through note sales, completing the collection process and entering into workout arrangements. We had a slight increase in the balance of non-performing loans in 2014, and stood at $4.6 million at year end. Most of those loans are secured by real estate and have been individually evaluated based primarily upon updated appraisals as part of our analysis of the appropriate level of our allowance for loan losses.

Our net loan portfolio decreased by $5.4 million in 2014, but this trend already reversed in early 2015. The competition for loans continues to be strong and we lowered our rates to help combat this situation. We expanded our reach as we look to the five boroughs of New York City, as well as Long Island, for additional loan opportunities. Our flexibility in loan pricing is limited and we cannot match some of the low interest rates that we have seen in the marketplace. We believe that we can still build our loan portfolio at reasonable loan rates and terms.

We added $32 million net to our securities portfolio as we reduced our excess cash position throughout 2014. The resulting increased interest income helped to boost our net income in 2014, but it is a transitory strategy as loan generation is our primary focus. Loans normally generate the most interest income for each dollar invested. With these asset shifts, we are closely monitoring our interest rate risk position and we believe that we are still well positioned for changes in the interest rate environment. Our level of charge-offs and write downs decreased in 2014. We added one REO property in 2014, and we have a contract to sell it, which we expect to close in the first half of 2015.

There has been extensive coverage of the ever increasing regulatory burden that banks have to face and the escalating costs associated with complying with the myriad new regulations. We are not immune to these issues and we are cognizant that the additional expenses can hamper our growth in net income.

Total deposits, including escrow deposits, decreased to $251.4 million, a decrease of $17.2 million, or 6.4%. The decrease was primarily attributed to large withdrawals from two customers that re-deployed deposits into non-bank investments. These withdrawals were the primary reason for a decrease of $14.6 million in time deposits. We continue to build upon on our core business product, our non-interest bearing checking accounts, as these accounts are the key driver in establishing new relationships. This strategy is borne out by our low cost of funds, as we do not routinely solicit deposits by paying above market rates. We are introducing our cash management system and ACH originations. We will be replacing our current debit cards with cards that have an EMV chip in 2015 to better protect our customers from cyber-criminals. These increases in our product and service lines will make us more attractive to potential customers.

We are still in our third stock buyback program and we have repurchased 266,664 shares since we started buying back our shares, at a significant discount to book value. We just announced our thirtieth consecutive cash dividend. Our book value per share stands at $15.36. Our regulatory capital base remains strong and will remain strong with the upcoming changes in 2015 due to the implementation of the BASEL III framework. We are well in excess of what is needed to be considered well capitalized by current and new industry standards.

In this transitory year, we posted a Return on Assets of 0.43% and a Return on Equity of 4.51%, which is below the average of our peers. We believe that both of these metrics will improve by year end 2015, as the addition of new loans should drive not only a higher interest rate margin, but increased profitability.

We look forward to 2015 as a breakout year for our Company. Our focus on prudent loan growth will increase stockholder value and will allow us to better serve our community and customers.

April 15, 2015

Joseph J. LiBassi
Chairman of the Board

Raffaele M. Branca, Pres.
Raffaele (Ralph) M. Branca
President and Chief Executive Officer

Business Description

VSB Bancorp, Inc. (referred to using terms such as "we," "us," or the "Company") is the holding company for Victory State Bank (the "Bank"), a New York State chartered commercial bank. Our primary business is owning all of the issued and outstanding stock of the Bank. Victory State Bank is a New York State chartered commercial bank, founded in November 1997. The Bank is supervised by the New York State Department of Financial Services ("NYSDFS") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank gathers deposits from individuals and businesses primarily in Staten Island and makes loans throughout that community. The Bank invests funds that are not used for lending primarily in government securities, mortgage backed securities and collateralized mortgage obligations. Customer deposits are insured, up to the applicable limit, by the FDIC. VSB Bancorp, Inc. common stock is quoted on the OTC Markets Group ("OTCQX") under the symbol "VSBN".

Our results of operations are dependent primarily on net interest income, which is the difference between the income we earn on our loan and investment portfolios and our costs of funds, consisting primarily of interest paid on our deposits. Our operating expenses principally consist of employee compensation and benefits, occupancy expenses, professional fees, advertising and marketing expenses and other general and administrative expenses. Our results of operations are significantly affected by general economic and competitive conditions, particularly the general strength of the local economy, changes in market interest rates, government policies and actions of regulatory authorities.

Since the Bank opened for business in 1997, the Board of Directors and management have pursued a strategy of growth and expansion in order to enhance the long term value of our banking franchise. The Board of Directors and management anticipate that an increase in customer deposits, and the resulting increase in funds we would have available to fund asset growth, will generate an increase in net interest income.

In order to support branch expansion and asset growth, we had not paid cash dividends prior to the fourth quarter of 2007. Our Board of Directors approved our first $0.06 cash dividend to stockholders of record on November 29, 2007, payable on January 2, 2008 and we paid quarterly dividends of $0.06 per share with respect to each calendar quarter thereafter through the end of 2014. We paid $426,712 of dividends out of net income of $1,272,494, for a dividend payout ratio of 34% in 2014 and we paid $426,818 of dividends out of net income of $1,051,471, for a dividend payout ratio of 41% in 2013. Thus, we retained the majority of our net income to increase our capital base to support our efforts to expand our franchise in the future.

During 2014, we continued to face challenges from our level of non-accrual loans and a continuation of low market interest rates that pushed down our yields on assets. Our non-accrual loans increased from 2013 to 2014, and they totaled $4.6 million, or 6.9% of total loans, at December 31, 2014.

Our cost of funds declined due to the downward pressure of deposit rates, but not as fast as our yield on assets. The real estate market continued to soften, which reduced deposit balances and loan originations from real estate attorneys who form a segment of our customer base. We incurred additional provisions for loan losses due to the increased level of delinquencies.

Management intends to exert efforts to continue growing our company in the future. However, both internal and external factors could adversely affect our future growth. The slow recovery of the economy has made it more difficult for us to originate new loans that meet our underwriting standards. Not only does that cause us to invest available funds in lower-yielding securities and deposits with other banks, but it also slows the development of non-loan relationships which sometimes flow from cross-selling to loan customers.

An increase in market rates may have a negative impact on our net interest income. Furthermore, regulatory capital requirements could have a negative effect on our ability to grow if growth outpaces our ability to support that growth with increased capital.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Since Victory State Bank opened for business, management has worked to grow its franchise. From no deposits, no loans and less than $7.0 million of assets on the day it opened for business in 1997, the bank has grown to total assets of $281.0 million, total deposits of $251.2 million and capital of $28.5 million by December 31, 2014.

Economic Turmoil

The economy in the United States, including the economy in Staten Island, has been in a slow and uneven recovery. The extent and speed of the recovery is far from clear. The effects of low inflation, moderate job growth, and the Federal Reserve's expected increase in the fed funds rate has created uncertainty not only in the pace of economic growth but in its sustainability. Substantial stress remains on many financial institutions and financial products due to the artificially maintained low interest rate environment, which directly places negative pressure on interest rate margins. We draw a substantial portion of our customer base from local businesses, especially those in the building trades and related industries, and we believe that there continue to be significant weaknesses in the business economy in our market area. If adverse conditions in the local economy continue, it will become more difficult for us to conduct prudent and profitable business in our community.

Possible Adverse Effects on Our Net Income Due to Fluctuations in Market Rates

Our principal source of income is the difference between the interest income we earn on interest-earning assets, such as loans and securities, and our cost of funds, principally interest paid on deposits. These rates of interest change from time to time, depending upon a number of factors, including general market interest rates. However, the frequency of the changes varies among different types of assets and liabilities. For example, for a five-year loan with an interest rate based upon the prime rate, the interest rate may change every time the prime rate changes. In contrast, the rate of interest we pay on a five-year certificate of deposit adjusts only every five years, based upon changes in market interest rates.

In general, the interest rates we pay on deposits adjust more slowly than the interest rates we earn on loans because our loan portfolio consists primarily of loans with interest rates that fluctuate based upon the prime rate. In contrast, although many of our deposit categories have interest rates that could adjust immediately, such as interest checking accounts and savings accounts, changes in the interest rates on those accounts are at our discretion. Thus, the rates on those accounts, as well as the rates we pay on certificates of deposit, tend to adjust more slowly. However, in the past six years, the prime rate has remained at 3.25%, while deposit rates have fluctuated within a relatively narrow band.

Many of our prime-based loans have minimum interest rates, or floors, below which the interest rate does not decline despite further decreases in the prime rate. This helped stabilize our loan yields in a period of declining interest rates.

We expect that market interest rates will begin increasing at some point in the future. We anticipate that this will have an initial adverse effect on our net income because our deposit rates should begin to rise, soon thereafter. In contrast, loan yields will remain relatively steady until the prime rate increases sufficiently that our loans begin to reprice above their interest rate floors. For most of our prime-rate based loans, this will not occur until the prime rate increases above 6%. Once our loan rates exceed their interest rate floors, increases in market interest rates should increase our net interest income because our cost of deposits should probably increase more slowly than the yields on our loans. However, customer preferences and competitive pressures may negate this positive effect because customers may choose to move funds into higher-earning deposit types as higher interest rates make them more attractive, or competitors offer premium rates to attract deposits.

We have a substantial amount of investment securities with fixed rates of interest, most of which are mortgage-backed securities with an estimated average life of not more than 7 years. We receive regular cash flows from the repayment of our securities portfolios. These repayments were in excess of $28.9 million in 2013 and $33.1 million in 2014. We also have a significant level of overnight and short term investments. The availability overnight funds and securities repayments should allow us to invest at higher yields as market rates increase, thus mitigating the effect of the delay in repricing our loans with interest rate floors.

Delays in Foreclosure Proceedings May Affect Collateral Value

The length of time it takes to prosecute a foreclosure action and be able to sell real estate collateral in New York has substantially lengthened. It is not unusual for it to take more than three years from the date a foreclosure action is commenced until the property is sold even in uncontested cases, and some uncontested cases can take longer. This problem, if it continues or gets worse, could have a substantial adverse effect on the value of our collateral, for our loans, that are in default. The inability to realize upon collateral promptly increases our loss in the event of a default due to the property value deterioration during a lengthy foreclosure.

Comparative Results for the Years Ended December 31, 2014 and December 31, 2013

Our results of operations depend primarily on net interest income, which is the difference between the income we earn on our loan and investment portfolios and our cost of funds, consisting primarily of interest we pay on customer deposits. Our operating expenses principally consist of employee compensation and benefits, occupancy expenses, professional fees, advertising and marketing expenses and other general and administrative expenses. Our results of operations are significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government policies and actions of regulatory authorities.

General. We had net income of $1,272,494 for the year ended December 31, 2014, compared to net income of $1,051,471 for the comparable period in 2013. The principal categories which make up the 2014 net income are:

- Interest income of $8,969,450
- Reduced by interest expense of $706,234
- Reduced by a provision for loan losses of $345,000
- Increased by non-interest income of $2,679,345
- Reduced by non-interest expense of $8,082,416
- Reduced by income tax expense of $1,242,651

We discuss each of these categories individually and the reasons for the differences between the years ended December 31, 2014 and 2013 in the following paragraphs.

Interest Income. Interest income was $8,969,450 for the year ended December 31, 2014, compared to $8,565,526 for the year ended December 31, 2013, an increase of $403,924 or 4.7%. The main reason for the increase was a $34,912,236 increase in the average balance of investment securities, which caused a $649,763 increase in interest income from investment securities. There was also a decrease of $182,441 in interest income on loans.

Interest income on loans decreased by $182,441 as a result of a decrease of $7.2 million in the average balance of loans partially offset by a 46 basis point increase in the average yield, from the year ended December 31, 2013 to the year ended December 31, 2014. The increase in the yield on loans was mostly due to the sale of a non-performing loan in 2014 and the recognition of interest income as we recovered some past due interest from prior years when we sold the loan. There was a $1,040,266 decrease in our average non-performing loans, from $5.6 million for the year ended December 31, 2013 to $4.5 million in the same period ended 2014. Non-performing loans continue to be included in the calculation of average loan yield, but with an effective yield of zero. We estimate that if all non-performing loans were performing according to their contractual terms during the year ended December 31, 2014, our average loan yield would have been approximately 39 basis points higher. In contrast, we estimate that the comparable effect in 2013 would have been approximately a 30 basis point increase in average loan yield. Substantially all of the non-accrual loans are secured by mortgages on real estate.

Interest rate floors on most of our loans helped to maintain our level of interest income from the loan portfolio during periods of low interest rates, but these floors will have the effect of limiting increases in our income as market rates increase until the prime rate rises above 6%.

The aggregate average balance of our investment portfolios increased by $34.9 million, or 25.6%, between the periods. The driving force behind the increase was a deliberate shift in asset allocation as we reduced short term, low yielding overnight investments by $25.7 million and increased higher-yielding investment securities by $34.9 million. We took these steps to take advantage of higher yields available in the investment securities market. The investment securities portfolios represented 60.39% of average interest earning assets in 2014 compared to 48.42% in 2013.

We experienced a 6 basis point decrease in the average yield on our investment securities portfolios, from 2.16% to 2.10%, due to the purchase of new investment securities at lower market rates than the rates we had been earning on the investment securities previously purchased that were gradually being repaid. However, the increase in volume more than offset the decrease in yield, resulting in an overall increase in interest on investment securities of $649,763, or 22.0%.

Interest income from other interest earning assets (principally overnight investments) decreased by $63,398 due principally to the $25.7 million decrease average other interest earning assets between the periods, as we invested those funds into higher yielding investment securities.

Interest Expense. Interest expense was $706,234 for the year ended December 31, 2014, compared to $824,975 for the year ended December 31, 2013, a decrease of $118,741 or 14.3%. The decrease in interest expense was principally due to a $156,593 decrease in interest on time accounts, as the average cost declined by 13 basis points and the average balance decreased by $12.9 million.

Average interest-bearing deposits decreased by $8.9 million, resulting in an overall $3.7 million increase in average total deposits from the year ended 2013 to the year ended 2014. The decline in interest bearing despots as a funding source was more than offset by an increase in demand deposits, an interest free source of funds for us to invest, which increased $12.8 million, or 14.0%, from the year ended 2013. Demand deposits represented approximately 40% of average total deposits for the year ended 2014

Net Interest Income Before Provision for Loan Losses. Net interest income before the provision for loan losses was $8,263,216 for the year ended December 31, 2014, compared to $7,740,551 for the year ended December 31, 2013, an increase of $522,665, or 6.8%. The increase in our interest income and the reduction in our cost of funds both contributed to the increase in net interest income.

The average yield on interest earning assets increased by 12 basis points, while the average cost of funds declined by 5 basis points. The increase in the yield on assets was principally due to the 46 basis points increase in the yield on loans partially offset by the decrease of 6 basis points in the yield on investment securities. Overall, our interest rate spread increased 17 basis points, from 2.55% to 2.72% between the periods. Correspondingly, our net interest margin increased to 2.91% for the year ended December 31, 2014 from 2.75% in the same period of 2013. The margin is higher than the spread because it takes into account the effect of interest free demand deposits and capital.

The spread and margin both increased because of the combined effect of the shift in our asset mix towards higher-yielding investment securities and away from lower-yielding other interest-earning assets. These positive factors were complemented by a decline in the average cost of deposits due to low markets rates. An increase in noninterest-bearing demand deposits as a percentage of total deposits also had a positive effect on our net interest margin.

Provision for Loan Losses. The provision for loan losses in any period depends upon the amount necessary to bring the allowance for loan losses to the level management believes is appropriate, after taking into account charge offs and recoveries. We took a provision for loan losses of $345,000 for the year ended December 31, 2014 compared to a provision for loan losses of $285,000 for the same period in 2013. The $60,000 increase in the provision was a result of a higher level of non-performing loans when comparing year-end 2013 to year-end 2014

We experienced an increase of $460,879 in non-performing loans from $4,170,585 at December 31, 2013 to $4,631,464 at December 31, 2014. Most of those loans are secured by real estate. We individually evaluated the non-performing mortgage loans based primarily upon updated appraisals as part of our analysis of the appropriate level of our allowance for loan and lease losses. We charged off $623,816 of loans for the year ended December 31, 2014 as compared to charge-offs of $1,010,401 for the same period in 2013. We also had recoveries (which are added back to the allowance for loan losses) of $143,994 for the year ended December 31, 2014 as compared to $65,668 in the same period of 2013.

After considering available information, we determined that the level of our allowance at December 31, 2014 was appropriate to address probable incurred losses. Overall, our allowance for loan losses decreased from $1,093,788 or 1.5% of total loans, at December 31, 2013 to $958,966 or 1.4% of total loans, at December 31, 2014. There can be no assurance that a higher level, or a higher provision for loan losses, will not be necessary in the future.

Non-interest Income. Non-interest income was $2,679,345 for the year ended December 31, 2014, compared to $2,626,063 during the same period last year. The $53,282, or 2.0% increase in non-interest income was a direct result of an increase of $85,723 in service charges on deposits partially offset by a decrease of $21,245 in loan fees as we reversed late fees on a loan that became non-accrual. Service charges on deposits consist mainly of insufficient fund fees, which are inherently volatile, and are based upon the number of items being presented for payment against insufficient funds.

In July 2014, we purchased $5 million of Bank Owned Life Insurance ("BOLI") policies, which are life insurance policies held for the benefit of the Company on our key executives, subject to their voluntary consent. The proceeds of any life insurance payments are sent directly to the Company, and are partially paid to the executive's heirs under a split dollar arrangement if certain conditions are satisfied. BOLI policies generated tax exempt non-interest income as the cash surrender value of the policies increase. The purchase of BOLI helped to mitigate the reduction in other income.

Non-interest Expense. Non-interest expense was $8,082,416 for the year ended December 31, 2014, compared to $8,143,379 for the year ended December 31, 2013, a decrease of $60,963 or 0.7%. The principal shifts in the individual categories were:

- a $273,941 decrease in other non-interest expenses due to $130,268 in costs of holding real estate acquired in foreclosure in 2013 compared to none in 2014,a $48,000 decrease in the costs of regulatory filings and related matters, a $32,215 decrease in loan costs and a $28,370 decrease in ATM expenses partially offset by:
- a $64,164 increase in salaries and benefits due to new hires and the higher cost of some benefits;
- a $45,996 increase in computer expense as we expanded our electronic product offerings in 2014;
- a $37,223 increase in occupancy expenses due to the higher costs of repairs and maintenance;
- a $33,689 increase in legal expense due to ongoing litigation; and

- a $29,881 increase in professional fees due primarily to placement fees for new employees.

In addition to these changes, we also experienced changes in the various other non-interest expense categories due to normal fluctuations in operations.

Income Tax Expense. Income tax expense was $1,242,651 for the year ended December 31, 2014, compared to income tax expense of $886,764 for the same period ended 2013. The increase in income tax expense was due to the $576,910 increase in income before income taxes in the 2014 period and a $177,000 valuation allowance recorded against the New York State portion of the net deferred tax asset. The valuation was recorded to reflect the recent change in New York State tax law for 2015, which reduced the likelihood that we will be able to recognize the benefit of a deferred tax asset we previously recorded. Our effective tax rate for 2014 was 42.4% and 2013 was 45.8%.

Changes in Financial Condition

Total assets were $281,038,921 at December 31, 2014, a decrease of $16,097,187, or 5.4%, from December 31, 2013. The principal changes resulting in the decrease in assets can be summarized as follows:

- a $47,433,469 net decrease in cash and cash equivalents; and
- a $5,513,713 net decrease in loans receivable, net, partially offset by
- a $32,026,540 net increase in investment securities and
- a $5,068,718 net increase in bank owned life insurance.

In addition to these changes in major asset categories, we also experienced changes in other asset categories due to normal fluctuations in operations.

Our deposits (including escrow deposits) were $251,377,129 at December 31, 2014, a decrease of $17,177,449 or 6.4%, from December 31, 2013. The decrease was primarily attributed to large withdrawals from two customers that re-deployed deposits into non-bank investments. The components of the aggregate decrease in deposits included decreases of $14,629,905 in time deposits, $5,749,685 in NOW accounts, $470,375 in non-interest demand deposits and $26,830 in escrow accounts partially offset by increases of $3,169,793 in money market accounts and $526,559 in savings accounts.

Total stockholders' equity was $28,514,490 at December 31, 2014, an increase of $981,742, or 3.6%, from December 31, 2013. The decrease reflected: (i) a $845,782 increase in retained earnings due to net income of $1,272,494 for the year ended December 31, 2014, partially offset by $426,712 of dividends paid in 2014; (ii) an increase of $1,001,250 in unearned ESOP shares and a corresponding increase in additional paid in capital due to the purchase of new issued common stock by the ESOP, partially offset by a reduction of $123,110 reflecting the gradual payment of the loan we made to fund the ESOP's purchase of our stock and (iii) a increase in the net unrealized gain on securities of $32,269 due to the effect on our existing securities portfolio of an increase in market yields on investment securities.

The unrealized gain or losses on the available for sale and held to maturity securities portfolios are excluded from the calculation of regulatory capital. Management does not anticipate selling securities in these portfolios, but changes in market interest rates or in the demand for funds may change management's plans with respect to the securities portfolios. If there is a material increase in interest rates, the market value of the securities portfolios may decline. Management believes that the principal and interest payments on these portfolios, combined with the existing liquidity, will be sufficient to fund loan growth and potential deposit outflow.

Liquidity and Capital Resources

Our primary sources of funds are increases in deposits, proceeds from the repayment of investment securities, and the repayment of loans. We use these funds to purchase new investment securities and to fund new and renewing loans in our loan portfolio. Remaining funds are invested in short-term liquid assets such as overnight federal funds loans and bank deposits.

During the year ended December 31, 2014, we had a net decrease in total deposits of $17,177,449 due to decreases of $14,629,905 in time deposits, $5,749,685 in NOW accounts, $470,375 in non-interest demand deposits and $26,830 in escrow accounts partially offset by increases of $3,169,793 in money market accounts and $526,559 in savings accounts. These are all what are commonly known as "retail" deposits that we obtain through the efforts of our branch network rather than "wholesale" deposits that some banks obtain from deposit brokers or deposit listing services. We also received proceeds from repayment of investment securities of $33,102,796. We used $65,640,318 of available funds to purchase new investment securities and we had a net loan decrease of $4,856,673. We also used $5,000,000 of available funds to purchase bank owned life insurance. These changes resulted in an overall decrease in cash and cash equivalents of $47,433,469. Total cash and cash equivalents at December 31, 2014 were $18,129,166.

In contrast, in 2013, we had a net increase in total deposits of $27,853,372 due to increases of $14,759,396 in non-interest demand deposits, $9,051,928 in money market accounts, $3,203,591 in savings accounts, $1,085,396 in time deposits, and $158,055 in escrow accounts, partially offset by a decrease of $404,994 in NOW accounts. These are also all retail deposits. We also received proceeds from repayment of investment securities of $28,851,186. We used $79,048,478 of available funds to purchase new investment securities and we had a net loan decrease of $7,821,692. These changes resulted in an overall decrease in cash and cash equivalents of $12,165,791. Total cash and cash equivalents at December 31, 2013 were $65,562,635.

At December 31, 2014, cash and cash equivalents represented 6.5% of total assets. Our cash and cash equivalents decreased during the year as we deployed those funds into investment securities, which enabled us to generate higher interest income. We anticipate, based upon historical experience that cash and cash equivalents, combined with cash inflows we anticipate from payments on our loan and investment securities portfolios, will be sufficient to fund loan growth and unanticipated deposit outflows. Depending upon competitive pressures, we may need to implement interest-paying business checking in order to maintain demand deposits at historical levels or to increase such deposits.

As a secondary source of liquidity, at December 31, 2014 we had $64.8 million of investment securities classified available for sale. The disposition of these securities prior to maturity is an option available to us in the event, which we believe is unlikely, that our primary sources of liquidity and expected cash flows are insufficient to meet our need for funds. Additionally, we have the ability to borrow funds at the Federal Home Loan Bank of New York and the Federal Reserve Bank of New York using all the securities in our investment portfolios as collateral if the need arises. Based upon our asset size and the amount of our securities portfolios that qualifies as eligible collateral, we had more than $86 million of unused borrowing capability from the FHLBNY at December 31, 2014. Victory State Bank also has a $2 million unsecured credit facility with Atlantic Central Bankers Bank, which the Bank has not drawn upon. We do not anticipate a need for additional capital resources and do not expect to raise funds through a stock offering in the near future. We have sufficient resources to allow us to continue to make loans as appropriate opportunities arise without having to rely on government funds to support our lending activities.

Victory State Bank satisfied all capital ratio requirements of the Federal Deposit Insurance Corporation at December 31, 2014, with a Tier I Leverage Capital ratio of 9.18%, a Tier I Capital to Risk-Weighted Assets ratio of 25.41%, and a Total Capital to Risk-Weighted Assets ratio of 26.30%.

VSB Bancorp, Inc. satisfied all capital ratio requirements of the Federal Reserve Bank of New York at December 31, 2014, with a Tier I Leverage Capital ratio of 9.17%, a Tier I Capital to Risk-Weighted Assets ratio of 26.84%, and a Total Capital to Risk-Weighted Assets ratio of 27.75%.

Non-Performing Loans

The following is information about the five largest non-performing loans and the associated relationships, totaling $3,023,852, or 65.3% of our non-performing loans, by outstanding book balance at December 31, 2014. Management believes it has taken appropriate steps with a view towards maximizing recovery and minimizing loss, if any, on these loans.

- $1,224,198 in two commercial real estate loans, each loan made to two individuals. We are foreclosing on one of the loans and we already have a money judgment against the borrowers personally on the other loan. We have a contract to sell the loans to an independent third party and we expect to close that sale during the second quarter of 2015. We expect that the sale will result in our recovery of the entire principal balance owed on the loans.
- $834,165 in a commercial real estate loan. The loan is secured by property in Brooklyn, NY and a second mortgage on other real estate collateral in Brooklyn, NY. The loan is guaranteed personally by the principal of the borrower. The borrower has signed a forbearance agreement which is current and intends to sell the collateral or other unencumbered property in order to satisfy the debt.
- $499,000 in a commercial real estate loan on property in Staten Island that is leased to a restaurant. The loan is secured by a first mortgage on the property and a second mortgage on other commercial real estate collateral. The loan is guaranteed personally by the principals of the borrower and we have a security interest in the business. The loan was sold in January 2015 and we received all of the principal and disbursements, and some of the past due interest owed.
- $466,549 in a commercial real estate loan, which is secured by a first mortgage on property in Staten Island and a second mortgage on property in Staten Island. The borrower has signed a short term forbearance agreement which is current. The borrower has said that it intends to refinance the loan at another institution prior to the expiration of the forbearance agreement in May 2015.

From time to time, the Bank will enter into agreements with borrowers to modify the terms of their loans when we believe that a modification will maximize our recovery. In most cases, we do not agree to reduce the rate of interest or forgive the repayment of principal when we agree to the loan modification, and we did not do so in any of the modifications described above. Instead, we seek to modify terms on an interim basis to allow the borrower to reduce payments for a short duration and thus give the borrower an opportunity to get back on its feet. We prefer to develop repayment plans for our borrowers that provide them with cash flow relief while requiring that they ultimately pay all amounts that they owe. However, we are not averse to commencing legal action to foreclose on mortgages or obtain personal judgments against obligors when we perceive that as the appropriate strategy. Unfortunately, in recent years, many courts have taken a very pro-borrower stance in foreclosure actions, which has resulted in delays in our ability to realize upon real estate collateral.

Average Balance Sheet

The following table sets forth certain information relating to our consolidated statements of financial condition and the consolidated statements of earnings for the fiscal years ended December 31, 2014 and 2013 and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The average balance of loans receivable include loans on which we have discontinued accruing interest. The yields and costs include net fees, which are considered adjustments to yields. No tax equivalent adjustments have been made.

	Year Ended December 31, 2014			Year Ended December 31, 2013		
	Average Balance	Interest[1]	Yield/ Cost	Average Balance	Interest[1]	Yield/ Cost
Assets:						
Interest-earning assets:						
Loans receivable	$ 70,227,592	$ 5,272,808	7.51 %	$ 77,417,174	$ 5,455,249	7.05 %
Other interest earning assets	42,148,338	94,533	0.22	67,824,963	157,931	0.23
Investment securities	171,299,542	3,602,109	2.10	136,387,306	2,952,346	2.16
Total interest-earning assets	283,675,472	8,969,450	3.16	281,629,443	8,565,526	3.04
Non-interest earning assets	9,821,257			7,428,325		
Total assets	$ 293,496,729			$ 289,057,768		
Liabilities and equity:						
Interest-bearing liabilities:						
Savings accounts	$ 25,635,443	108,714	0.42	$ 22,664,536	77,245	0.34
Time accounts	61,405,829	310,008	0.50	74,263,874	466,601	0.63
Money market accounts	41,839,822	237,779	0.57	37,277,822	218,478	0.59
Now accounts	30,713,318	49,773	0.16	34,337,254	62,651	0.18
Total interest-bearing liabilities	159,594,412	706,274	0.44	168,543,486	824,975	0.49
Checking accounts	104,406,480			91,613,281		
Escrow Deposits	91,792			195,106		
Total	264,092,684			260,351,873		
Other liabilities	1,180,728			979,514		
Total liabilities	265,273,412			261,331,387		
Equity	28,223,317			27,726,381		
Total liabilities and equity	$ 293,496,729			$ 289,057,768		
Net interest income/net interest rate spread		$ 8,263,176	2.72 %		$ 7,740,551	2.55 %
Net interest earning assets/net interest margin	$ 124,081,060		2.91 %	$ 113,085,957		2.75 %
Ratio of interest-earning assets to to interest-bearing liabilities	1.78 x			1.67 x		
Return On Average Equity:			4.51 %			3.79 %
Equity To Assets:			10.15 %			9.27 %
Dividend Payout Ratio			33.53 %			40.59 %

1 - Interest on loans includes $625,774 in 2014 and $167,980 in 2013 representing interest received during the year on non-accrual loans that is attributable to prior years. Those amounts were excluded in calculating the average loan yield for the year in which they were received but were not added to the prior period interest in calculating the yield in the prior period.

Market for Common Equity and Related Stockholder Matters.

Our common stock has been quoted on the OTC Marketplace under the symbol "VSBN" since December 23, 2013. Until February 6, 2015, it was quoted on the OTCQB tier of the OTC Marketplace. On February 9, 2015 our common stock began quoting on the OTCQX Banks, continuing under the symbol “VSBN”. Prior to December 23, 2013, we were listed on the NASDAQ Global Market under the same symbol.

The following table reflects the high and low sales prices for our common stock during each calendar quarter of the last two fiscal years.

2014	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High Price	$11.00	$12.00	$11.68	$11.76
Low Price	$10.40	$10.92	$11.40	$11.41

2013	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High Price	$10.59	$10.89	$10.95	$12.00*
Low Price	$ 9.83	$10.03	$10.33	$ 9.86

* - Represents a reported transaction price on the OTCQB. All other 2013 prices shown represent reported transaction prices on the NASDAQ Global Market.

We have approximately 134 stockholders of record. We paid our first cash dividend of $0.06 per common share on January 2, 2008 to stockholders of record on November 29, 2007, and we paid quarterly dividends of $0.06 per share with respect to each calendar quarter thereafter through the end of 2014.

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
VSB Bancorp, Inc.
Staten Island, New York

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of VSB Bancorp, Inc. (the “Company”), which comprise the consolidated statements of financial condition as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income/(loss), stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/Crowe Horwath LLP

New York, New York
March 17, 2015

VSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2014 AND 2013

ASSETS	**2014**	**2013**
Cash and cash equivalents	$ 18,129,166	$ 65,562,635
Investment securities, available for sale	64,759,836	57,517,211
Investment securities, held to maturity		
(fair value of $122,358,472 at 2014 and $95,813,499 at 2013)	121,929,954	97,146,039
Loans receivable (net of allowance for loan losses		
of $958,966 at 2014 and $1,093,788 at 2013, respectively)	66,473,809	71,987,522
Accrued interest receivable	668,631	539,092
Premises and equipment, net	1,839,292	1,992,527
Bank owned life insurance	5,068,719	-
Prepaid and other assets	2,169,514	2,391,082
Total assets	$ 281,038,921	$ 297,136,108
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Deposits		
Non-interest bearing	$ 96,378,997	$ 96,876,202
Interest bearing	154,998,132	171,678,376
Total deposits	251,377,129	268,554,578
Accounts payable, accrued expenses and other liabilities	1,147,302	1,048,782
Total liabilities	252,524,431	269,603,360
Commitments and contigent liabilities (Note 12)	-	-
STOCKHOLDERS' EQUITY		
Common stock ($.0001 par value, 10,000,000 shares authorized.		
2,078,509 issued, 1,856,845 outstanding at December 31, 2014		
and 1,989,509 issued, 1,780,109 outstanding at December 31, 2013)	208	199
Additional paid-in capital	10,487,210	9,364,950
Retained earnings	20,806,715	19,960,933
Treasury stock, at cost (221,664 shares at December 31, 2014		
and 209,400 shares at December 31, 2013)	(2,263,984)	(2,123,546)
Unearned Employee Stock Ownership Plan shares	(934,500)	(56,360)
Accumulated other comprehensive gains, net of taxes		
of $353,216 and $326,003, respectively	418,841	386,572
Total stockholders' equity	28,514,490	27,532,748
Total liabilities and stockholders' equity	$ 281,038,921	$ 297,136,108

See notes to consolidated financial statements.

VSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
INTEREST INCOME:		
Loans receivable	$ 5,272,808	$ 5,455,249
Investment securities	3,602,109	2,952,346
Other interest income	94,533	157,931
Total interest income	8,969,450	8,565,526
INTEREST EXPENSE:		
Deposits	706,234	824,975
Total interest expense	706,234	824,975
Net interest income	8,263,216	7,740,551
PROVISION FOR LOAN LOSSES	345,000	285,000
Net interest income after provision for loan losses	7,918,216	7,455,551
NON-INTEREST INCOME:		
Deposit service fees	2,319,738	2,234,015
Other income	359,607	392,048
Total non-interest income	2,679,345	2,626,063
NON-INTEREST EXPENSES:		
Salaries and employee benefits	3,893,558	3,829,394
Occupancy and equipment	1,370,506	1,333,283
Data processing service fees	354,806	308,810
Legal fees	330,028	296,339
Professional fees	389,622	359,741
Director fees	232,750	238,225
FDIC and NYSBD assessments	245,500	238,000
Supplies and service	290,270	311,713
Checkbook charges	173,658	186,655
Other	801,718	1,041,219
Total non-interest expenses	8,082,416	8,143,379
INCOME BEFORE INCOME TAXES	2,515,145	1,938,235
PROVISION/(BENEFIT) FOR INCOME TAXES:		
Current	1,043,017	443,785
Deferred	199,634	442,979
Total income taxes	1,242,651	886,764
NET INCOME	$ 1,272,494	$ 1,051,471
Earnings per share:		
Basic	$ 0.72	$ 0.59
Diluted	$ 0.72	$ 0.59
Comprehensive income/(loss)	$ 1,304,763	$ (16,618)

See notes to consolidated financial statements.

VSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
DECEMBER 31, 2014 AND 2013

	2014	2013
Net Income	$ 1,272,494	$ 1,051,471
Other comprehensive income/(loss):		
Unrealized gains on securities, AFS:		
Change in unrealized gain (loss) on securties , AFS	294,626	(1,455,668)
Amortization on unrealized gains on HTM securities	(235,145)	(62,987)
Tax effects	27,212	(450,566)
Net of tax	32,269	(1,068,089)
Comprehensive income/(loss)	$ 1,304,763	$ (16,618)

See notes to consolidated financial statements.

VSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock, at cost	Unearned ESOP Shares	Other Comprehensive Gain /(Loss)	Total Stockholders' Equity
Balance at January 1, 2013	1,785,309	$ 199	$ 9,257,167	$ 19,336,280	$ (2,068,898)	$ (225,438)	$ 1,454,661	$ 27,753,971
Stock-based compensation			160,690					160,690
Amortization of earned portion of ESOP common stock						169,078		169,078
Amortization of cost over fair value - ESOP			(52,907)					(52,907)
Cash dividends declared ($0.24 per share)				(426,818)				(426,818)
Purchase of treasury stock, at cost	(5,200)				(54,648)			(54,648)
Net income				1,051,471				1,051,471
Other comprehensive loss	-	-	-	-	-	-	(1,068,089)	(1,068,089)
Balance at December 31, 2013	1,780,109	$ 199	$ 9,364,950	$ 19,960,933	$ (2,123,546)	$ (56,360)	$ 386,572	$ 27,532,748
Purchase of newly issued common stock by ESOP	89,000	9	1,001,241			(1,001,250)		-
Stock-based compensation			130,194					130,194
Amortization of earned portion of ESOP common stock						123,110		123,110
Amortization of cost over fair value - ESOP			(9,175)					(9,175)
Cash dividends declared ($0.24 per share)				(426,712)				(426,712)
Purchase of treasury stock, at cost	(12,264)				(140,438)			(140,438)
Net income				1,272,494				1,272,494
Other comprehensive loss	-	-	-	-	-	-	32,269	32,269
Balance at December 31, 2014	1,856,845	$ 208	$ 10,487,210	$ 20,806,715	$ (2,263,984)	$ (934,500)	$ 418,841	$ 28,514,490

See notes to consolidated financial statements.

VSB BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,272,494	$ 1,051,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	488,153	498,489
Premium amortization, net of discount accretion	512,503	314,621
ESOP compensation expense	113,935	116,171
Stock-based compensation expense	130,194	160,690
Provision for loan losses	345,000	285,000
(Gain)/loss on sale of other real estate	-	(9,611)
Write-down of other real estate owned	-	59,792
Changes in operating assets and liabilities:		
Increase in cash surrender value of BOLI	(68,719)	-
Decrease in prepaid and other assets	131,749	213,222
(Increase)/decrease in accrued interest receivable	(129,539)	78,741
Decrease in deferred income taxes	432,607	442,979
Increase/(decrease) in accrued expenses, income tax payable and other liabilities	98,520	(331,316)
Net cash provided by operating activities	3,326,897	2,880,249
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of bank owned life insurance	(5,000,000)	-
Net change in loans receivable	4,856,673	7,821,692
Available-for-sale securities:		
Proceeds from repayments and calls of investment securities	8,860,480	22,535,524
Purchase of investment securities	(15,935,290)	(49,961,450)
Held-to-maturity securities:		
Proceeds from repayments and calls of investment securities	24,242,316	6,315,662
Purchase of investment securities	(49,705,028)	(29,087,028)
Proceeds from sale of other real estate	-	492,686
Purchases of premises and equipment, net	(334,918)	(535,032)
Net cash used in investing activities	(33,015,767)	(42,417,946)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease)/increase in deposits	(17,177,449)	27,853,372
Cash dividends paid	(426,712)	(426,818)
Purchase of treasury stock, at cost	(140,438)	(54,648)
Net cash (used in)/provided by financing activities	(17,744,599)	27,371,906
NET DECREASE CASH AND CASH EQUIVALENTS	(47,433,469)	(12,165,791)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,562,635	77,728,426
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 18,129,166	$ 65,562,635
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 690,289	$ 820,345
Income taxes	$ 976,000	$ 636,065
SUPPLEMENTAL NONCASH DISCLOSURE:		
Transfer from loans to real estate owned	$ 370,000	$ 200,000
Transfer of securities from available for sale to held to maturity	$ -	$ 74,540,643

See notes to consolidated financial statements.

VSB BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2014 and 2013

1. GENERAL

VSB Bancorp, Inc. (referred to using terms such as "we," "us," or the "Company") is the holding company for Victory State Bank (the "Bank"), a New York chartered commercial bank. Our primary business is owning all of the issued and outstanding stock of the Bank. Our common stock is listed on the OTCQB Marketplace. We trade under the symbol "VSBN".

Through the Bank, the Company is primarily engaged in the business of commercial banking, and to a lesser extent retail banking. The Bank gathers deposits from individuals and businesses primarily in Staten Island, New York and makes loans throughout that community. Therefore, the Company's exposure to credit risk is significantly affected by changes in the local Staten Island economic and real estate markets. The Bank invests funds that are not used for lending primarily in government securities, mortgage backed securities and collateralized mortgage obligations. Customer deposits are insured, up to the applicable limit, by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is supervised by the New York State Department of Financial Services ("NYDFS") and the FDIC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a description of the significant accounting and reporting policies followed in preparing and presenting the accompanying consolidated financial statements. These policies conform with accounting principles generally accepted in the United States of America ("GAAP").

Principles of Consolidation - The consolidated financial statements of the Company include the accounts of the Company, including its subsidiary Victory State Bank. All significant inter-company accounts and transactions between the Company and Bank have been eliminated in consolidation.

Subsequent Events - The Company has evaluated subsequent events for recognition and disclosure through March 17, 2015, which is the day the financial statements were available to be issued.

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

Reclassifications – Some items in the prior year financial statements were reclassified to conform to the current presentation.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand, due from banks and interest-bearing deposits. Interest-bearing deposits with original maturities of 90 days or less are included in this category. Customer loan and deposit transactions are reported on a net cash basis. Regulation D of the Board of Governors of the Federal Reserve System requires that Victory State Bank maintain interest-bearing deposits or cash on hand as reserves against its demand deposits. The amount of reserves which Victory State Bank is required to maintain depends upon its level of transaction accounts. During the fourteen day period from December 25, 2014 through January 7, 2015, Victory State Bank was required to maintain reserves, after deducting vault cash, of $6,025,000. Reserves are required to be maintained on a fourteen day basis, so, from time to time, Victory State Bank may use available cash reserves on a day to day basis, so long as the fourteen day average reserves satisfy Regulation D requirements. Victory State Bank is required to report transaction account levels to the Federal Reserve on a weekly basis.

Interest-bearing bank balances – Interest-bearing bank balances mature overnight and are carried at cost.

Investment Securities - Investment securities, available for sale, are to be held for an unspecified period of time and include securities that management intends to use as part of its asset/liability strategy. These securities may be sold in response to changes in interest rates, prepayments or other factors and are carried at estimated fair value. Gains or losses on the sale of such securities are determined by the specific identification method. Interest income includes amortization of purchase premium and accretion of purchase discount. Premiums and discounts are recognized in interest income using a method that approximates the level yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are estimated. Unrealized holding gains or losses, net of deferred income taxes, are excluded from earnings and reported as other comprehensive income in a separate component of stockholders' equity until realized

Investment securities, held to maturity are carried at amortized cost when management has the positive intent and ability to hold them to maturity. The Company invests in agency Collateralized Mortgage-Backed Obligations ("CMOs") with average lives primarily under 7 years and balloon Mortgage-Backed Securities with a final maturity of ten years or less. These securities are primarily issued by the Federal National Mortgage Association ("FNMA"), the Government National Mortgage Association ("GNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC") and are primarily comprised of mortgage pools guaranteed by FNMA, GNMA or FHLMC.

For debt securities with other than temporary impairment (OTTI) that management does not intend to sell or expect to be required to sell, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

The Company invests primarily in agency collateralized mortgage-Backed obligations ("CMOs") with estimated average lives primarily under 7 Years and mortgage-backed securities. These securities are primarily issued by the Federal National Mortgage Association ("FNMA"), the Government National Mortgage Association ("GNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC") and are primarily comprised of mortgage pools guaranteed by FNMA, GNMA or FHLMC. The Company also invests in whole loan CMOs, collateralized loan obligations ("CLO") and asset backed securities, all of which are AAA rated at the time of purchase, as well as corporate bonds, which are typically rated A or better at the time of purchase . These securities expose the Company to risks such as interest rate, prepayment and credit risk and thus pay a higher rate of return than comparable treasury issues.

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 unpaid principal balances, adjusted for deferred net origination and commitment fees and the allowance for loan losses. Interest income on loans is credited as earned.

It is the policy of the Company to provide a valuation allowance for probable incurred losses on loans based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations which may affect the borrower's ability to repay, estimated value of underlying collateral and current economic conditions in the Company's lending area. The allowance is increased by provisions for loan losses charged to earnings and is reduced by charge-offs, net of recoveries. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based upon the expected growth of the loan portfolio and any changes in economic conditions beyond management's control. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management. Management believes, based upon all relevant and available information, that the allowance for loan losses is appropriate.

The Company has a policy that all loans 90 days past due are placed on non-accrual status. It is the Company's policy to cease the accrual of interest on loans to borrowers past due less than 90 days where a probable loss is estimated and to reverse out of income all interest that is due but has not been paid. Past due status is based on the contractual terms of the loan. The Company applies payments received on non-accrual loans to the outstanding principal balance due before applying any amount to interest, until the loan is restored to an accruing status. On a limited basis, the Company may apply a payment to interest on a non-accrual loan if there is no impairment or no estimated loss on these assets. The Company continues to accrue interest on construction loans that are 90 days past contractual maturity date if the loan is expected to be paid in full in the next 60 days and all interest is paid up to date.

Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there has been a history of prompt payments and future payments are reasonably assured.

Loan origination fees and certain direct loan origination costs are deferred and the net amount recognized over the contractual loan terms using the level-yield method, adjusted for periodic prepayments in certain circumstances.

The Company considers a loan to be impaired when, when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis for commercial and construction loans. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral. The fair value of the collateral, as reduced by costs to sell, is utilized if a loan is collateral dependent. The fair value of the collateral is estimated by obtaining a new appraisal, if the loan amount exceeds $100,000, or by adjusting the most recent appraisal to reflect the current market if the loan is less than $100,000 or a more recent appraisal has yet to be received. Loans with modified terms that the Company would not normally consider, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Large groups of homogeneous loans are collectively evaluated for impairment.

Long-Lived Assets - The Company periodically evaluates the recoverability of long-lived assets, such as premises and equipment, to ensure the carrying value has not been impaired. In performing the review for recoverability, the Company would estimate the future cash flows expected to result from the use of the asset. If the sum of the expected future cash flows is less than the carrying amount, an impairment will be recognized. The Company reports these assets at the lower of the carrying value or fair value.

Premises and Equipment - Premises, leasehold improvements, and furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are accumulated by the straight-line method over the estimated useful lives of the respective assets, which range from three to fifteen years. Leasehold improvements are amortized at the lesser of their useful life or the term of the lease.

Federal Home Loan Bank (FHLB) Stock - The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment. Because this stock is viewed as a long term investment, impairment is based on ultimate recovery of par value, which is the price the Bank pays for the FHLB Stock. Both cash and stock dividends are reported as income.

Bank-Owned Life Insurance - The Company has purchased life insurance policies on certain employees. These bank-owned life insurance policies ("BOLI") policies are recorded in the Consolidated Statements of Condition at their cash surrender value. Income from these policies and changes in the cash surrender value are recorded in "Non-interest income" in the Consolidated Statements of Earnings. At December 31, 2014, the Company's investment in BOLI was $5,068,719. The company's initial purchase of BOLI was recorded on July 1, 2014. The Company's investment in BOLI generated income of $68,719 during the year ended December 31, 2014.

Income Taxes - The Company utilizes the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined on differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws expected to be in effect when the differences are expected to reverse. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. As such, a tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Financial Instruments - In the ordinary course of business, the Company has entered into off-balance sheet financial instruments, primarily consisting of commitments to extend credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Basic and Diluted Net Income Per Common Share - The Company has stock compensation awards with non-forfeitable dividend rights which are considered participating securities. As such, earnings per share is computed using the two-class method. Basic earnings per common share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the period which excludes the participating securities. Diluted earnings per common share includes the dilutive effect of additional potential common shares from stock-based compensation plans, but excludes awards considered participating securities. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Basic net income per share of common stock is based on 1,763,574 shares and 1,752,660 shares, the weighted average number of common shares outstanding for the years ended December 31, 2014 and 2013, respectively. The weighted average unearned ESOP shares were 58,283 shares for the year ended December 31, 2014. Diluted net income per share of common stock is based on 1,763,805 and 1,752,660, the weighted average number of common shares outstanding plus potentially dilutive common shares for the years ended December 31, 2014 and 2013, respectively. The weighted average number of potentially dilutive common shares excluded in calculating diluted net income per common share due to the anti-dilutive effect is 1,293 and 48,289 shares for the years ended December 31, 2014 and 2013, respectively. Common stock equivalents were calculated using the treasury stock method.

The reconciliation of the numerators and the denominators of the basic and diluted per share computations for the years ended December 31, are as follows:

Reconciliation of EPS

	Year ended December 31, 2014	Year ended December 31, 2013
Basic		
Distributed earnings allocated to common stock	$ 423,258	$ 420,638
Undistributed earnings allocated to common sock	840,364	616,591
Net earnings allocated to common stock	$ 1,263,622	$ 1,037,229
Weighted common shares outstanding		
including participating securities	1,775,957	1,776,725
Less: Participating securities	(12,383)	(24,065)
Weighted average shares	1,763,574	1,752,660
Basic EPS	$ 0.72	$ 0.59
Diluted		
Net earnings allocated to common stock	$ 1,263,622	$ 1,037,229
Weighted average shares for basic	1,763,574	1,752,660
Dilutive effects of:		
Stock Options	231	-
Unvested shares not considered		
particpating secutities	-	-
	1,763,805	1,752,660
Diluted EPS	$ 0.72	$ 0.59

Net earnings allocated to common stock for the period are distributed earnings during the period, such as dividends on common shares outstanding, plus a proportional amount of retained income for the period based on restricted shares granted but unvested compared to the total common shares outstanding.

Stock Based Compensation - The Company records compensation expense for stock options provided to employees in return for employment service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employment service period, which is normally the vesting period of the options.

Employee Stock Ownership Plan ("ESOP") - The cost of shares issued to the ESOP, but not yet allocated to participants, is shown as a reduction of stockholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Cash dividends on allocated ESOP shares reduce retained earnings; cash dividends on unearned ESOP shares reduce debt and accrued interest.

Stock Repurchase Programs – On September 8, 2008, the Company announced that its Board of Directors had authorized a Rule 10b5-1 stock repurchase program for the repurchase of up to 100,000 shares of the Company's common stock. On April 21, 2009, the Company announced that its Board of Directors had authorized a second Rule 10b5-1 stock repurchase program for the repurchase of up to an additional 100,000 shares of the Company's common stock. The Company has repurchased a total of 200,000 shares of its common stock under these stock repurchase programs, which were completed by the end of 2010. On September 14, 2011, the Company announced that its Board of Directors had authorized a third Rule 10b5-1 stock repurchase program for the repurchase of up to an additional 100,000 shares of the Company's common stock. At December 31, 2014, the Company had repurchased a total of 66,664 shares of its common stock under this third stock repurchase program.

Stock repurchases under the programs have been accounted for using the cost method, in which the Company will reflect the entire cost of repurchased shares as a separate reduction of stockholders' equity on its balance sheet.

Retention and Recognition Plan – At the April 27, 2010 Annual Meeting, the stockholders of VSB Bancorp, Inc. approved the adoption of the 2010 Retention and Recognition Plan (the "RRP"). The RRP authorizes the award of up to 50,000 shares of its common stock to directors, officers and employees. In conjunction with the approval the RRP, stockholders approved the award of 4,000 shares of stock to each of its eight directors who had at least five years of service. The director awards will vest over five years, with 20% vesting annually for each of the first five years after the award is made, subject to acceleration and forfeiture. The recipient of an award will not be required to make any payment to receive the award or the stock covered by the award. The Company recognizes compensation expense for the shares awarded under the RRP gradually as the shares vest, based upon the market price of the shares on the date of the award.

Comprehensive Income - Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses, net of taxes, on our securities' portfolios which are also recognized as separate components of equity.

Recently-Adopted Accounting Standards - In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-04, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate collateralized consumer Mortgage Loans upon Foreclosure." ASU 2014-04 clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments in this ASU require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans. ASU 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU 2014-04 is not expected to have a material effect on the Company's consolidated financial statements.

In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

3. INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of securities available-for-sale and securities held-to-maturity at December 31, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses herein:

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-Sale				
FNMA MBS - Residential	$ 715,935	$ 43,661	$ -	$ 759,596
Whole Loan MBS - Residential	13,819	157	-	13,976
Collateralized mortgage obligations	40,460,707	242,000	(198,818)	40,503,889
Collateralized loan obligations	9,000,000	31,250	-	9,031,250
Corporate bonds	11,552,618	42,865	(104,408)	11,491,075
Other debt securities	2,930,552	29,498	-	2,960,050
Total Available-for-Sale	$ 64,673,631	$ 389,431	$ (303,226)	$ 64,759,836

	December 31, 2014			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Held-to-Maturity				
Government Agencies	$ 2,958,883	$ 24,029	$ -	$ 2,982,912
FNMA MBS - Residential	62,417,857	601,697	(128,341)	62,891,213
GNMA MBS - Residential	2,854,052	46,149	-	2,900,201
FHLMC MBS - Residential	3,649,785	-	(6,670)	3,643,115
Collateralized mortgage obligations	36,006,291	239,847	(327,451)	35,918,687
Corporate Notes	14,043,086	16,219	(36,961)	14,022,344
Total Held-to-Maturity	$ 121,929,954	$ 927,941	$ (499,423)	$ 122,358,472

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-Sale				
FNMA MBS - Residential	$ 1,178,809	$ 62,541	$ -	$ 1,241,350
Whole Loan MBS - Residential	117,859	2,478	-	120,337
Collateralized mortgage obligations	38,909,782	376,671	(501,548)	38,784,905
Collateralized loan obligations	5,000,000	35,000	-	5,035,000
Corporate bonds	9,567,108	-	(222,999)	9,344,109
Other debt securities	2,952,074	39,436	-	2,991,510
Total Available-for-Sale	$ 57,725,632	$ 516,126	$ (724,547)	$ 57,517,211

	December 31, 2013							
		Amortized Cost		Gross Unrecognized Gains		Gross Unrecognized Losses		Fair Value
Held-to-Maturity								
FNMA MBS - Residential	$	57,710,192	$	69,794	$	(516,611)	$	57,263,375
GNMA MBS - Residential		3,772,220		-		(50,903)		3,721,317
Collateralized mortgage obligations		35,663,627		825		(835,645)		34,828,807
Total Held-to-Maturity	$	97,146,039	$	70,619	$	(1,403,159)	$	95,813,499

There were no sales of investment securities for the years ended December 31, 2014 and 2013.

The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities, especially for collateralized mortgage obligations, if borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2014			
Available-for-Sale		Amortized Cost		Fair Value
Less than one year	$	2,003,752	$	2,011,425
Due after one year through five years		7,085,772		7,024,299
Due after five years through ten years		16,065,804		16,095,144
Due after ten years		39,518,303		39,628,968
Available-for-Sale	$	64,673,631	$	64,759,836

	December 31, 2014			
Held-to-maturity		Amortized Cost		Fair Value
Less than one year	$	-	$	-
Due after one year through five years		59,363,228		59,601,962
Due after five years through ten years		8,863,223		9,072,075
Due after ten years		53,703,503		53,684,435
Held-to-maturity	$	121,929,954	$	122,358,472

The following table summarizes the investment securities with unrealized losses at December 31, 2014 and December 31, 2013 by aggregated major security type and length of time in a continuous unrealized loss position:

December 31, 2014	Less than 12 months		More than 12 months		Total	
Available-for-Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Collateralized mortgage obligations	$ 14,857,570	$ (79,141)	$ 8,320,877	$ (119,677)	$ 23,178,447	$ (198,818)
Corporate bonds	1,980,610	(19,390)	4,963,848	(85,018)	6,944,458	(104,408)
Available-for-Sale	$ 16,838,180	$ (98,531)	$ 13,284,725	$ (204,695)	$ 30,122,905	$ (303,226)

December 31, 2014	Less than 12 months		More than 12 months		Total	
Held-to-Maturity	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
FNMA MBS	$ 7,891,607	$ (13,957)	$ 13,234,214	$ (114,384)	$ 21,125,821	$ (128,341)
FHLMC MBS	3,643,115	(6,670)	-	-	3,643,115	(6,670)
Collateralized mortgage obligations	8,782,017	(31,892)	12,998,703	(295,559)	21,780,720	(327,451)
Corporate notes	5,982,892	(36,961)	-	-	5,982,892	(36,961)
Held-to-Maturity	$ 26,299,631	$ (89,480)	$ 26,232,917	$ (409,943)	$ 52,532,548	$ (499,423)

December 31, 2013	Less than 12 months		More than 12 months		Total	
Available-for-Sale	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Collateralized mortgage obligations	$ 22,235,086	$ (501,517)	$ 17,904	$ (31)	$ 22,252,990	$ (501,548)
Corporate bonds	9,344,109	(222,999)	-	-	9,344,109	(222,999)
Available-for-Sale	$ 31,579,195	$ (724,516)	$ 17,904	$ (31)	$ 31,597,099	$ (724,547)

December 31, 2013	Less than 12 months		More than 12 months		Total	
Held-to-Maturity	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
FNMA MBS	$ 46,768,567	$ (516,611)	$ -	$ -	$ 46,768,567	$ (516,611)
GNMA MBS	3,721,317	(50,903)	-	-	3,721,317	(50,903)
Collateralized mortgage obligations	33,396,973	(835,645)	-	-	33,396,973	(835,645)
Held-to-Maturity	$ 83,886,857	$ (1,403,159)	$ -	$ -	$ 83,886,857	$ (1,403,159)

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

At December 31, 2014, the unrealized loss on investment securities was caused by a rise in intermediate and long term market interest rates generally. We expect that these securities, at maturity, will be settled for at least the amortized cost of the investment. Because the decline in fair value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before recovery of the amortized cost basis less any current-period loss, these investments are not considered other-than-temporarily impaired. At December 31, 2014, there were no debt securities with unrealized losses with aggregate depreciation of 5% or more from the Company's amortized cost basis.

Securities pledged had a fair value of $55,606,346 and $62,543,025 at December 31, 2014 and 2013, respectively and were pledged to secure public deposits and balances in excess of the deposit insurance limit on certain customer accounts.

During the second quarter of 2013, $74,540,643 of securities was transferred from the available for sale portfolio to the held to maturity portfolio. These securities were transferred at fair value with the unrealized gain/loss remaining in accumulated other comprehensive income to be accreted or amortized through other comprehensive income over the remaining life of the securities.

The following table illustrates the accounting for the transfer from available-for-sale to held- to-maturity at June 30, 2013:

Transferred to Held to Maturity at fair value:	Amortized Cost Par	Amortized Cost Premium/ (Discount)	Amortized Cost Total	Fair Value	Unrealized Holding Gain in Other Comprehensive Income (Amortization)	Deferred Tax Adjustment in Other Comprehensive @ 45.75% Credit(Debit)	Unrealized Holding Gain, Net of Tax, in Other Comprehensive Income Credit(Debit)
At June 30, 2013							
MBS	$ 43,636,576	$ 837,672	$ 44,474,248	$ 44,932,848	$ 458,600	$ (209,810)	$ 248,790
CMO	28,666,153	416,259	29,082,412	29,607,795	525,383	(240,362)	285,021
	$ 72,302,729	$ 1,253,931	$ 73,556,660	$ 74,540,643	$ 983,983	$ (450,172)	$ 533,811

4. LOANS RECEIVABLE, NET

Loans receivable, net at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Commercial loans (principally variable rate):		
Secured	$ 2,208,293	$ 1,536,008
Unsecured	15,913,165	15,282,951
Total commercial loans	18,121,458	16,818,959
Real estate loans:		
Commercial	42,797,249	49,290,721
Residential	2,606,346	2,227,230
Total real estate loans	45,403,595	51,517,951
Construction loans (net of undisbursed funds of $2,602,500 and $1,151,000, respectively)	2,047,500	2,749,000
Consumer loans	870,937	849,143
Other loans	1,168,366	1,330,480
	2,039,303	2,179,623
Total loans receivable	67,611,856	73,265,533
Less:		
Unearned loans fees, net	(179,081)	(184,223)
Allowance for loan losses	(958,966)	(1,093,788)
Total	$ 66,473,809	$ 71,987,522

Lending Risk

The principal business of the Bank is lending, primarily in commercial real estate mortgage loans and commercial and industrial loans. The Bank considers its primary lending area to be Staten Island, New York, and a substantial portion of the Bank's loans are secured by real estate in this area. Accordingly, the ultimate collectability of such a loan portfolio is susceptible to changes in market and economic conditions in this region.

Commercial Real Estate

Loans in this classification include income producing investment properties and owner occupied real estate used for business purposes. The underlying properties are generally located largely in our primary market area. The cash flows of the income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. Generally, management seeks to obtain annual financial information for borrowers in this category. In the case of owner-occupied real estate used for business purposes, a weakened economy and resultant decreased consumer and/or business spending will have an adverse effect on credit quality.

Commercial & Industrial

Loans in this classification are made to businesses. Generally these loans are unsecured and repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer and/or business spending will have an effect on the credit quality in this loan class.

Nonaccrual loans outstanding at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Nonaccrual loans:		
Commercial real estate	$ 4,600,516	$ 3,948,785
Commercial unsecured	30,436	221,800
Other Loans	513	-
Total nonaccrual loans	$ 4,631,465	$ 4,170,585

	2014	2013
Interest income that would have been recorded during the period on nonaccrual loans outstanding in accordance with original terms	$276,249	$403,330

At December 31, 2014 and 2013, there were no loans 90 days past due and still accruing interest.

The following table presents the aging of the past due loan balances as of December 31, 2014 and 2013 by class of loans:

December 31, 2014	Total	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due
Commercial loans:						
Unsecured	$15,913,165	$ 199,470	$ -	$ 30,436	$ 229,906	$15,683,259
Secured	2,208,293	-	-	-	-	2,208,293
Real Estate loans						
Commercial	42,797,249	401,932	430,247	4,600,516	5,432,695	37,364,554
Residential	2,606,346	91,758	285,000	-	376,758	2,229,588
Construction loans	2,047,500	-	-	-	-	2,047,500
Consumer loans	870,937	-	-	-	-	870,937
Other loans	1,168,366	-	-	513	513	1,167,853
Total loans	$67,611,856	$693,160	$715,247	$4,631,465	$6,039,872	$61,571,984

December 31, 2013	Total	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due
Commercial loans:						
Unsecured	$15,282,951	$ 85,678	$ 19,657	$ 221,800	$ 327,135	$14,955,816
Secured	1,536,008	-	-	-	-	1,536,008
Real Estate loans						
Commercial	49,290,721	1,380,962	609,532	3,948,785	5,939,279	43,351,442
Residential	2,227,230	98,458	-	-	98,458	2,128,772
Construction loans	2,749,000	-	400,000	-	400,000	2,349,000
Consumer loans	849,143	-	-	-	-	849,143
Other loans	1,330,480	-	-	-	-	1,330,480
Total loans	$73,265,533	$1,565,098	$1,029,189	$4,170,585	$6,764,872	$66,500,661

Nonaccrual loans include smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Loans individually evaluated for impairment were as follows:

	December 31, 2014	**December 31, 2013**
Loans with no allocated allowance for loan losses:		
Commercial real estate	$ 4,330,838	$ 3,024,092
Loans with allocated allowance for loan losses:		
Commercial real estate	85,771	721,736
Commercial unsecured	30,435	221,800
Other loans	513	-
	$ 4,447,557	$ 3,967,628

Amount of the allowance for loan losses allocated:		
Commercial real estate	$ 42,371	$ 115,168
Commercial unsecured	6,087	110,901
Other loans	103	-
	$ 48,561	$ 226,069

The following table sets forth certain information about impaired loans with a measured impairment:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Average of individually impaired loans during period:		
Commercial real estate	$ 3,543,111	$ 4,545,106
Construction	100,000	389,583
Commercial secured	35,105	-
Commercial unsecured	171,143	173,250
Other loans	2,844	42
	$ 3,852,203	$ 5,107,981
Interest income recognized during time period that loans were impaired, either using accrual or cash-basis method of accounting	$ -	$ 38,430

Troubled Debt Restructurings:

The Company has allocated $42,371 and $171,225 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings ("TDRs") as of December 31, 2014 and 2013, respectively. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as TDRs.

The outstanding principal balance of trouble debt restructurings at December 31, 2014 was $4,310,374 and at December 31, 2013 was $5,404,754. None of the loans currently classified as TDRs have defaulted during this period. These TDRs are all current and are paying under the modified arrangements.

There was one loan that was modified during the year ended December 31, 2014 that did not meet the definition of a TDR and there was one loan that was modified during the year ended December 31, 2013 that did not meet the definition of a TDR. Modification of loans that do not meet the definition of a TDR involve either a modification of the terms of a loan to borrowers who were not experiencing financial difficulties or a delay in a payment that was considered to be insignificant.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification.

There were no loans modified as trouble debt restructuring that occurred during the year ended December 31, 2014. The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2013:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commerical unsecured	8	$ 245,913	$ 245,913

The troubled debt restructurings described above required an additional allowance of $107,896 during the period ending December 31, 2013.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debts such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans categorized as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position as some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

The following table sets forth at December 31, 2014 and 2013, the aggregate carrying value of our assets categorized as Special Mention, Substandard and Doubtful according to asset type:

	At December 31, 2014				
	Special Mention	Substandard	Doubtful	Not Classified	Total
Commercial Loans:					
Secured	$ -	$ 90,505	$ -	$ 2,117,788	$ 2,208,293
Unsecured	117,703	562,521	-	15,232,941	15,913,165
Commercial Real Estate	3,944,122	6,384,385	-	32,468,742	42,797,249
Residential Real Estate	285,000	2,079,588	-	241,758	2,606,346
Construction	400,000	-	-	1,647,500	2,047,500
Consumer	5,944	-	-	864,993	870,937
Other	-	513	-	1,167,853	1,168,366
Total loans	$ 4,752,769	$ 9,117,512	$ -	$ 53,741,575	$ 67,611,856
Real estate owned	-	370,000	-	-	370,000
Total assets	$ 4,752,769	$ 9,487,512	$ -	$ 53,741,575	$ 67,981,856

	At December 31, 2013				
	Special Mention	Substandard	Doubtful	Not Classified	Total
Commercial Loans:					
Secured	$ -	$ -	$ -	$ 1,536,008	$ 1,536,008
Unsecured	228,630	25,291	221,800	14,807,230	15,282,951
Commercial Real Estate	4,884,215	6,488,062	-	37,918,444	49,290,721
Residential Real Estate	-	2,128,771	-	98,459	2,227,230
Construction	322,500	-	-	2,426,500	2,749,000
Consumer	-	-	-	849,143	849,143
Other	-	-	-	1,330,480	1,330,480
Total loans	$ 5,435,345	$ 8,642,124	$ 221,800	$ 58,966,264	$ 73,265,533
Real estate owned	-	-	-	-	-
Total assets	$ 5,435,345	$ 8,642,124	$ 221,800	$ 58,966,264	$ 73,265,533

The following table presents the balance in the allowance for loan losses and the recorded balance in loans, by portfolio segment, and based on impairment method as of December 31, 2014 and 2013:

December 31, 2014

	Commercial Unsecured	Commercial Secured	Construction	Commerical Real Estate	Residential Real Estate	Other Loans	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans							
Individually evaluated for impairment	$ 6,087	$ -	$ -	$ 42,371	$ -	$ 103	$ 48,561
Collectively evaluated for impairment	412,421	21,821	20,789	366,672	44,551	44,151	910,405
Total ending allowance balance	$ 418,508	$ 21,821	$ 20,789	$ 409,043	$ 44,551	$ 44,254	$ 958,966
Loans:							
Individually evaluated for impairment	$ 30,435	$ -	$ -	$ 4,416,609	$ -	$ 513	$ 4,447,557
Collectively evaluated for impairment	15,882,730	2,208,293	2,047,500	38,380,640	2,606,346	2,038,790	63,164,299
Total ending loans balance	$ 15,913,165	$ 2,208,293	$ 2,047,500	$ 42,797,249	$ 2,606,346	$ 2,039,303	$ 67,611,856

December 31, 2013

	Commercial Unsecured	Commercial Secured	Construction	Commerical Real Estate	Residential Real Estate	Other Loans	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans							
Individually evaluated for impairment	$ 110,901	$ -	$ -	$ 115,168	$ -	$ -	$ 226,069
Collectively evaluated for impairment	334,815	12,985	22,804	452,666	2,088	42,361	867,719
Total ending allowance balance	$ 445,716	$ 12,985	$ 22,804	$ 567,834	$ 2,088	$ 42,361	$ 1,093,788
Loans:							
Individually evaluated for impairment	$ 221,800	$ -	$ -	$ 3,745,828	$ -	$ -	$ 3,967,628
Collectively evaluated for impairment	15,061,151	1,536,008	2,749,000	45,544,893	2,227,230	2,179,623	69,297,905
Total ending loans balance	$ 15,282,951	$ 1,536,008	$ 2,749,000	$ 49,290,721	$ 2,227,230	$ 2,179,623	$ 73,265,533

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2014 and 2013.

Year ended December 31, 2014

	Commercial Unsecured	Commercial Secured	Construction	Commerical Real Estate	Residential Real Estate	Other Loans	Total
Allowance for loan losses:							
Beginning balance	$ 445,716	$ 12,985	$ 22,804	$ 567,834	$ 2,088	$ 42,361	$ 1,093,788
Provision for loan losses	300,908	8,836	(2,015)	(2,935)	39,732	474	345,000
Loans charged-off	(457,160)	-	-	(166,656)	-	-	(623,816)
Recoveries	129,044	-	-	10,800	2,731	1,419	143,994
Total ending allowance balance	$ 418,508	$ 21,821	$ 20,789	$ 409,043	$ 44,551	$ 44,254	$ 958,966

Year ended December 31, 2013

	Commercial Unsecured	Commercial Secured	Construction	Commerical Real Estate	Residential Real Estate	Other Loans	Total
Allowance for loan losses:							
Beginning balance	$ 425,495	$ 18,790	$ 16,282	$ 1,247,199	$ 4,528	$ 41,227	$ 1,753,521
Provision for loan losses	(22,254)	(5,805)	6,522	274,236	(17,283)	49,584	285,000
Loans charged-off	-	-	-	(960,401)	-	(50,000)	(1,010,401)
Recoveries	42,475	-	-	6,800	14,843	1,550	65,668
Total ending allowance balance	$ 445,716	$ 12,985	$ 22,804	$ 567,834	$ 2,088	$ 42,361	$ 1,093,788

5. ACCRUED INTEREST RECEIVABLE

Accrued interest receivable at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Due from banks	$ 915	$ 2,367
Loans receivable	226,653	231,236
Investment securities, available for sale	441,063	305,489
Total	$ 668,631	$ 539,092

6. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Leasehold improvements	$ 2,772,339	$ 2,692,453
Computer equipment and software	428,672	365,219
Furniture, fixtures and equipment	598,216	1,067,364
Other	59,130	59,130
	3,858,357	4,184,166
Less accumulated depreciation and amortization	(2,019,065)	(2,191,639)
Total	$ 1,839,292	$ 1,992,527

Depreciation and amortization expense amounted to $488,153 and $498,489 for the years ended December 31, 2014 and 2013, respectively.

At December 31, 2014 and 2013, the Company was obligated under five non-cancelable operating leases on property used for banking purposes. Rental expense under these leases was $414,451 for the year ended December 31, 2014 and $407,533 for the year ended December 31, 2013.

The projected minimum rental payments under the terms of the leases at December 31, 2014 are summarized as follows:

Year Ending December 31,	Amount
2015	$ 415,540
2016	335,023
2017	252,896
2018	253,478
2019	209,310
Thereafter	140,297
Total	$ 1,606,544

7. PREPAID AND OTHER ASSETS

Prepaid and other assets at December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Accounts receivable and other assets	$ 14,877	$ 321,458
Security deposit receivable	11,200	11,200
Prepaid assets	348,911	320,093
Equity securities, primarily FHLB stock	303,800	338,400
Income tax receivable	278,957	322,287
Deferred income taxes, net	761,309	988,156
Late charges receivable	80,460	89,488
Other real estate owned	370,000	-
	$ 2,169,514	$ 2,391,082

8. DEPOSITS

Deposits are summarized, according to their original terms, at December 31, 2014 and 2013 as follows:

	2014			2013		
	Amount	Percent	Weighted Average Stated Rate	Amount	Percent	Weighted Average Stated Rate
Checking	$ 96,170,194	38.25 %	- %	$ 96,640,569	35.99 %	- %
Variable-rate money market	45,245,094	18.00	0.29	42,075,301	15.67	0.30
Statement savings	24,604,737	9.79	0.20	24,075,184	8.96	0.20
Interest-bearing checking	27,240,106	10.84	0.05	32,989,791	12.28	0.06
	193,260,131	76.88	0.10	195,780,845	72.90	0.10
Time deposits:						
Less than six months	8,296,464	3.30	0.38	19,849,220	7.39	0.53
Six months to one year	37,795,606	15.04	0.70	41,786,404	15.56	0.70
More than one year	11,816,125	4.70	1.02	10,902,476	4.06	1.38
	57,908,195	23.04	0.72	72,538,100	27.01	0.76
Other deposits	208,803	0.08	-	235,633	0.09	-
Total	$251,377,129	100.00 %	0.25 %	$268,554,578	100.00 %	0.28 %

The aggregate amount of jumbo time deposit with a minimum denomination of $100,000 was approximately $42,581,000 and $58,578,000 at December 31, 2014 and 2013 respectively.

Scheduled maturities of time deposits at December 31, 2014 are as follows:

	Amount	Percent
Within six months	$ 40,937,427	70.68 %
Six months to one year	6,147,455	10.62
Over one year to two years	6,988,212	12.07
Over two years to three years	1,593,000	2.75
Over three years to four years	1,845,000	3.19
Over four years to five years	397,101	0.69
Total	$ 57,908,195	100.00 %

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2014 and 2013 were $39,241,664 and $54,362,675.

9. INCOME TAXES

The Company files consolidated federal, state and local income tax returns on a calendar-year basis. For federal, state and local income tax purposes, the Company uses the Internal Revenue Code Section 585 reserve method in computing its federal, state and local tax bad debt deduction.

The basis for the determination of state and local tax is the greater of a tax on entire net income, a tax on an alternative entire net income, or a tax computed on taxable assets. Federal, state and city income tax provisions were determined based on the tax computed on book taxable income for the years ended December 31, 2014 and 2013.

The components of the income tax expense/(benefit) for the years ended December 31, 2014 and 2013 are summarized as follows:

	2014	**2013**
Current:		
Federal	$ 679,108	$ 208,144
State and local	363,909	235,641
	1,043,017	443,785
Deferred:		
Federal	6,651	346,122
State and local	58,995	96,857
	65,646	442,979
Valuation Allowance	133,988	-
	$ 1,242,651	$ 886,764

The components of the deferred income tax asset/(liability), net as of December 31, 2014 and 2013 are summarized as follows:

	2014	2013
Deferred tax assets:		
Deferred loan fees	$ 78,895	$ 83,128
Excess book allowance for loan losses	235,645	323,840
Nonaccrual loan interest income	328,825	402,347
Other	605,148	504,844
	1,248,513	1,314,159
Deferred tax liabilities:		
Unrealized gain on investment securities	(353,216)	(326,003)
Valuation allowance	(133,988)	-
Net deferred tax asset:	$ 761,309	$ 988,156

In 2014, New York State enacted comprehensive tax reform provisions with significant impact on financial institutions. As a result of this legislation, beginning in 2015, the Bank will calculate its tax obligation to New York based upon the largest of a calculated income tax liability, a tax liability based upon average equity capital or a minimum filing fee. Also, effective January 1, 2015, banks under $8 billion in total assets are permitted to claim a subtraction from New York taxable income equal to 50% of the net interest income on loans secured by residential real estate located within the state and on small business loans to customers within the state, provided the principal balance of these loans is less than $5 million. Based upon the forecasted impact of this exclusion on the Bank's taxable income, it is more likely than not that the Bank will generate New York tax losses in future years and therefore calculate its New York tax liability on the basis of average equity capital or a minimum filing fee. Consequently, the Bank recorded a valuation allowance against its net New York deferred tax asset as of December 31, 2014, as it is unlikely this deferred tax asset will impact the Bank's New York tax liability in future years.

At December 31, 2014 and December 31, 2013, the Company had no unrecognized tax benefits recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. The Company recognizes interest and penalties on unrecognized tax benefits as a component of income tax expense.

The Company is subject to United States Federal income tax, New York State income tax and New York City income tax. The Company is no longer subject to examination by taxing authorities for years before 2011.

The Company's effective tax rates differ from the statutory Federal tax rate for the years ended December 31, 2014 and 2013 are as follows:

	2014		2013	
Federal income tax provision at statutory rates	$ 855,149	34.0 %	$ 659,000	34.0 %
State and local taxes, net of Federal income tax benefit	261,487	10.4	219,449	11.3
NY state valuation allowance	133,988	5.3	-	
Other	(7,973)	(0.3)	8,315	0.5
	$ 1,242,651	49.4 %	$ 886,764	45.8 %

10. REGULATORY MATTERS

The Bank is a New York State chartered stock form commercial bank. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to certain FDIC capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possibly discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet certain specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items 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.

As of the latest notification from the FDIC, the Bank was classified as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," the Bank must maintain Tier 1 Leverage, Tier 1 Risk-Based and minimum Total Risk-based ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank is subject to certain restrictions on the availability of its undistributed earnings for payment of dividends to stockholders, including prior regulatory approval.

In accordance with the New York State Banking Law and the New York State Superintendent of Financial Services Regulations, the Bank credits 10% of quarterly net income to regulatory surplus and is required to do so until such time as shareholders' equity is equal to 10% of amounts due to depositors. As of December 31, 2014, regulatory surplus equals 10% of deposits.

The following table is the Bank's actual capital amounts and ratios, as well as the minimum required levels for both "capital adequacy purposes" and to be considered "well capitalized". No deductions were made for qualitative judgments by regulators:

	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Tier 1 Capital (to Average Assets)	$ 27,595,000	9.18 %	$ 12,024,144	4.00 %	$ 15,030,180	5.00 %
Tier 1 Capital (to Risk Weighted Assets)	27,595,000	25.41	4,343,400	4.00	6,515,100	6.00
Total Capital (to Risk Weighted Assets)	28,554,000	26.30	8,686,800	8.00	10,858,500	10.00

	Actual		For capital adequacy purposes		To be well-capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013:						
Tier 1 Capital						
(to Average Assets)	$ 26,701,000	9.02 %	$ 11,843,212	4.00 %	$ 14,804,015	5.00 %
Tier 1 Capital						
(to Risk Weighted Assets)	26,701,000	26.26	4,067,520	4.00	6,101,280	6.00
Total Capital						
(to Risk Weighted Assets)	27,795,000	27.33	8,135,040	8.00	10,168,800	10.00

The Company's consolidated capital ratios as of December 31, 2014 were as follows: Tier 1 Capital to Average Assets of 9.34%; Tier 1 Capital to Risk Weighted Assets of 26.84%; and Total Capital to Risk Weighted Assets of 27.75%, which are not substantially different than the Bank's capital ratios at December 31, 2014 and therefore are not presented separately.

11. EMPLOYEE BENEFITS

The Company sponsors an incentive savings plan (401(k) plan) which started March 1, 1999. All eligible employees, who have reached the age of 21, have at least one year of service and work a minimum of 1,000 hours per year will be permitted to make tax deferred contributions up to certain limits. The Bank may reduce or cease matching contributions if it is determined that the current or accumulated net earnings or undivided profits of the Bank are insufficient to pay the full contributions in a plan year. The Bank contributed $117,198 to the 401(k) plan in 2014 and $123,386 in 2013.

Stock Options

The Company has granted options pursuant to six different stock option plans. Options to buy stock are granted to directors, officers and employees under the VSB Bancorp, Inc. 2010 Incentive Plan, the 2000 Incentive Plan, the 1998 Incentive Plan, the 2004 Directors' Plan, the 2000 Directors' Plan and the 1998 Directors' Plan which, in the aggregate, provide for issue up to 293,750 options. Exercise price is the market price at the date of grant, and compensation expense will be recognized in the income statement over the vesting period. The maximum option term is ten years, and the options vesting period is up to five years.

Total compensation expense for the stock option plans charged against income for 2014 and 2013 was $20,441 and $12,791.

In January 2010, 5,977 options were granted from the 2000 Incentive Plan at an exercise price of $11.10. In April 2010, 12,000 options were granted from the 2004 Director's Plan at an exercise price of $12.09. Also, in April 2010, the 2010 Incentive Stock Option Plan was approved for issue up to 50,000 options. In June 2010, 34,073 options were granted from the 2010 Incentive Plan. There were no stock options granted in 2012 and 2013. In May 2014, 42,500 options were granted from the 2004 Director Stock Option Plan, as amended at an exercise price of $11.25.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of the options granted is estimated using the Black-Scholes option pricing model with the following weighted average assumptions used for 2014:

	2014	**Exercise Rate**
Dividend yield	**2.18 %**	
Expected volatility	**13.63**	
Risk-free interest rate	**0.88**	
Expected life	**3.0 Years**	**100%**

The fair value of the options granted in 2014 was $34,425. The unrecognized compensation expense at December 31, 2014 was $25,819.

The stock option components of the 2000 Incentive Plan, the 1998 Incentive Plan, the 2010 Incentive Plan and the 2004 Directors' Plan, the 2000 Directors' Plan and the 1998 Directors' Plan, as of December 31, 2014, and changes during the year ended, consist of the following:

	2014		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at the beginning of the year	119,339	$14.62	
Granted	42,500	11.25	
Forfeited	(2,500)	11.28	
Expired	(66,039)	17.08	
Options outstanding at the end of the year	93,300	$11.43	$ -
Options exercisable at the end of the year	50,800	$11.59	$ -
Weighted average remaining contractual life of options outstanding at the end of the year		7.1 Years	

All non-vested options are expected to vest. The exercise price exceeds stock price for all options outstanding and exercisable.

During the year ended December 31, 2014, no stock options were exercised.

Described below is the range of exercise prices for options granted and outstanding under the following option plans at December 31, 2014:

Plan Description	Number of Exercisable Shares	Weighted Average Exercise Price	Weighted Average Contractual Life
1998 Incentive Stock Option Plan	3,250	$ 11.75	2.92
2000 Incentive Stock Option Plan	4,727	11.10	5.08
2004 Director Stock Option Plan	54,500	11.43	8.46
2010 Incentive Stock Option Plan	30,823	11.45	5.50
All Plans	93,300	$ 11.43	7.12

Post-Retirement Benefits

The Company offers post-retirement benefits related to its Bank-owned life insurance plan to certain employees. The costs of such benefits are accrued during the years that an employee renders the service.

12. COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers. Such financial instruments primarily include commitments to extend credit.

A summary of these commitments and contingent liabilities, all of which are variable rate commitments tied to prime, at December 31:

	2014 Amount	2013 Amount
Commitments to fund secured construction loans	$ 2,602,500	$ 1,151,000
Commitments to fund all other commercial loans	25,327,003	17,528,215
	$ 27,929,503	$ 18,679,215

Commitments to extend credit are legally binding agreements to lend to a customer. Commitments are issued following the Company's evaluation of each applicant's creditworthiness on a case-by-case basis. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual notional amount of those instruments.

Victory State Bank currently has a $2 million unsecured credit facility with Atlantic Central Bankers Bank which the Bank has not drawn upon.

VSB Bancorp, Inc. is not involved in any pending legal proceedings. The Bank, from time to time, is involved in routine collection proceedings in the ordinary course of business on loans in default. Management believes that such other routine legal proceedings in the aggregate are immaterial to our financial condition or results of operations.

13. FAIR VALUE

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of FASB ASC 820, "Financial Instruments". The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following methods and assumptions were used by the Company in estimating fair values of financial instruments:

Interest-bearing Bank Balances – Interest-bearing bank balances mature within one year and are carried at cost, which are estimated to be reasonably close to fair value.

Money Market Investments – The fair value of these securities approximates their carrying value due to the relatively short time to maturity.

Investment Securities, Available For Sale and Held To Maturity – The estimated fair value of these securities is determined by using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

Federal Home Loan Bank Stock - It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

Loans Receivable - The fair value of commercial and construction loans is approximated by the carrying value as the loans are tied directly to the Prime Rate and are subject to change on a daily basis, subject to the applicable interest rate floors. The fair value of the remainder of the portfolio is determined by discounting the future cash flows of the loans using the appropriate discount rate.

Other Financial Assets - The fair value of these assets, principally accrued interest receivable, approximates their carrying value due to their short maturity.

Non-Interest Bearing and Interest Bearing Deposits - The fair value disclosed for non-interest bearing deposits is equal to the amount payable on demand at the reporting date. The fair value of interest bearing deposits is based upon the current rates for instruments of the same remaining maturity. Interest bearing deposits with a maturity of greater than one year are estimated using a discounted cash flow approach that applies interest rates currently being offered.

Other Liabilities - The estimated fair value of other liabilities, which primarily include accrued interest payable, approximates their carrying amount.

The carrying amounts and estimated fair values of financial instruments, at December 31, 2014 and December 31, 2013 are:

	Fair Value Measurements at December 31, 2014 Using				
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 18,129,166	$ 2,103,043	$ 16,026,123	$ -	$ 18,129,166
Investment securities, available for sale	64,759,836	-	64,759,836	-	64,759,836
Investment securities, held to maturity	121,929,954	-	122,358,472	-	122,358,472
Loans receivable	66,473,809	-	-	66,790,848	66,790,848
Accrued interest receivable	668,631	-	441,978	226,653	668,631
Total Financial Assets	$ 271,961,396	$ 2,103,043	$ 203,586,409	$ 67,017,501	$ 272,706,953
Financial Liabilities:					
Deposits	$ 251,377,129	$ 96,378,997	$ 154,851,518	$ -	$ 251,230,515
Accrued interest payable	34,495	-	34,495	-	34,495
Total Financial Liabilities	$ 251,411,624	$ 96,378,997	$ 154,886,013	$ -	$ 251,265,010

:

	Fair Value Measurements at December 31, 2013 Using				
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets:					
Cash and cash equivalents	$ 65,562,635	$ 3,408,707	$ 62,153,928	$ -	$ 65,562,635
Investment securities, available for sale	57,517,211	-	57,517,211	-	57,517,211
Investment securities, held to maturity	97,146,039	-	95,813,499	-	95,813,499
Loans receivable	71,987,522	-	-	72,574,097	72,574,097
Accrued interest receivable	539,092	-	307,856	231,236	539,092
Total Financial Assets	$ 292,752,499	$ 3,408,707	$ 215,792,494	$ 72,805,333	$ 292,006,534
Financial Liabilities:					
Deposits	$ 268,554,578	$ 96,876,202	$ 171,608,860	$ -	$ 268,485,062
Accrued interest payable	18,550	-	18,550	-	18,550
Total Financial Liabilities	$ 268,573,128	$ 96,876,202	$ 171,627,410	$ -	$ 268,503,612

ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as 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.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing and asset or liability.

The fair value of securities available for sale and held to maturity is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or using matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

The tables below presents a reconciliation of all assets measured at fair value on a recurring basis using significant observable inputs (Level 2) for the years ended December 31, 2014 and 2013:

	Fair Value Measurements at December 31, 2014 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
FNMA MBS - Residential	$ 759,596	$ -	$ 759,596	$ -
Whole Loan MBS-Residential	13,976	-	13,976	-
Collateralized mortgage obligations	40,503,889	-	40,503,889	-
Collateralized loan obligations	9,031,250	-	9,031,250	-
Corporate bonds	11,491,075	-	11,491,075	-
Other debt securities	2,960,050	-	2,960,050	-
Total Available for sale Securities	$ 64,759,836	$ -	$ 64,759,836	$ -

	Fair Value Measurements at December 31, 2013 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale:				
FNMA MBS - Residential	$ 1,241,350	$ -	$ 1,241,350	$ -
Whole Loan MBS-Residential	120,337	-	120,337	-
Collateralized mortgage obligations	38,784,905	-	38,784,905	-
Collateralized loan obligations	5,035,000	-	5,035,000	-
Corporate bonds	9,344,109	-	9,344,109	-
Other debt securities	2,991,510	-	2,991,510	-
Total Available for sale Securities	$ 57,517,211	$ -	$ 57,517,211	$ -

During the year-ended December 31, 2014, there were no transfers between levels. During the year-ended December 31, 2013, there was one security transfer from level 3 to Level 2. The security was a collateralized loan obligation for which the fair value at December 31, 2013 was determined by quoted market prices for similar securities. Previously, as quoted market prices for similar securities were not available, fair values were calculated utilizing other market indicators which were considered level 3.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2013:

	Collateralized Loan Obligations
	2013
Balance of recurring Level 3 assets at January 1:	$ 1,000,000
Total gains or losses for the period:	-
Included in earnings	-
Included in other comprehensive income	-
Purchases	-
Sales	-
Issuances	-
Settlements	
Transfers into Level 3	-
Transfers out of Level 3	(1,000,000)
Balance of recurring Level 3 assets at December 31:	$ -

Assets Measured on a Non-Recurring

Certain financial assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Assets measured at a fair value on a non-recurring basis are summarized below:

Impaired Loans: The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually or signed offers through auction if lower (which would be level 2). These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

	Fair Value Measurements at December 31, 2014 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans				
Commercial Real Estate	$ 43,400	-	-	$ 43,400
Other real estate owned	370,000	-	370,000	-

	Fair Value Measurements at December 31, 2013 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired loans				
Commercial Real Estate	$ 606,568	-	-	$ 606,568

As of December 31, 2014, we had one impaired loan with specific reserves that were collateral dependent. Collateral dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying amount of $85,771, with a valuation allowance of $42,371 at that date. The valuation allowance decreased $72,797 from December 31, 2013 to December 31, 2014. The unpaid principal balance on impaired loans at December 31, 2014 was $99,921.

As of December 31, 2013, we had three impaired loans with specific reserves that were collateral dependent. Collateral dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying amount of $721,736, with a valuation allowance of $ 115,168 at that date. The valuation allowance decreased $723,363 from December 31, 2012 to December 31, 2013. The unpaid principal balance on impaired loans at December 31, 2013 was $1,056,536.

The following table presents quantitative information about level 2 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2014.

	Fair Value	Valuation Techniques	Unobservable Inputs	Range
Impaired loans-				
Commercial real estate	$ 43,400	Third Party Appraisal	Adjustment for differences between comparable sales.	1% - 7%

14. RELATED PARTIES

The Bank at times has had loans, and other financial transactions, with its executive officers and directors. At December 31, 2014, the aggregate amount of loans outstanding to directors and director affiliated companies was $300,000. There were no loans granted to executive officers.

The change in aggregate amount of loans outstanding to directors as of December 31, 2014 and 2013 are as follows:

	2014	**2013**
Beginning balance	$ -	$ -
Originations	300,296	18,244
Payments	(296)	(18,244)
Ending balance	$ 300,000	$ -

The interest income that was paid on these loans was $- and $60 for 2014 and 2013, respectively.

Executive officers and directors own, in the aggregate, 26.9% and 30.9% of the common shares outstanding at December 31, 2014 and 2013, respectively.

15. CONDENSED FINANCIAL STATEMENTS OF THE PARENT COMPANY ONLY

VSB BANCORP, INC.

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2014 and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,100	$ 2,041
Money market	458,476	391,109
Investment in subsidiaries	28,013,568	27,087,167
Deferred taxes	31,782	53,458
Other assets	40,907	47,996
Total assets	$ 28,545,833	$ 27,581,771
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable, accrued expenses and other liabilities	$ 31,343	$ 49,023
Total liabilities	31,343	49,023
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY		
Common stock ($.0001 par value, 10,000,000 shares authorized 2,078,509 issued, 1,856,845 outstanding at December 31, 2014 and 1,989,509 issued, 1,780,109 outstanding at December 31, 2013)	208	199
Additional paid-in capital	10,487,210	9,364,950
Retained earnings	20,806,715	19,960,933
Treasury stock, at cost (221,664 shares at December 31, 2014 and 209,400 shares at December 31, 2013)	(2,263,984)	(2,123,546)
Unearned Employee Stock Ownership Plan shares	(934,500)	(56,360)
Accumulated other comprehensive gain, net of taxes of $353,216 and $326,003, respectively	418,841	386,572
Total stockholders' equity	28,514,490	27,532,748
Total liabilities and stockholders' equity	$ 28,545,833	$ 27,581,771

VSB BANCORP, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
INTEREST INCOME:		
Loans recievable	$ 22,578	$ 8,999
Other interest income	2,050	4,473
Total interest income	24,628	13,472
INTEREST EXPENSE:		
Total interest expense	-	-
Net interest income	24,628	13,472
NON-INTEREST INCOME:		
Dividend income	500,000	-
Other	-	-
	500,000	-
NON-INTEREST EXPENSES:		
Salaries and benefits	130,195	160,690
Legal fees	36,000	82,500
Other	47,175	119,071
Total non-interest expenses	213,370	362,261
INCOME BEFORE INCOME TAXES	311,258	(348,789)
PROVISION/(BENEFIT) FROM INCOME TAXES:		
Current	(111,358)	(158,664)
Deferred	21,676	(5,099)
Total income taxes	(89,682)	(163,763)
EQUITY IN UNDISTRIBUTED EARNINGS, NET OF TAXES	871,554	1,236,497
NET INCOME	$ 1,272,494	$ 1,051,471

VSB BANCORP, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,272,494	$ 1,051,471
Adjustments to reconcile net income to net cash used in operating activities:		
Changes in operating assets and liabilities:		
ESOP compensation expense	(16,543)	(85,123)
Stock-based compensation expense	130,194	160,690
Undistributed income of subsidiaries	(871,554)	(1,236,497)
Decrease/(increase) in other assets	7,089	(10,532)
(Increase)/decrease in deferred income taxes	21,676	(5,099)
(Decrease)/increase in accounts payable, accrued expenses, and other liabilities	(32,890)	38,189
Net cash provided by/(used in) operating activities	510,466	(86,901)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net decrease in loan receivable	123,110	169,078
Net decrease/(increase) in money market deposit	(67,367)	400,230
Net cash provided by/(used in) investing activities	55,743	569,308
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchase of treasury stock, at cost	(140,438)	(54,648)
Payment of dividends	(426,712)	(426,818)
Net cash used in financing activities	(567,150)	(481,466)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(941)	941
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,041	1,100
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,100	$ 2,041
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

16. EMPLOYEE STOCK OWNERSHIP PLAN

Employees participate in an Employee Stock Ownership Plan (“ESOP”). VSB Bancorp, Inc. ESOP Trust was formed on May 1, 2004. The ESOP borrowed from the Company to purchase 92,900 shares of stock at $18.20 per share. The first plan was completed on April 30, 2014. On May 5, 2014, the ESOP borrowed from the Company to purchase 89,000 shares of stock at $11.25 per share. The Company makes discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts.

Shares allocated to each participant, to the extent vested, are distributed to the participant upon termination of employment. As required by federal law, a participant may require the Company to repurchase shares so distributed unless the stock is traded on an established market.

The contribution to the ESOP was $123,110 for the year ended December 31, 2014 and $169,078 for the year ended December 31, 2013. ESOP expense was $105,212 and $83,955 for the years ended December 31, 2014 and 2013, respectively.

Shares held by the ESOP at December 31, 2014 and 2013 were as follows:

	2014	2013
Shares allocated to participants	99,584	90,327
Shares released to participants	(22,688)	(17,085)
Unearned shares	82,316	2,573
Total ESOP Shares	159,212	75,815
Fair value of unearned shares	$ 962,274	$ 27,788

17. RETENTION AND RECOGNITION PLAN

At the April 27, 2010 Annual Meeting, the stockholders of VSB Bancorp, Inc. approved the adoption of the 2010 Retention and Recognition Plan (the “RRP”). The RRP authorizes the award of up to 50,000 shares of its common stock to directors, officers and employees. In conjunction with the approval the RRP, stockholders approved the award of 4,000 shares of stock to each of its eight directors who had at least five years of service. The director awards will vest over five years, with 20% vesting annually for each of the first five years after the award is made, subject to acceleration and forfeiture. On April 29, 2013, 6,400 shares vested. On May 1, 2013, an additional 1,600 shares vested due to the retirement of a director. On April 28, 2014, 5,600 shares vested. On June 8, 2010, an additional 3,500 shares of stock were awarded to the President and CEO of the Company, which will vest over a 65 month period, with 20% vesting annually for each of the first five years starting in November 2011, subject to acceleration and forfeiture. On November 16, 2013, 700 shares vested. On November 16, 2014, 700 shares vested. On November 13, 2012, an additional 2,500 shares of stock were awarded to the President and CEO of the Company on an equal two year vesting beginning November 13, 2013. On November 13, 2013, 1,250 shares vested. On November 13, 2014, 1,250 shares vested. Also, on November 13, 2012, an additional 1,000 shares were awarded to seven non-employee directors on an equal two year vesting beginning November 13, 2013. On May 1, 2013, 1,000 shares vested due to the retirement of a director. On November 13, 2013, 3,000 shares vested. On November 13, 2014, 3,000 shares vested.

The recipient of an award will not be required to make any payment to receive the award or the stock covered by the award. As of December 31, 2014, 45,000 shares of the RRP have been awarded. The Company recognizes compensation expense for the shares awarded under the RRP gradually as the shares vest, based upon the market price of the shares on the date of the award. For the years ended December 31, 2014 and 2013, the Company recognized $109,754 and $147,899 of compensation expense related to the shares awarded. The income tax benefit resulting from this expense was $50,212 and $67,664 for the years ended December 31, 2014 and 2013. As of December 31, 2014, there was approximately $7,540 of unrecognized compensation costs related to the shares awarded. These costs are expected to be recognized over the next year.

A summary of the status of the Company's non-vested plan shares as of December 31, 2014 is as follows:

For the Year Ended December 31, 2014:

	Shares	Weighted Average Grant Date Share Value
Non vested at beginning of period	16,850	$ 11.25
Granted	-	-
Vested	10,550	-
Non vested at end of period	6,300	$ 11.46

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BOARD OF DIRECTORS

Joseph J. LiBassi
Chairman of the Board
Private Investor

Raffaele M. Branca
President & CEO
VSB Bancorp, Inc. and
Victory State Bank

Joan Nerlino Caddell
Attorney, Owner
Joan Nerlino Caddell &
Associates, PLLC

Chaim Farkas
President
Computer Software
Dataware Systems Lease,
Inc.

Alfred C. Johnsen, CPA
Private Practice
Alfred C. Johnsen, CPA

Robert P. Moore
Retired Vice President
KeySpan

Dr. Carlos M. Perez
Medical Doctor

Bruno Savo
Builder/Developer
Savo Brothers, Inc.

DIRECTOR EMERITUS

Savino Savo
Builder/Developer

Robert S. Cutrona, Sr.
President
Maintenance Company
Project One Services, Inc.

VICTORY STATE BANK SENIOR OFFICERS

Raffaele M. Branca
President &
Chief Executive Officer

Richard P. Boyle
Senior Vice President
Chief Lending Officer

Elizabeth Scarano
Senior Vice President
Chief Operations Officer

Jonathan Lipschitz
1st Vice President
Controller

Philip Stropoli
1st Vice President
Branch Administrator

Anna Williams
1st Vice President
Compliance

Johnny Reyes
Vice President
Business Development

Isaac Zahavi
Vice President
IT Manager

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Crowe Horwath LLP

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Canton, MA 02021

STOCKHOLDER INFORMATION
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(718) 979-1100

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OTC Market Place OTCQX
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