



## **VANTAGE POINT BANK AND FINANCIAL SERVICES TEAM**

May 1, 2009

Dear Valued Shareholders,

Despite one of the greatest financial crises in our nation's history, Vantage Point Bank is proud to announce that after fifteen months in operation, we have reached "break-even" and are on the road to profitability and continued growth.

We are in the enviable position of being in the right place at the right time. Businesses and consumers are actively looking to move their banking business and associated financial services to a smaller, close to home, safe alternative community bank. Vantage Point Bank is a viable, profitable business that serves the local region with an array of state-of-the-art products and high touch service second to none.

Allow us to expand on some of our accomplishments and highlights for the year.

- At the end of 2008, our balance sheet consisted of \$33 million in loans and \$61.1 million in deposits, which combined to generate net interest income of \$736 thousand.
- Our financial services division generated over \$633 thousand in outside revenues in 2008.
- Sophisticated technology systems were implemented to support all elements of our core banking infrastructure, as well as online banking, ATM, remote deposit, and Client Services support systems.
- We hired and trained forty-four associates.

\*As an added note, at the end of April 2009, Vantage Point Financial Services had \$26.6 million in assets under management, \$31.4 million in life policies issued and \$7.2 million in residential mortgages originated and sold.

We would also like to communicate our top goals and strategies for 2009.

- Continue to implement our vision by managing risk and maintaining liquidity, improving customer service, enhancing our technology infrastructure, and building our financial services team.
- Continue to build our dual revenue sources – net interest income and financial services income.
- Generate profits for 2009.
- Continue to expand our business and community outreach programs.

Our Directors and key staff members join us in thanking you for your strong support during this past year. We can assure you that Vantage Point Bank is ideally positioned for future growth and increased profitability. While the current economic challenges may last for another year, our plan is to continue to forge ahead by building revenues and carefully controlling expenses.

We personally invite you to share your ideas, comments and questions at any time by calling (267) 464-7000 or emailing [walt.tillman@vantagepointbank.com](mailto:walt.tillman@vantagepointbank.com).

Sincerely,

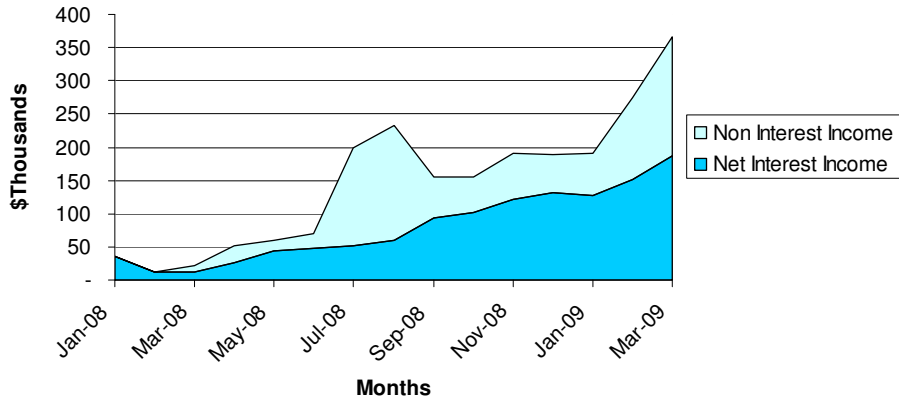


Walter L. Tillman, Jr.  
Chairman/CEO

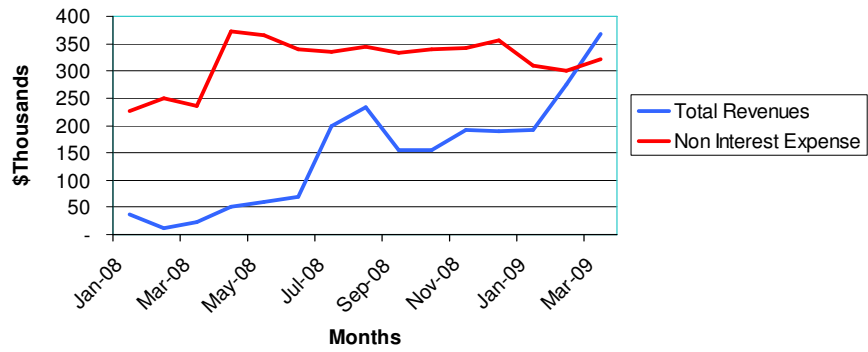


David Bezar  
President

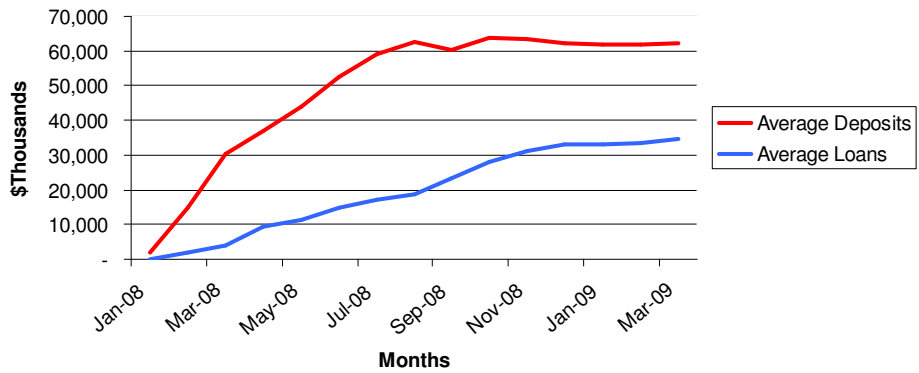
### Vantage Point Revenue Trends



### Vantage Point Revenue & Expense Trends



### Vantage Point Deposit & Loan Growth Trends



## **Our Mission**

- Deliver world-class financial services that specifically suit the needs of businesses and individuals throughout the greater Philadelphia region and beyond.
- Boldly integrate basic banking, financial services, and mortgage banking within an exciting, energized, solutions-oriented sales and service culture, thus our “new perspective” tagline.
- Participate only in those financial activities and community endeavors that are in the best interest of our stakeholders: our shareholders, our employees, our customers and our community.

## **Our Value Proposition**

- **Deliver World Class Services:** We hire great people, continually train them and reward strong performance. We have built a culture focused on finding the right financial solutions for the customer.
- **Offer Multiple Delivery Channels:** Our branch office is warm, friendly and professional. Our Internet presence is easy to use, and includes the same “virtual office” services and high quality as much larger financial institutions. Our world- class telephone service center supports basic bank services, cross-selling and outbound marketing.
- **Employ New Technologies:** Our Desk Point Deposit system allows commercial customers to easily deposit checks remotely and securely, from their own location. Our robust Internet Banking services include Vantage Alert, which emails an “alert” if you are close to overdrawing your account. This is the same level service that is available to corporate treasurers.

## **Our Core Strategies**

- Integrate Financial Services with traditional Banking through the cultivation of relationships with businesses and individuals, purposeful cross-selling, and strong referral networks.
- Manage the Corporation's balance sheet intelligently, with the utmost attention to risk and performance.
- Focus on deposit generation first, and then asset development, with the intention of building strong and sustainable net interest income.

## **Our Commitment to Community**

- Assist the community through education and high value/high visibility services. For instance, our Career Advocacy Center assists professionals with career transition and managing personal finances, free of charge.
- Expose new business to the bank by being a valued information resource and focal point for business events.
- Feature good businesses and good business practices through our monthly Contact Point networking meetings and ongoing exposure to Vantage Point Bank's financial professionals.

## **Annual Meeting**

**The annual Meeting of Shareholders of Vantage Point Bank will be held at 1250 Virginia Drive, Suite 175, Fort Washington, PA 19034 on Wednesday, May 20, 2009 at 10:00AM.**

## **FDIC Listing**

Vantage Point Bank is a state chartered commercial bank with FDIC insurance. The Bank's FDIC certificate number is 58531. Vantage Point Bank is a C Corporation and owns 100% of its subsidiary, Vantage Point Financial Services Inc.

## **Call Report**

A copy of the Bank's Call Report, including financial statement schedules, is available online at [FDIC.gov](http://FDIC.gov) by clicking on Bank Find and entering Vantage Point Bank, or upon written request to Suzanne Weisberg Corporate Secretary, Vantage Point Bank 1250 Virginia Drive, Suite 175, Fort Washington, PA 19034, or via email to [suzanne.weisberg@VantagePointBank.com](mailto:suzanne.weisberg@VantagePointBank.com).

# Corporate Information

## Corporate Headquarters

1250 Virginia Drive, Suite 175  
Fort Washington, PA 19034  
267.464.7000  
www.vantagepointbank.com

## Vantage Point Financial Services

New Jersey Offices:

1926 Greentree Road, Suite 110  
Cherry Hill, NJ 08003  
865.751.7735

90 Washington Valley Road  
Bedminster, NJ 07921  
267.464.7000

## DIRECTORS

Jess D. Amchin, M.D., J.D.  
Pharmaceutical Consultant

Parag Amin  
President, Radiqal, LLC

David Bezar  
President, Vantage Point Bank

Michael A. Brenner  
President, Brenner Family Auto Group

Craig A. Ginsberg, M.D.  
Medical Director, Brooke Glen  
Behavioral Hospital

Marshal S. Granor  
Partner, Granor & Granor, PC

Lawrence J. Isaacman  
President, Contemporary  
Management, Inc.

Gayla McCluskey  
Principal, Global Environmental Health  
Services

Anil Patel  
Owner, North Star Hotels Group, Inc.

Mehul Patel  
Vice President of Engineering,  
Metrologic Instruments

Walter L. Tillman, Jr.  
Chairman & CEO, Vantage Point Bank

# **ALL ASSOCIATES**

## **Key Staff Members**

Walter L. Tillman, Jr. - Chairman & CEO

David Bezar - President

## **Lending Department**

Russell Carlow - EVP, Chief Lending Officer

Daniel O'Brien – VP, Commercial Loan Officer

Felix Nebrat – Senior Credit Analyst

Melissa Williams – Consumer Loan Officer

Joanne Shuster – Consumer Loan Administrator

Patricia Debo – Commercial Loan Administrator

Peter Dash – Consumer Loan Processor

## **Accounting & Finance**

Evan Reed - Controller

## **Bank Operations & Technology**

Joseph Cusatis – SVP, Chief Technology Officer

Suzanne Weisberg – SVP, Bank Operations & Compliance Officer

Matthew Godshall – Operations Assistant

David Barley – Technology Assistant

## **Client Services Department**

Ivonne Dege – Client Services Director

Brynne Tillman – Community Relations Officer

Christopher McCloskey – Client Services Assistant Director

Jeanne McFarland – Senior Telebanker

Mykena Chambers – Business Development Agent

Marce Harrison – Business Development Agent

**Branch Office**

Rachel Pearlman – Branch Manager

Elizabeth Gutgesell – Assistant Branch Manager

Kelly Hilton – Customer Service Representative

Allison Kowalski – Customer Service Representative

**Vantage Point Financial Services**

Michelle Ford - SVP, Certified Financial Planner

Kevin Dolan - SVP, Director of Sales & Organizational Development, Financial Consultant

Andrew Cohen - VP, Financial Advisor

Bret Elam - Associate VP, Financial Consultant

Jarad Schneider

Thomas Wolsky – Associate VP, Financial Consultant

Jamie Madorma – Registered Principal

Michelle Scaltrito – Executive Administrator

Dan Zhang – Financial Advisor

Michael Santosusso

Shanlin Cheng

Spiro Kontostergios

Thomas Spitko

Christopher Reed

Frank DiPasquale – Financial Consultant

Anthony Scalfaro – Financial Consultant

Wade Hartz

Lauren Fridling

Robert Hulett

**Public Accounting Firm:**  
Beard Miller Company LLP  
Malvern, PA

**Legal Counsel:**  
Stevens & Lee P.C.  
Cherry Hill, NJ

***Vantage Point Bank***

**Consolidated Financial Report**

December 31, 2008

# *Vantage Point Bank*

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## Independent Auditor's Report

To the Board of Directors and Stockholders  
Vantage Point Bank  
Fort Washington, Pennsylvania

We have audited the accompanying consolidated balance sheets of Vantage Point Bank and its subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2008 and for the period from January 23, 2007 (date of inception) to December 31, 2007. These consolidated financial statements are the responsibility of the Bank's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vantage Point Bank and its subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the year ended December 31, 2008 and for the period from January 23, 2007 (date of inception) to December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

*Beard Miller Company LLP*

Beard Miller Company LLP  
Reading, Pennsylvania  
April 23, 2009

# Vantage Point Bank

## Consolidated Balance Sheets

December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>Assets</b>		
Cash and due from banks	\$ 684,190	\$ 20,338
Interest bearing deposits with bank	220,411	-
Federal funds sold	-	32,000
	<u>904,601</u>	<u>52,338</u>
Cash and Cash Equivalents	904,601	52,338
Interest bearing time deposits	99,000	-
Investment securities available for sale	24,545,704	29,995,350
Investment securities held to maturity (fair value 2008 \$6,981,211; 2007 \$-0-)	6,965,703	-
Loans receivable, net of allowance for loan losses 2008 \$385,000; 2007 \$-0-)	33,150,688	-
Restricted investment in bank stock	390,100	1,035,600
Bank premises and equipment, net	671,515	499,516
Accrued interest receivable	317,197	-
Other assets	179,257	37,431
	<u>\$67,223,765</u>	<u>\$31,620,235</u>
<b>Total Assets</b>	<b>\$67,223,765</b>	<b>\$31,620,235</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Non-interest bearing	\$ 948,319	\$ -
Interest bearing deposits	60,143,548	750,000
	<u>61,091,867</u>	<u>750,000</u>
Total Deposits	61,091,867	750,000
Short-term borrowings	-	22,270,600
Accrued interest payable	62,222	401
Other liabilities	201,360	88,172
	<u>61,355,449</u>	<u>23,109,173</u>
<b>Total Liabilities</b>	<b>61,355,449</b>	<b>23,109,173</b>
<b>Stockholders' Equity</b>		
Preferred stock, no par value; authorized 5,000,000 shares; no shares issued or outstanding	-	-
Common stock, \$1.00 par value; authorized 25,000,000 shares; issued and outstanding 2008 2,598,120 shares; 2007 2,502,550 shares	2,598,120	2,502,550
Surplus	7,705,028	7,293,835
Accumulated deficit	(4,198,632)	(1,285,323)
Accumulated other comprehensive loss	(236,200)	-
	<u>5,868,316</u>	<u>8,511,062</u>
<b>Total Stockholders' Equity</b>	<b>5,868,316</b>	<b>8,511,062</b>
	<u>\$67,223,765</u>	<u>\$31,620,235</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$67,223,765</b>	<b>\$31,620,235</b>

See notes to consolidated financial statements.

# Vantage Point Bank

## Consolidated Statements of Operations

Year Ended December 31, 2008 and Period from January 23, 2007 (Date of Inception)  
to December 31, 2007

	<u>2008</u>	<u>2007</u>
<b>Interest Income</b>		
Loans receivable, including fees	\$1,043,395	\$ -
Investment securities	1,000,027	-
Short-term investments and federal funds sold	392,877	11,660
Stock escrow funds	-	154,919
<b>Total Interest Income</b>	<u>2,436,299</u>	<u>166,579</u>
<b>Interest Expense</b>		
Deposits	1,687,035	401
Borrowings	12,982	15,350
<b>Total Interest Expense</b>	<u>1,700,017</u>	<u>15,751</u>
<b>Net Interest Income</b>	736,282	150,828
<b>Provision for Loan Losses</b>	<u>385,000</u>	<u>-</u>
<b>Net Interest Income after Provision for Loan Losses</b>	<u>351,282</u>	<u>150,828</u>
<b>Other Income</b>		
Service charges and fees on deposit accounts	5,237	-
Commission earned on annuities issued	427,195	-
Commissions earned on brokered securities	112,799	-
Commissions earned on issuance of insurance policies	32,715	-
Commissions earned on brokered loans	60,398	-
<b>Total Other Income</b>	<u>638,344</u>	<u>-</u>
<b>Non-Interest Expenses</b>		
Salaries and employee benefits	2,637,632	1,014,912
Occupancy	276,517	185,923
Equipment	235,915	17,348
Professional fees	318,988	117,319
Marketing and advertising	155,536	23,988
Supplies	85,948	50,683
Data and item processing	65,384	-
Travel and entertainment	33,955	4,602
Other	93,060	16,954
<b>Total Non-Interest Expenses</b>	<u>3,902,935</u>	<u>1,431,729</u>
<b>Loss Before Income Taxes</b>	(2,913,309)	(1,280,901)
<b>Income Taxes</b>	<u>-</u>	<u>(4,422)</u>
<b>Net Loss</b>	<u><u>\$(2,913,309)</u></u>	<u><u>\$(1,285,323)</u></u>

See notes to consolidated financial statements.

# Vantage Point Bank

## Consolidated Statements of Stockholders' Equity

Year Ended December 31, 2008 and Period from January 23, 2007 (Date of Inception)  
to December 31, 2007

	Common Stock	Surplus	Accumulated Deficit	Accumulated Other Comprehen- sive Loss	Total
<b>Balance - January 23, 2007 (Date of Inception)</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Sale of common stock, net of offering costs of approximately \$213,815	2,502,550	7,293,835	-	-	9,796,385
Net loss	-	-	(1,285,323)	-	(1,285,323)
<b>Balance - December 31, 2007</b>	2,502,550	7,293,835	(1,285,323)	-	8,511,062
Sale of common stock, net of offering costs of approximately \$17,843	95,570	268,867	-	-	364,437
Comprehensive loss:					
Net loss	-	-	(2,913,309)	-	(2,913,309)
Net change in unrealized losses on securities available for sale	-	-	-	(236,200)	(236,200)
<b>Total Comprehensive Loss</b>					<b>(3,149,509)</b>
Stock-based compensation expense	-	142,326	-	-	142,326
<b>Balance - December 31, 2008</b>	<b>\$2,598,120</b>	<b>\$7,705,028</b>	<b>\$(4,198,632)</b>	<b>\$(236,200)</b>	<b>\$5,868,316</b>

*See notes to consolidated financial statements.*

# Vantage Point Bank

## Consolidated Statements of Cash Flows

Year Ended December 31, 2008 and Period from January 23, 2007 (Date of Inception)  
to December 31, 2007

	<u>2008</u>	<u>2007</u>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (2,913,309)	\$ (1,285,323)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan losses	385,000	-
Depreciation and amortization	118,906	-
Stock-based compensation expense	142,326	-
(Increase) decrease in accrued interest receivable	(317,197)	-
Increase in other assets	(20,148)	(37,431)
Increase in accrued interest payable	61,821	401
Increase (decrease) in other liabilities	113,188	88,172
	<u>(2,429,413)</u>	<u>(1,234,181)</u>
<b>Net Cash Used in Operating Activities</b>		
	<u>(2,429,413)</u>	<u>(1,234,181)</u>
<b>Cash Flows from Investing Activities</b>		
Loan originations and principal collections, net	(28,778,557)	-
Loans purchased	(4,757,131)	-
Activity in available for sale securities:		
Purchases	(24,866,707)	(29,995,350)
Maturities, calls and principal repayments	29,958,475	-
Activity in held to maturity securities:		
Purchases	(6,966,467)	-
Maturities, calls and principal repayments	764	-
Redemptions (purchases) of restricted bank stock	645,500	(1,035,600)
Purchases of bank premises and equipment	(290,905)	(499,516)
Purchases of interest bearing time deposits	(99,000)	-
	<u>(35,154,028)</u>	<u>(31,530,466)</u>
<b>Net Cash Used in Investing Activities</b>		
	<u>(35,154,028)</u>	<u>(31,530,466)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase in deposits	60,341,867	750,000
Increase (decrease) in short-term borrowings	(22,270,600)	22,270,600
Proceeds from sale of common stock, net of offering costs	364,437	9,796,385
	<u>38,435,704</u>	<u>32,816,985</u>
<b>Net Cash Provided by Financing Activities</b>		
	<u>38,435,704</u>	<u>32,816,985</u>
<b>Net Increase in Cash and Cash Equivalents</b>	852,263	52,338
<b>Cash and Cash Equivalents - Beginning</b>	52,338	-
<b>Cash and Cash Equivalents - Ending</b>	<u>\$ 904,601</u>	<u>\$ 52,338</u>
<b>Supplementary Cash Flows Information</b>		
Interest paid	<u>\$ 1,638,196</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 4,422</u>	<u>\$ -</u>

See notes to consolidated financial statements.

# ***Vantage Point Bank***

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## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 1 - Nature of Operations**

Vantage Point Bank (the “Bank”) was incorporated on January 23, 2007 under the laws of the Commonwealth of Pennsylvania and is a Pennsylvania chartered, Federal Deposit Insurance Corporation (“FDIC”) insured bank. The Bank commenced operations on December 24, 2007 and is a full service commercial bank providing personal and business lending, deposit products and wealth management services. As a state chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and the FDIC. The Bank is located in, and serves customers in, southeastern Pennsylvania. The Bank established a subsidiary, Vantage Point Financial Services, which began operations during 2008.

Prior to commencing operations, the Bank incurred approximately \$1,400,000 of organization and pre-opening costs. Interest income of \$154,919 was earned on escrow funds during the Bank’s start-up period. These amounts are included in the consolidated statement of operations in the respective income or expense categories. Stock offering costs of \$17,843 and \$213,815 are netted against the proceeds from the sale of common stock in 2008 and 2007, respectively.

### **Note 2 - Summary of Significant Accounting Policies**

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of Vantage Point Bank and its wholly-owned subsidiary, Vantage Point Financial Services. All significant intercompany balances and transactions have been eliminated in consolidation.

#### **Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the determination of impairment of restricted stock, the valuation of deferred tax assets and the determination of other-than-temporary impairment on securities.

#### **Significant Group Concentrations of Credit Risk**

Most of the Bank’s activities are with customers located within Montgomery County and the suburbs surrounding Philadelphia. Note 3 discusses the types of securities that the Bank currently invests in. Note 4 discusses the types of lending that the Bank engages in. Although the Bank intends to have a diversified loan portfolio, its debtors’ ability to honor their contracts will be influenced by the region’s economy. The Bank does not have any significant concentrations in any one industry or customer.

# ***Vantage Point Bank***

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## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold.

The Bank maintains cash deposits in other depository institutions that occasionally exceed the amount of deposit insurance available. Management periodically assesses the financial condition of these institutions and believes that the risk of any possible credit loss is minimal.

#### **Investment Securities**

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Investment securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors. Unrealized gains or losses are included as a component of stockholders' equity. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Investment securities classified as held to maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost adjusted for the amortization of premium and accretion of discount, computed by a method which approximates the interest method over the terms of the securities.

Management evaluates securities for other-than-temporary impairment on at least an annual basis, and more frequently when economic or market concerns warrant such evaluation. Declines in the fair value of held to maturity and available for sale investment securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

#### **Restricted Investment in Bank Stock**

Restricted investment in bank stock consists of Federal Home Loan Bank of Pittsburgh (FHLB) stock in the amount of \$330,100 and Atlantic Central Bankers Bank stock in the amount of \$60,000 at December 31, 2008. Federal law requires a member institution of the FHLB to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost. In December 2008, the FHLB of Pittsburgh notified member banks that it was suspending dividend payments and the repurchase of capital stock.

# ***Vantage Point Bank***

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## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### **Restricted Investment in Bank Stock (Continued)**

Management evaluates the restricted stock for impairment in accordance with Statement of Position (SOP) 01-6, *Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others*. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Management believes no impairment charge is necessary related to the Federal Home Loan Bank stock as of December 31, 2008.

#### **Loans Receivable**

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank will generally amortize these amounts over the contractual life of the loan.

The accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectibility of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for loan losses. Interest received on nonaccrual loans is generally either applied against principal or reported as interest income, according to management's judgment as to the collectibility of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectibility of the total contractual principal and interest is no longer in doubt.

In addition to originating loans, the Bank purchases consumer and mortgage loans from institutions in our market area. Such purchases are reviewed for compliance with our underwriting criteria before they are purchased, and are generally purchased without recourse to the seller.

# ***Vantage Point Bank***

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## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### **Allowance for Loan Losses**

The allowance for loan losses is established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses will be maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management's periodic evaluation of the adequacy of the allowance will be based on known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance will consist of specific, general, and unallocated components. The specific component will relate to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance will be established when the discounted cash flows (or collateral value or observable market price) of the impaired loan are lower than the carrying value of that loan. The general component will cover non-classified loans and will be based on historical loss experience adjusted for qualitative factors. An unallocated component will be maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance will reflect the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

#### **Transfers of Financial Assets**

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales when control over the assets is surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

# ***Vantage Point Bank***

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## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 2 - Summary of Significant Accounting Policies (Continued)**

#### **Bank Premises and Equipment**

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, ranging from 3 to 7 years. Leasehold improvements are amortized over the term of the lease or estimated useful lives, whichever is shorter.

#### **Advertising Costs**

The Bank follows the policy of charging the costs of advertising to expense as incurred.

#### **Income Taxes**

Deferred income taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and net operating loss carryforwards and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. The FSP defers the effective date of FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to be effective for fiscal years beginning after December 15, 2008 for certain nonpublic enterprises. The FSP requires a nonpublic enterprise that elects to defer the application of FIN 48 to explicitly disclose that fact and also requires the disclosure of the enterprise's accounting policy for evaluating uncertain tax positions for each set of consolidated financial statements where the deferral applies.

The Bank has elected to defer the application of FIN 48. For the year ended December 31, 2008 and the period ended December 31, 2007, the Bank has accounted for uncertain tax positions in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*.

#### **Stock-Based Compensation**

Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*, contains a fair value-based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period.

#### **Comprehensive Loss**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). The Bank had no items of other comprehensive loss for the period ended December 31, 2007.

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 2 - Summary of Significant Accounting Policies (Continued)

#### Comprehensive Loss (Continued)

The components of other comprehensive loss and related tax effects for the year ended December 31, 2008 are as follows:

	<u>2008</u>
Unrealized holding losses on investment securities available for sale arising during the year	\$(357,878)
Income tax effect	<u>121,678</u>
	<u><u>\$(236,200)</u></u>

#### Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank may enter into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the balance sheets when they are funded.

### Note 3 - Investment Securities

The amortized cost, gross unrealized gains and losses, and fair value of securities available for sale and held to maturity are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>December 31, 2008:</b>				
<b>Available for Sale:</b>				
Agency CMOs	\$ 5,361,878	\$ 80,233	\$ -	\$ 5,442,111
Mortgage-backed securities	8,958,999	289,841	-	9,248,840
Corporate bonds	1,401,140	10,060	(5,652)	1,405,548
Private CMOs	9,181,565	30,830	(763,190)	8,449,205
	<u>\$24,903,582</u>	<u>\$410,964</u>	<u>\$(768,842)</u>	<u>\$24,545,704</u>
<b>Held to Maturity:</b>				
Callable U.S. Government agency securities	<u>\$ 6,965,703</u>	<u>\$ 25,793</u>	<u>\$ (10,285)</u>	<u>\$ 6,981,211</u>
<b>December 31, 2007:</b>				
<b>Available for Sale:</b>				
Callable U.S. Government agency securities	<u>\$29,995,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$29,995,350</u>

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 3 - Investment Securities (Continued)

There were no securities at December 31, 2007 which were in a unrealized loss position. The table below indicates the length of time individual securities have been in a continuous unrealized loss position at December 31, 2008:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2008:</b>						
<b>Available for Sale:</b>						
Corporate bonds	\$ 394,348	\$ (5,652)	\$ -	\$ -	\$ 394,348	\$ (5,652)
Private CMOs	<u>7,708,642</u>	<u>(763,190)</u>	<u>-</u>	<u>-</u>	<u>7,708,642</u>	<u>(763,190)</u>
	<u>\$8,102,990</u>	<u>\$(768,842)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,102,990</u>	<u>\$(768,842)</u>
<b>Held to Maturity:</b>						
Callable U.S.						
Government agency securities	<u>\$ 857,948</u>	<u>\$ (10,285)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 857,948</u>	<u>\$ (10,285)</u>

At December 31, 2008, the Bank has 12 Private CMOs, one corporate bond and one callable U.S. government agency security that have unrealized losses with an aggregate depreciation of 9.01%, 1.41% and 1.18%, respectively, from the Bank's amortized cost basis. In analyzing the financial condition of the securities, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As management has the intent and ability to hold these securities until anticipated recovery in fair value or maturity, no declines are deemed to be other than temporary.

The amortized cost and fair value of investment securities at December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
One year or less	\$ 2,001,140	\$ 2,011,200
After one year through five years	3,825,000	3,823,558
After five years through ten years	2,439,859	2,376,826
After ten years	14,644,287	14,066,491
Mortgage-backed securities	<u>8,958,999</u>	<u>9,248,840</u>
	<u>\$31,869,285</u>	<u>\$31,526,915</u>

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 3 - Investment Securities (Continued)

During the year ended December 31, 2008 and the period ended December 31, 2007, there were no sales of securities available for sale.

There were no pledged securities to secure short-term borrowings at December 31, 2008. At December 31, 2007, securities with a carrying value of approximately \$30,000,000 were pledged to secure short-term borrowings.

### Note 4 - Loans Receivable and Allowance for Loan Losses

The Bank did not have any loans receivable as of December 31, 2007. Major classifications of net loans receivable at December 31, 2008 are as follows:

	<u>2008</u>
Consumer loans:	
Home equity line of credit	\$15,351,092
Home equity term	2,910,653
Construction	400,000
Other personal	147,511
	<u>18,809,256</u>
<b>Total Consumer Loans</b>	<b>18,809,256</b>
Business loans:	
Term loans	6,795,886
Commercial mortgages	5,267,901
Lines of credit	2,588,624
Other business	13,284
	<u>14,665,695</u>
<b>Total Business Loans</b>	<b>14,665,695</b>
<b>Total Loans</b>	<b>33,474,951</b>
Net deferred loan origination costs (fees)	60,737
Allowance for loan losses	<u>(385,000)</u>
	<u><u>\$33,150,688</u></u>

The Bank did not have any allowance for loan losses as of December 31, 2007. The changes in the allowance for loan losses for the year ended December 31, 2008 are as follows:

	<u>2008</u>
Balance, beginning of year	\$ -
Provision for loan losses	385,000
Net recoveries (charge-offs)	-
	<u>-</u>
Balance, end of year	<u><u>\$385,000</u></u>

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 4 - Loans Receivable and Allowance for Loan Losses (Continued)

At December 31, 2008 and 2007, the Bank had no impaired loans, no nonaccrual loans, and no loans past due 90 days or more.

### Note 5 - Bank Premises and Equipment

The components of premises and equipment at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 49,216	\$ 43,223
Furniture, fixtures and equipment	57,175	20,006
Computer equipment and data processing software	<u>684,030</u>	<u>436,287</u>
	790,421	499,516
Accumulated depreciation	<u>(118,906)</u>	<u>-</u>
	<u><u>\$671,515</u></u>	<u><u>\$499,516</u></u>

Depreciation and amortization expense charged to operations amounted to approximately \$118,906 and \$-0- for the year ended December 31, 2008 and the period ended December 31, 2007, respectively.

### Note 6 - Deposits

Deposits at December 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Demand, non-interest bearing	\$ 948,319	\$ -
Demand, interest-bearing	362,104	-
Money market and savings	24,822,016	750,000
Certificates of deposit of less than \$100,000	16,700,390	-
Certificates of deposit of \$100,000 or more	<u>18,259,038</u>	<u>-</u>
	<u><u>\$61,091,867</u></u>	<u><u>\$750,000</u></u>

Interest expense on time deposits amounted to approximately \$1,052,695 and \$-0- in 2008 and 2007, respectively. Interest expense on demand, money market and savings accounts amounted to approximately \$634,340 and \$401 in 2008 and 2007, respectively.

# ***Vantage Point Bank***

## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 6 - Deposits (Continued)**

At December 31, 2008, the scheduled maturities of time deposits are as follows:

2009	<b>\$28,672,688</b>
2010	<b>3,496,876</b>
2011	<b>1,724,927</b>
2012	<b>45,968</b>
2013	<b>1,018,969</b>
	<b><u>1,018,969</u></b>
	<b><u>\$34,959,428</u></b>

### **Note 7 - Borrowings**

The Bank's borrowings generally will consist of short and long-term borrowings from the Federal Home Loan Bank of Pittsburgh.

At December 31, 2007, the Bank had borrowings with the Federal Home Loan Bank of Pittsburgh of \$22,270,600, which matured in January 2008. The secured borrowing facility was collateralized with a lien on the Bank's securities. The fixed interest rate on the borrowing was 3.88% at December 31, 2007. The Bank also has a \$1 million facility available with the Atlantic Central Bankers Bank. There were no borrowings outstanding at December 31, 2008.

### **Note 8 - Lease Commitments**

At December 31, 2008, the Bank was obligated under noncancellable leases for premises. Such leases required the Bank to pay a monthly fee for its portion of certain operating expenses, including real estate taxes, insurance, utilities, maintenance and repairs in addition to the base rent.

Future minimum lease payments by year and in the aggregate, under these lease agreements, are as follows:

2009	<b>\$256,117</b>
2010	<b>258,628</b>
2011	<b>266,743</b>
2012	<b>59,400</b>
2013	<b>15,022</b>
	<b><u>15,022</u></b>
	<b><u>\$855,910</u></b>

Rent expense for the year ended December 31, 2008 and for the period ended December 31, 2007 totaled \$237,889 and \$185,923, respectively.

# ***Vantage Point Bank***

## **Notes to Consolidated Financial Statements**

**December 31, 2008 and 2007**

### **Note 9 - Change in Control Agreement**

During 2007, the Bank entered into employment agreements with change of control provisions with its President and its Chief Executive Officer. Upon resignation after a change in the control of the Bank, as defined in the agreements, an individual will receive monetary compensation in the amount set forth in the agreement. The agreements range from 2-3 year terms, and may be extended for a two year term subsequently, as long as a majority of the Board of Directors affirmatively approve the extension.

### **Note 10 - Stockholders' Equity**

During 2008, the Bank sold 95,570 shares of common stock at \$4.00 per share which resulted in net proceeds of \$364,437.

During 2007, the Bank sold 2,502,550 shares of common stock at \$4.00 per share which resulted in net proceeds of \$9,796,385 under an initial stock offering of 2,500,000 to 5,000,000 shares of common stock. In addition, warrants were issued to purchasers of 25,000 or more shares equal to 10% of the shares purchased. A total of 341,533 warrants were issued in the offering. The warrants have an exercise price of \$4.00 and expire 10 years from the date of issuance. No warrants were exercised through December 31, 2008.

Organizers were issued at total of 171,875 "organizer warrants" with a fair value of \$197,650. The fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0%, risk-free rate of 3.89%, volatility of 15.0%, and expected life of 7 years. These warrants vest over a period of three years, expire in 10 years and will enable the warrant holder to purchase one share of common stock at \$4.00 per share for each warrant exercised. The fair value of these warrants will be expensed over the vesting period. Stock compensation expense related to these organizer warrants was approximately \$132,000 for the year ended December 31, 2008.

The Pennsylvania State Department of Banking, in issuing its charter to the Bank, required an allocation of its initial capital to a reserve for organization expenses of \$1,000,000 to defray anticipated initial losses.

### **Note 11 - Federal Income Taxes**

The components of income tax expense for the year ended December 31, 2008 and for the period ended December 31, 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Current, federal	<u>\$ -</u>	<u>\$4,422</u>

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 11 - Federal Income Taxes (Continued)

The components of the deferred tax asset at December 31, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Deferred tax assets:		
Organization and start-up costs	\$ 445,891	\$ 480,731
Allowance for loan loss	88,833	-
Net operating loss carryforward	908,887	-
Contribution carryforward	2,706	-
Unrealized loss on available for sale securities	121,678	-
Valuation allowance	<u>(1,397,613)</u>	<u>(436,803)</u>
<b>Total Deferred Tax Assets, Net of Valuation Allowance</b>	<b>170,382</b>	<b>43,928</b>
Deferred tax liabilities:		
Property and equipment	<u>(48,704)</u>	<u>(43,928)</u>
<b>Net Deferred Tax Assets</b>	<b><u>\$ 121,678</u></b>	<b><u>\$ -</u></b>

At December 31, 2008, the Bank has a net operating loss carryforward available for federal income tax purposes of approximately \$2,673,000 which expires through 2028.

### Note 12 - Stock-Based Compensation

In 2008, the Bank adopted the Vantage Point Bank Stock Option Plan (the Plan). The Plan authorizes the Board of Directors to grant options up to an aggregate of 150,000 shares of common stock as of the effective date of the Plan to officers, other employees and directors of the Bank. The shares granted under the Plan to directors are non-qualified options. The shares granted under the Plan to officers and other employees can be non-qualified options or incentive stock options, subject to the limitations under Section 422 of the Internal Revenue Code.

All options granted under the Plan have a term that shall not exceed 10 years. The exercise price of the options granted shall be the fair market value of a share of common stock at the time of the grant.

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 12 - Stock-Based Compensation (Continued)

The following summarizes changes in stock options outstanding for the year ended December 31:

	<u>2008</u>	
	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, beginning of year	-	\$ -
Granted	49,998	4.00
Forfeited	-	-
Outstanding, end of year	<u>49,998</u>	<u>\$4.00</u>
Exercisable, end of year	<u>-</u>	<u>\$ -</u>
Weighted-average fair value of options granted during the year	<u>\$ 1.06</u>	

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 2008: dividend yield of 0% for 2008; expected volatility of approximately 15%; risk-free interest rate of 3.21% and an expected life of the options of seven years. The volatility percentage for 2008 was based on the average expected volatility of similar public financial institutions in the Bank's market area.

The weighted average remaining contractual life of options outstanding at December 31, 2008 is 9.08 years. The aggregate intrinsic value of outstanding options was approximately \$-0- at December 31, 2008.

Stock-based compensation expense related to outstanding stock options was approximately \$11,000 for the year ended December 31, 2008. As of December 31, 2008, there was approximately \$43,118 of unrecognized compensation costs related to non-vested stock options granted in 2008. This cost is expected to be recognized over a weighted average period of 4.08 years.

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 13 - Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Deposits of related parties totaled \$2,028,966 and \$-0- at December 31, 2008 and 2007, respectively. The aggregate dollar amount of loans to related parties, along with an analysis of the activity for 2008, is summarized as follows:

	<u>2008</u>
Balance, beginning	\$ -
Additions	1,302,047
Repayments	<u>(166,201)</u>
Balance, ending	<u>\$1,135,846</u>

### Note 14 - Financial Instruments with Off-Balance Sheet Risk

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, 2007, the Bank did not have any commitments to extend credit. The Bank had the following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31:

	<u>2008</u>
Commitments to grant loans	\$6,251,275
Unfunded commitments under lines of credit	6,733,329

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment. The liability associated with these commitments is not material at December 31, 2008.

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 15 - Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary-actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2008 and 2007, that the Bank meets all capital adequacy requirements to which it is subject.

The Federal Deposit Insurance Corporation requires that the Bank maintain a ratio of Tier 1 leverage capital to total assets of at least 8% during the first three years of operation. Under these guidelines, the Bank is considered well capitalized as of December 31, 2008 and 2007.

The Bank's actual capital amounts and ratios at December 31, 2008 and 2007 are presented below:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Ratio		Ratio	
<b>December 31, 2008:</b>						
Total capital (to risk-weighted assets)	\$6,485	14.89 %	\$≥3,483	8.0%	\$≥4,354	10.0%
Tier 1 capital (to risk-weighted assets)	6,100	14.01	≥1,742	4.0	≥2,613	6.0
Tier 1 capital (to average assets)	6,100	8.70	≥5,910	8.0	≥5,910	8.0
<b>December 31, 2007:</b>						
Total capital (to risk-weighted assets)	\$8,511	1864.85 %	\$≥ 36	8.0%	\$≥ 45	10.0%
Tier 1 capital (to risk-weighted assets)	8,511	1864.85	≥ 18	4.0	≥ 27	6.0
Tier 1 capital (to average assets)	8,511	197.34	≥431	8.0	≥431	8.0

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

# *Vantage Point Bank*

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## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 16 - Fair Value Measurements

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of year-end and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at year-end.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Bank adopted SFAS 157 effective for its fiscal year beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Bank only partially adopted the provisions of SFAS 157, and will begin to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active* ("FSP 157-3"), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to the Bank's December 31, 2008 consolidated financial statements. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the financial statements. The primary effect of SFAS 157 on the Bank was to expand the required disclosures pertaining to methods used to determine fair values.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

- Level 1:* Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2:* Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3:* Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

# Vantage Point Bank

## Notes to Consolidated Financial Statements

December 31, 2008 and 2007

### Note 16 - Fair Value Measurements (Continued)

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2008 are as follows:

<u>Description</u>	<u>December 31, 2008</u>	<u>(Level 1) Quoted Prices in Active Markets for Identical Assets</u>	<u>(Level 2) Significant Other Observable Inputs</u>	<u>(Level 3) Significant Unobservable Inputs</u>
Securities available for sale	<u>\$24,545,704</u>	<u>\$ -</u>	<u>\$24,545,704</u>	<u>\$ -</u>

The fair value of securities available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

There were no financial assets measured at fair value on a nonrecurring basis at December 31, 2008.