

MOSSES ADAMS

**ALBINA COMMUNITY BANCORP
AND SUBSIDIARIES**

**INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED FINANCIAL
STATEMENTS**

DECEMBER 31, 2009, 2008, AND 2007

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Note: These consolidated financial statements have not been reviewed, or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Albina Community Bancorp and Subsidiaries

We have audited the accompanying consolidated balance sheets of Albina Community Bancorp and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in stockholders' equity, comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of Albina Community Bancorp'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 consolidated 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 Albina Community Bancorp and Subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements as of and for the year ended December 31, 2009, have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring net losses from operations in 2009 and 2008 and the decline in the level of its regulatory capital to support operations raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.



Portland, Oregon
April 14, 2010

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2009	2008
ASSETS		
Cash and due from banks	\$ 674,707	\$ 2,364,026
Interest-bearing deposits with other banks	7,200,860	13,221,539
Federal funds sold	-	4,171,929
Total cash and cash equivalents	<u>7,875,567</u>	<u>19,757,494</u>
Time deposits with other banks	2,836,000	4,531,881
Investment securities, at fair value	37,611,680	17,684,349
Loans, net of allowance for loan losses and unearned income	137,232,010	160,487,920
Federal Home Loan Bank stock, at cost	1,325,200	1,325,200
Premises and equipment, net of accumulated amortization and depreciation	5,336,502	5,672,680
Accrued interest receivable and other assets	2,371,274	2,167,166
Other real estate owned, net	2,793,792	-
Cash surrender value of bank-owned life insurance	<u>2,587,134</u>	<u>4,056,398</u>
TOTAL ASSETS	<u>\$ 199,969,159</u>	<u>\$ 215,683,088</u>
LIABILITIES		
Noninterest-bearing demand deposits	\$ 27,667,430	\$ 19,290,643
Interest-bearing demand, savings and money market deposits	50,860,878	45,026,743
Time deposits	<u>86,398,873</u>	<u>102,799,844</u>
Total deposits	164,927,181	167,117,230
Other borrowings	23,304,689	28,314,272
Junior subordinated debentures	6,186,000	6,186,000
Accrued interest payable and other liabilities	<u>1,912,491</u>	<u>1,582,759</u>
Total liabilities	<u>196,330,361</u>	<u>203,200,261</u>
COMMITMENTS AND CONTINGENCIES (Note 10 and 12)		
STOCKHOLDERS' EQUITY		
Preferred stock, at liquidation value, no par value, 1,000,000 shares authorized, 24,818 shares issued and outstanding at December 31, 2009 and 2008	697,996	2,481,800
Common stock, Class A, no par value, 3,000,000 shares authorized, 984,661, and 982,232 shares issued and outstanding at December 31, 2009 and 2008, respectively	8,071,657	8,041,868
Common stock, Class B, no par value, 3,000,000 shares authorized, 86,966 shares issued and outstanding at December 31, 2009 and 2008	538,233	538,233
Retained earnings (accumulated deficit)	(6,181,907)	1,512,569
Accumulated other comprehensive income (loss), net of tax	<u>512,819</u>	<u>(91,643)</u>
Total stockholders' equity	<u>3,638,798</u>	<u>12,482,827</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 199,969,159</u>	<u>\$ 215,683,088</u>

See accompanying notes.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2009	2008	2007
INTEREST INCOME			
Interest and fees on loans	\$ 9,354,055	\$ 10,939,985	\$ 10,254,879
Investment securities	1,096,743	725,669	568,053
Federal funds sold	23,782	77,071	97,565
Other interest income	139,243	224,029	262,963
Total interest income	<u>10,613,823</u>	<u>11,966,754</u>	<u>11,183,460</u>
INTEREST EXPENSE			
Time deposits	3,230,963	3,151,301	2,998,617
Money market accounts	343,121	586,244	980,134
Interest-bearing demand deposit accounts	15,705	20,182	29,657
Savings accounts	10,356	11,302	29,420
Other borrowed funds	1,324,498	1,378,893	928,585
Total interest expense	<u>4,924,643</u>	<u>5,147,922</u>	<u>4,966,413</u>
Net interest income	5,689,180	6,818,832	6,217,047
PROVISION FOR LOAN LOSSES			
	<u>11,055,000</u>	<u>3,850,000</u>	<u>543,000</u>
Net interest income (loss) after provision for loan losses	<u>(5,365,820)</u>	<u>2,968,832</u>	<u>5,674,047</u>
NONINTEREST INCOME			
Government program payments	2,210,526	925,000	530,126
Service charges on deposit accounts	777,059	695,785	607,462
Merchant services and card fee income	256,213	171,489	529,535
Gain on sale of investment securities	242,123	13,000	149,552
Increase in cash surrender value of bank-owned life insurance	142,815	184,201	139,822
Loan fees on brokered loans	4,240	62,344	201,210
Gain on sale of loans	49,067	-	-
Loss on settlement of interest rate swap	(192,345)	-	-
Other noninterest income	271,626	330,285	249,215
Total noninterest income	<u>\$ 3,761,324</u>	<u>\$ 2,382,104</u>	<u>\$ 2,406,922</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2009	2008	2007
NONINTEREST EXPENSE			
Salaries and employee benefits	\$ 2,964,420	\$ 3,768,721	\$ 3,874,008
Professional fees	754,740	379,271	345,071
Occupancy and equipment	753,236	758,202	714,375
Regulatory assessment	639,000	127,190	73,920
Other real estate owned impairments	692,100	-	-
Data processing	478,508	428,755	421,075
ATM/merchant fees	272,353	295,460	514,251
Loan collection	152,819	10,619	1,123
Advertising	104,969	109,916	84,085
Other noninterest expenses	1,018,744	951,503	1,028,479
Total noninterest expense	<u>7,830,889</u>	<u>6,829,637</u>	<u>7,056,387</u>
Income (loss) before income tax provision (benefit)	(9,435,385)	(1,478,701)	1,024,582
INCOME TAX PROVISION (BENEFIT)	<u>42,895</u>	<u>(551,637)</u>	<u>320,251</u>
NET INCOME (LOSS)	<u>\$ (9,478,280)</u>	<u>\$ (927,064)</u>	<u>\$ 704,331</u>
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE OF COMMON STOCK	<u>\$ (7.19)</u>	<u>\$ (0.87)</u>	<u>\$ 0.67</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Amount	Number of Shares	Amount			
BALANCE, December 31, 2006	24,818	\$ 2,481,800	1,023,724	\$ 8,174,547	\$ 1,735,302	\$ (14,806)	\$ 12,376,843
Proceeds from issuances under stock incentive plans	-	-	44,158	216,597	-	-	216,597
Stock-based compensation	-	-	-	56,949	-	-	56,949
Tax benefit resulting from exercise of stock options	-	-	-	94,005	-	-	94,005
Net income	-	-	-	-	704,331	-	704,331
Other comprehensive loss, net of taxes	-	-	-	-	-	(1,178)	(1,178)
BALANCE, December 31, 2007	24,818	2,481,800	1,067,882	8,542,098	2,439,633	(15,984)	\$ 13,447,547
Proceeds from issuances under stock incentive plans	-	-	1,316	8,562	-	-	8,562
Stock-based compensation	-	-	-	28,393	-	-	28,393
Tax benefit resulting from exercise of stock options	-	-	-	1,048	-	-	1,048
Net loss	-	-	-	-	(927,064)	-	(927,064)
Other comprehensive loss, net of taxes	-	-	-	-	-	(75,659)	(75,659)
BALANCE, December 31, 2008	24,818	\$ 2,481,800	1,069,198	\$ 8,580,101	\$ 1,512,569	\$ (91,643)	\$ 12,482,827
Proceeds from issuances under stock incentive plans	-	-	2,429	4,801	-	-	4,801
Stock-based compensation	-	-	-	24,988	-	-	24,988
Net loss	-	-	-	-	(9,478,280)	-	(9,478,280)
Preferred stock liquidation value adjustment	-	(1,783,804)	-	-	1,783,804	-	-
Other comprehensive income, net of taxes	-	-	-	-	-	604,462	604,462
BALANCE, December 31, 2009	24,818	\$ 697,996	1,071,627	\$ 8,609,890	\$ (6,181,907)	\$ 512,819	\$ 3,638,798

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,		
	2009	2008	2007
Net income (loss)	\$ (9,478,280)	\$ (927,064)	\$ 704,331
Other comprehensive income (loss):			
Unrealized gains arising during the year on investment securities available-for-sale	946,932	184,902	210,159
Reclassification adjustment for realized gains included in net income (loss)	(242,123)	(13,000)	(149,552)
Change in fair value of interest rate swap	55,525	(288,300)	(62,420)
Reclassification adjustment for loss on termination of interest rate swap included in net loss	192,345	-	-
Tax effects	(348,217)	40,739	635
Other comprehensive income (loss)	604,462	(75,659)	(1,178)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (8,873,818)	\$ (1,002,723)	\$ 703,153

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (9,478,280)	\$ (927,064)	\$ 704,331
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Net accretion of discounts on investment securities	370,630	(1,031)	(31,359)
Gain on sales of investment securities	(242,123)	(13,000)	(149,552)
Depreciation and amortization	347,026	339,136	337,573
Deferred income taxes	(2,845,000)	(685,800)	176,100
Deferred income tax valuation allowance	2,869,600	-	-
Change of investment in bank-owned life insurance, net of change in salary continuation benefits obligation	(268,601)	(63,763)	7,453
Provision for loan losses	11,055,000	3,850,000	543,000
Stock-based compensation expense	24,988	28,393	56,949
Excess tax benefit from exercise of stock options	-	(1,048)	(77,292)
Gain on sale of other real estate owned	(6,704)	-	-
Impairment of other real estate owned	692,100	-	-
Loss on settlement of interest rate swap	192,345	-	-
Loss on release of bank-owned life insurance	29,678	-	-
Increase (decrease) in cash due to changes in certain assets and liabilities:			
Accrued interest receivable and other assets	(285,819)	(280,209)	(331,344)
Accrued interest payable and other liabilities	712,592	(210,661)	536,568
Net cash from operating activities	<u>3,167,432</u>	<u>2,034,953</u>	<u>1,772,427</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Net change in time deposits with other banks	1,695,881	1,093,119	(2,527,000)
Purchases of investment securities	(55,534,847)	(10,854,333)	(7,223,808)
Proceeds from maturities, calls, and sales of investment securities	35,896,687	3,980,284	18,883,093
Purchases of Federal Home Loan Bank stock	-	(895,400)	(192,500)
Proceeds from redemption of Federal Home Loan Bank stock	-	185,500	-
Net change in loans resulting from originations and collections	8,238,841	(18,280,989)	(51,006,369)
Purchases of premises and equipment	(10,848)	(41,339)	(179,980)
Proceeds from sales of other real estate owned	482,882	-	-
Settlement of interest rate swap	(192,345)	-	-
Proceeds from release of bank-owned life insurance	1,569,221	-	-
Investment in bank-owned life insurance	-	-	(875,000)
Net cash from investing activities	<u>(7,854,528)</u>	<u>(24,813,158)</u>	<u>(43,121,564)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in deposits	(2,190,049)	21,276,854	36,606,249
Net change in federal funds purchased	-	(2,500,000)	2,500,000
Advances on other borrowings	8,556,037	25,044,676	17,500,000
Repayment of other borrowings	(13,565,620)	(12,091,359)	(10,340,273)
Net proceeds from common stock issuances	4,801	8,562	216,597
Excess tax benefit from exercise of stock options	-	1,048	77,292
Net cash from financing activities	<u>\$ (7,194,831)</u>	<u>\$ 31,739,781</u>	<u>\$ 46,559,865</u>

See accompanying notes.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (11,881,927)	\$ 8,961,576	\$ 5,210,728
CASH AND CASH EQUIVALENTS, beginning of year	19,757,494	10,795,918	5,585,190
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 7,875,567</u>	<u>\$ 19,757,494</u>	<u>\$ 10,795,918</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	\$ 5,040,288	\$ 5,177,163	\$ 4,907,152
Cash paid during the year for taxes	<u>\$ -</u>	<u>\$ 248,300</u>	<u>\$ 10,500</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Change in fair value of investment securities available-for-sale, net of taxes	<u>\$ 458,126</u>	<u>\$ 111,736</u>	<u>\$ 39,394</u>
Change in fair value of interest rate swap, net of taxes	<u>\$ 46,894</u>	<u>\$ (187,395)</u>	<u>\$ (40,573)</u>
Transfer of loans to other real estate owned	<u>\$ 3,962,069</u>	<u>\$ -</u>	<u>\$ -</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES**

Organization and nature of operations – Albina Community Bancorp (Albina) was incorporated on August 18, 1993, as an Oregon bank holding company.

Albina has two wholly-owned subsidiaries: Albina Community Bank and Albina Development Company, LLC. Albina Community Bank (the Bank), is a state chartered commercial bank and is a qualified Community Development Financial Institution (CDFI). The Bank is a full-service commercial bank, offering traditional loan and deposit products to businesses in the greater Portland metropolitan area. The Bank focuses on serving minority and women-owned businesses, and nonprofit organizations. The Bank also serves developers of affordable housing and commercial properties, as well as low-to-moderate income individuals.

On March 7, 2003, Albina formed Albina Statutory Trust I (AST-I), and on May 5, 2004, formed Albina Statutory Trust II (AST-II). Both are wholly-owned Connecticut statutory business trusts, formed for the purpose of issuing guaranteed undivided beneficial interests in fixed/floating rate Junior Subordinated Deferrable Interest Debentures (Trust Preferred Securities). During March 2003, AST-I issued \$4 million in Trust Preferred Securities and during May 2004, AST-II issued \$2 million in Trust Preferred Securities. Albina used the proceeds from the Trust Preferred Securities' offerings to redeem Series C Preferred stock, redeem subordinated debentures, retire other debt, and fund continued growth of the Bank. In accordance with *Consolidation of Variable Interest Entities* accounting, both of these trusts are excluded from Albina's consolidated financial statements because Albina is not the primary beneficiary.

Albina Development Company, LLC (ADC) is a single-member LLC that was formed for the purpose of organizing and managing qualified Community Reinvestment Act Investment Funds. This subsidiary had no activity during 2009, 2008, or 2007.

Albina Equity Fund I, LLC (AEF) is a single-member LLC that was formed for the purpose of receiving and distributing New Market Tax Credits from the CDFI Fund of the U.S. Treasury. This subsidiary had no activity during 2009, 2008, or 2007. In 2009, AEF received notification from the U.S. Treasury that it had received an allocation of new market tax credits of \$10 million. No transactions associated with the receipt or distribution of these tax credits have occurred as of December 31, 2009.

Albina Opportunities Corporation is a 501(c)3 not-for-profit organization affiliated with Albina for the purpose of creating employment and neighborhood wealth among minority and women-owned businesses operating in the low-to-moderate income communities of the Portland metropolitan area. The financial activity of Albina Opportunities Corporation does not qualify for inclusion into Albina's consolidated financial statements.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Substantially all activity of Albina is conducted through the Bank, which along with Albina, is subject to the regulations of certain federal and state agencies, undergoing periodic examinations by those regulatory authorities. All intercompany accounts and transactions between Albina and its subsidiaries have been eliminated in preparation of the consolidated financial statements.

Financial statement presentation and use of estimates – The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and reporting practices applicable to the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and revenues and expenses for the reporting periods. Actual results could differ significantly from those estimates. The most significant accounting estimate made by management involves the calculation of the allowance for loan losses and valuation allowance for deferred taxes. Management believes the assumptions used in arriving at these estimates are appropriate.

Cash and cash equivalents – Cash and cash equivalents are generally all short-term investments with a maturity of three months or less. Cash and cash equivalents normally include cash on hand, amounts due from banks, interest-bearing demand deposits with other institutions, and federal funds sold. Federal funds sold represent investments purchased and sold for one-business-day period. At December 31, 2009, Albina had cash deposits at other financial institutions in excess of FDIC insured limits. However, Albina places these deposits with large, well-capitalized financial institutions, thus management believes the risk of loss to be minimal. As of December 31, 2009, the Bank had Federal Reserve requirements of \$441,000.

Investment securities – The Bank is required to specifically classify its investment securities as “available-for-sale,” “held-to-maturity,” or “trading accounts.” Accordingly, management has determined that all investment securities held at December 31, 2009 and 2008 are “available-for-sale.”

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Securities are classified as available-for-sale if the instrument may be sold in response to such factors as: (1) changes in market interest rates and related changes in prepayment risk, (2) liquidity needs, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms. Gains or losses on the sale of available-for-sale securities are determined using the specific-identification method. Unrealized holding gains and losses, net of tax, on available-for-sale securities are carried as accumulated other comprehensive income or loss within stockholders' equity until realized. Fair values for these investment securities are based on quoted market prices. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions, fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that the Bank will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security or it is likely that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Bank will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, i.e., the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (loss). Impairment losses related to all other factors are presented as separate categories within other comprehensive income (loss).

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Federal Home Loan Bank stock – At December 31, 2009 and 2008, the Bank held Seattle FHLB stock with a par value of \$1,325,200. As a member of the FHLB system, the Bank is required to maintain a minimum investment level in FHLB stock based on specific percentages of the Bank's outstanding mortgages, total assets, or FHLB advances. This security is reported at par value, which represents the Bank's cost. The Seattle FHLB recently announced that it would report a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the "FHFA"), its primary regulator. As a result, the Seattle FHLB has stopped paying a dividend and stated that it would suspend the repurchase and redemption of outstanding common stock until its retained earnings deficiency was reclaimed.

The stock in the FHLB of Seattle is classified as restricted stock and is evaluated for impairment based on ultimate recoverability. The determination of to whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the 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, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. The Bank has concluded that the FHLB stock investment is not impaired as of December 31, 2009.

Loans, net of allowance for loan losses and unearned income – Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and unearned income. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment to the yield of the related loan.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of principal is unlikely. The allowance consists of a specific and a general component. The specific allowance is derived by identifying specific loans based on risk factors that represent an elevated risk of loss in the portfolio. These loans are analyzed individually and a specific allowance based on factors unique to each identified loan is determined. The general allowance is estimated by identifying homogeneous pools of loans, ascribing risk ratings to those classes of loans, and applying the Bank's historical loss experience for similar classes of loans. The Bank also maintains an unallocated allowance to provide for other credit losses inherent in the loan portfolio that may not have been contemplated by the specific or the general reserve. This unallocated amount generally comprises less than 5% of the allowance and is reviewed periodically based on trends in credit losses and overall economic trends. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible.

Various regulatory agencies, as a regular 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 their judgment of information available to them at the time of examinations.

Impaired loans are carried at the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's market price, or the fair value of the collateral if the loan is collateral dependent. Accrual of interest is discontinued on impaired loans when management believes, after considering economic and business conditions, collection efforts and collateral position, that the borrower's financial condition is such that collection of interest is doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

A troubled debt restructuring is a formal restructure of a loan where the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to the borrowers. The concessions may be granted in various forms, including reduction in the stated interest rate, reduction in the loan balance or accrued interest, and extension of the maturity date. Troubled debt restructurings are evaluated at the time of restructure for impairment, and if impaired are subjected to the Bank's impaired loan accounting policy.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Premises and equipment – Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the expected useful lives of the assets, ranging from five to thirty years. Amortization of leasehold improvements is recorded based on the term of the lease or expected life of related assets, whichever period is less. The costs of maintenance and repairs are expensed as they are incurred, while major expenditures for renewals and betterments are capitalized.

Other real estate owned – Other real estate owned, which represents property acquired through foreclosure or deeds in lieu of foreclosure, is carried at the lower of cost or estimated net realizable value. When property is acquired, any excess of the loan balance over its estimated net realizable value is charged to the allowance for loan losses. Subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest expense.

Income taxes – Income taxes are accounted for using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax basis of assets and liabilities at the applicable enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. Albina evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary.

Albina adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on January 1, 2009, which had no financial statement impact to Albina. Albina recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Albina files tax returns with the Internal Revenue Service and the Oregon Department of Revenue. Tax returns years subsequent to 2006 remain open to examination by these taxing jurisdictions. Albina's policy with respect to interest and penalties ensuing from income tax settlements is to recognize them as tax expense.

Advertising costs – Advertising costs are expensed as they are incurred.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Earnings (loss) per share of common stock – Basic earnings (loss) per share of common stock is computed by dividing net income (loss) available to stockholders, less preferred stock dividends and liquidation value adjustments, by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Diluted earnings (loss) per share of common stock is computed similar to basic earnings (loss) per share of common stock, except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

Stock-based compensation – For the recognition of stock-based compensation, Albina measures and recognizes as compensation expense the grant date fair market value for all share-based awards. That portion of the grant date fair market value that is ultimately expected to vest is recognized as expense over the requisite service period, typically the vesting period, utilizing the straight-line attribution method.

Albina uses the Black-Scholes option-pricing model to value share-based awards. The Black-Scholes model requires the use of assumptions regarding the risk-free interest rate, the expected dividend yield, the expected life of the options, and the expected volatility of the stock price.

The risk-free rate for periods within the contractual life of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield is based on management's estimate of future cash dividends at the time of grant. Cash dividends are not paid on unexercised options. Albina attempts to use historical data to estimate option exercise and employee termination behavior in order to estimate an expected life for each option grant. The expected life falls between the end of the vesting period or requisite service period and the contractual term for each award. Expected volatility is estimated to approximate historical volatility determined using the weekly closing stock price for Albina's common stock.

The tax benefits resulting from tax deductions in excess of the compensation expense recognized for stock options (excess tax benefits) are reported as financing cash flows.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Government program payments – During 2009, 2008, and 2007, Albina, as a certified Community Development Financial Institution was qualified for, applied for, and received payments under the provisions of federal and state programs whereby the Bank originates qualified loans and invests funds in three-year time deposits in other Community Development Financial Institutions. Revenue from such programs is recognized when all program requirements have been satisfied and Albina has received written notice of the amount and timing of the funds to be received. Since the programs generally require Albina to substantially complete all provisions prior to applying for the funds, which supports the completion of the earnings process, the funds received in 2009, 2008, and 2007 were recognized as income when received.

During 2009, Albina, also qualified for, applied for and received \$2,000,000 from the Community Development Financial Institution Fund Assistance Payment. The revenue from this fund was recognized into income once written notification of the amount and timing of payment was received.

Derivatives and off-balance sheet financial instruments – During 2006, the Bank entered into an interest rate swap agreement associated with the origination of a loan to a customer. The swap agreement qualifies to be accounted for as a cash flow hedge using the shortcut method. As of each reporting period, the Bank measures the fair value of this derivative financial instrument and, depending on the position of the derivative, records either an asset or a liability representing the fair value of the instrument. As of December 31, 2008 this derivative represented a liability of approximately \$247,870. During 2009, the swap was called by the issuer. As a result the Bank recognized a loss of \$192,345.

In addition, in the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. These financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Fair value of assets and liabilities – Albina uses fair value measurements to define fair value. Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Albina determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Albina's market assumptions.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

These two types of inputs create the following fair value hierarchy:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. Albina's own data used to develop unobservable inputs shall be adjusted for market consideration when reasonably available.

Albina used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Available-for-sale investment securities – Albina obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.

Impaired loans – A loan is considered to be impaired when, based on current information and events, it is probable that Albina will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals, and is categorized as a Level 3 measurement.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Other real estate owned – Other real estate owned assets are measured and recorded at the lower of cost basis or fair value on a nonrecurring basis. The other real estate owned assets are collateral-dependent and, accordingly, are measured based on the fair value of such collateral. The fair value of each asset's collateral is generally based on estimated market prices from an independently prepared appraisal, which is then adjusted for the cost related to liquidating such collateral; such valuation inputs result in a nonrecurring fair value measurement that is categorized as a Level 3 measurement.

The following methods and assumptions were used by Albina in estimating fair values of assets and liabilities for disclosure purposes:

Cash and due from banks, interest-bearing deposits with other banks, and federal funds sold – For these financial instruments, the carrying value as presented is a reasonable estimate of fair value.

Federal Home Loan Bank stock, at cost – The carrying values of restricted equity securities approximates fair value.

Time deposits with other banks – The carrying values of time deposits with other banks approximate fair value.

Loans, net – For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for commercial real estate and commercial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using a discounted cash flow analysis or underlying collateral values, where applicable.

Deposits and time certificates – The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate money market accounts approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES – (continued)**

Other borrowings – The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analysis based on Albina’s current incremental borrowing rate for similar types of borrowing arrangements.

Junior subordinated debentures – The fair value of Albina’s junior subordinated debentures is estimated using a discounted cash flow analysis based on the Albina’s current incremental borrowing rate for similar types of borrowing arrangements.

Off-balance sheet instruments – Albina’s off-balance sheet instruments include unfunded commitments to extend credit and standby letters of credit. The fair value of these instruments is not considered practicable to estimate because of the lack of quoted market prices and the inability to estimate fair value without incurring excessive costs.

Interest rate risk environment – The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. Consequently, the fair value of the Bank’s financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed-rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities, and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank’s overall interest rate risk.

Reclassifications – Certain reclassifications have been made to the 2008 and 2007 financial statements to conform to current year presentations. There has been no change to the prior year’s net income or loss as a result of the reclassifications.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Albina recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. Albina’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. Albina has evaluated subsequent events through April 14, 2010, which is the date the financial statements were available to be issued.

NOTE 2 – MANAGEMENT’S PLAN PURSUANT TO REGULATORY EXAMINATION

In connection with the continuing economic turmoil, Albina recorded a net loss of \$9.5 million for the year ended December 31, 2009. This loss was primarily the result of considerable increases in the provision for loan losses during the year, which was compounded by a tightened interest margin caused by interest rate reductions and high levels of non-accrual loans. The significant net loss caused the Bank’s ratio of total capital to risk weighted assets to fall 6.7% at December 31, 2009, which is below the level considered to be “adequately capitalized” under regulatory guidelines. The culmination of net losses in the past two fiscal years has had a negative impact on Albina’s operations, liquidity, and capital adequacy and has resulted in actions by Albina’s regulators which will restrict operations.

Entry into regulatory order and written agreement – On February 9, 2010 the Bank consented to the issuance of a Consent Order, which became effective March 2, 2010, with the Federal Deposit Insurance Corporation (“FDIC”) and the Oregon Division of Finance and Corporate Securities (the “DFCS”), its principal banking regulators, pursuant to which the Bank agreed to improve credit quality, increase capital, and reduce reliance on non-core deposits. Briefly, the Consent Order requires the Bank to assure that it has retained management that has qualifications and experience commensurate with its duties and responsibilities and that the Bank’s Board of Directors increases its involvement in the Bank’s affairs. The Consent Order also requires the Bank to maintain above-normal capital levels, including a Tier 1 capital to average assets ratio of at least 10.0% beginning 120 days from the effective date of the Consent Order (the Bank’s Tier 1 capital to average assets ratio at December 31, 2009 was 4.1%). The Bank also was ordered to increase total risk-based capital (total capital to risk-weighted assets) to at least 12.0% within 120 days (total risk-based capital as of December 31, 2009 was 6.7%).

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – MANAGEMENT’S PLAN PURSUANT TO REGULATORY EXAMINATION

– (continued)

The Consent Order further requires the Bank to revise and monitor its existing loan loss evaluation policy to address the recent and continuing developments and evolving market conditions. The Bank also is required to eliminate certain classified assets and must develop a plan to reduce delinquent loans, as well as reducing loans to borrowers in the commercial real estate market sector, including residential construction and land development. The Bank also was ordered to develop a written strategic plan and certain credit management plans.

Also pursuant to the Consent Order, the Bank was required to establish and submit to its regulators a long-term liquidity and funds management plan so as to reduce its reliance on non-core sources of deposits while addressing liquidity needs. Such a plan was submitted which projects the Bank reaching the targeted net non-core funding dependency ratio of 20.0% at the end of 2011. The Bank promptly put this plan into place and has been diligently working to meet this maximum policy amount.

The Bank plans to comply with all the terms of the Consent Order, but management cannot be certain that it can achieve the capital ratio requirements or continue to satisfy the other requirements of the Consent Order. If some conditions are not met according to or within the required timeframes of the Consent Order, management believes they can continue to improve the Bank’s financial condition and results of operations, and can take additional measures that will promote full compliance with the terms of the Consent Order.

Albina Community Bancorp (the holding company), expects to enter into a similar agreement with the Federal Reserve Bank of San Francisco as its principal regulator; however, no such agreement had been formalized as of the date these financial statement became available to be issued. Such agreement will likely require Albina to obtain prior written approval from its regulators before declaring or paying any dividends, taking dividends from its subsidiary Bank, making any distributions or payments on subordinated debentures or trust preferred securities, incurring, increasing or guaranteeing any debt or purchasing or redeeming any shares of stock. Such agreement will also likely require periodic reporting to Albina’s primary regulators regarding financial performance and cash flows. Management plans to comply with all aspects of any such agreement.

The impacts of compliance with the Consent Order will likely be significant to Albina’s and the Bank’s continuing operations.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – MANAGEMENT’S PLAN PURSUANT TO REGULATORY EXAMINATION

– (continued)

Capital plan – Management has determined that significant additional sources of capital will be required for the Company to continue operations through 2010 and beyond. The Company’s Board of Directors has formed a Capital Committee, and the Committee has hired an investment banking firm to seek all strategic alternatives to enhance the stability of the Company including capital investment, sale, strategic merger, or another form of restructuring. There can be no assurance that the Company will succeed in this endeavor and be able to comply with the Consent Order with respect to capital requirements. In addition, any successful capital raising effort, would result in substantial dilution to the current shareholders and could adversely affect the price of the Company’s common stock.

While management is working to raise capital, it has taken several steps to preserve existing capital, including the following:

- Reducing its concentrations in its land acquisition and development portion of its real estate construction portfolio;
- Control non-interest expenses;
- Continue its policy against paying dividends on common stock.

Business plan – In response to the challenging economic environment and increased regulatory supervision, the Company has taken a number of tactical actions aimed at preserving existing capital, reducing lending exposures and associated capital requirements, and increasing liquidity. The tactical actions include, but are not limited to the following: slowing loan originations, growing retail deposits, reducing brokered deposits, seeking commercial loan participation and sales agreements with other lenders or private equity sources, and reducing operating costs. The business plan focuses on four primary objectives: (1) improving asset quality; (2) controlling asset growth and improving regulatory capital ratios; (3) continued expense control; (4) continued growth in core deposits.

Management’s plans address a number of critical initiatives to improve the Bank’s and the Company’s capital and liquidity positions, asset quality, and operational efficiencies. Management believes accomplishment of their initiatives is achievable. However, management can provide no assurance of its ultimate success, the potential effects that the current economy may have upon its initiatives, nor the evaluation and actions that may be taken by its regulators in the future.

If the Company does not comply with the requirements contained in the Order, regulators may take additional enforcement action against the holding company and the Bank, up to and including seizure and closure of the Bank.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – MANAGEMENT’S PLAN PURSUANT TO REGULATORY EXAMINATION

– (continued)

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future, and do not include any adjustments to reflect the possible future effects on the recoverability or classification of assets, and the amounts or classification of liabilities that may result from the outcome of regulatory action which would effect our ability to continue as a going concern.

NOTE 3 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2009</u>				
U.S. government				
agency securities	\$ 12,845,729	\$ 81,132	\$ -	\$ 12,926,861
Mortgage-backed				
securities	<u>24,253,133</u>	<u>473,072</u>	<u>(41,386)</u>	<u>24,684,819</u>
	<u>\$ 37,098,862</u>	<u>\$ 554,204</u>	<u>\$ (41,386)</u>	<u>\$ 37,611,680</u>
<u>December 31, 2008</u>				
U.S. government				
agency securities	\$ 8,998,218	\$ 95,653	\$ -	\$ 9,093,871
Mortgage-backed				
securities	7,586,303	77,865	(28,120)	7,636,048
Corporate securities	<u>1,004,688</u>	<u>-</u>	<u>(50,258)</u>	<u>954,430</u>
	<u>\$ 17,589,209</u>	<u>\$ 173,518</u>	<u>\$ (78,378)</u>	<u>\$ 17,684,349</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – INVESTMENT SECURITIES – (continued)

The following table presents the gross unrealized losses and fair value of the Bank's investment securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2009:

	2009					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$2,050,244	\$ (41,386)	\$ -	\$ -	\$ 2,050,244	\$ (41,386)
	2008					
	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	\$3,222,733	\$ (28,120)	\$ -	\$ -	\$ 3,222,733	\$ (28,120)
Corporate securities	954,430	(50,258)	-	-	954,430	(50,258)
	\$4,177,163	\$ (78,378)	\$ -	\$ -	\$ 4,177,163	\$ (78,378)

Management believes that, while actual fluctuations in unrealized losses will occur over the life of an investment security, the temporary impairment on the one investment security in an unrealized loss position at December 31, 2009, will be incrementally relieved as the individual investment security approaches its contractual maturity date.

The unrealized losses relate principally to the general change in interest rates and illiquidity, and not credit quality, that has occurred since the securities purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. As management does not intend to sell the securities, and it is likely that it will not be required to sell the securities before their anticipated recovery, no declines are deemed to be other-than-temporary.

In determining that no material amounts of other-than-temporary impairment exists, management has considered the likelihood that securities will be called prior to maturity and the ability of the issuer to satisfy its repayment obligation upon maturity. Based on these factors, management believes that no material amounts of other-than-temporary impairment exist at December 31, 2009.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – INVESTMENT SECURITIES – (continued)

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2009, by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	<u> </u>	<u> </u>
Due within one year	\$ 1,149,938	\$ 1,164,092
Due after one year through five years	12,476,978	12,587,806
Due after five years through ten years	5,177,755	5,294,404
Due after ten years	<u>18,294,191</u>	<u>18,565,378</u>
	<u>\$ 37,098,862</u>	<u>\$ 37,611,680</u>

For the purpose of the maturity table, mortgage-backed securities and collateralized mortgage obligations, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted average contractual maturities of underlying collateral. Mortgage-backed securities may mature earlier than their weighted average contractual maturities because of principal repayments.

As of December 31, 2009, investment securities with a fair value of \$26,094,872 have been pledged to secure borrowings at the Federal Home Loan Bank and public or other deposits, as required by law.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of loan balances as of December 31 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Residential mortgage	\$ 23,425,858	\$ 22,949,826
Commercial real estate	69,076,691	81,902,797
Real estate construction	12,591,937	20,934,434
Total real estate loans	<u>105,094,486</u>	<u>125,787,057</u>
Commercial	24,069,183	21,651,369
Consumer	<u>12,275,461</u>	<u>16,181,815</u>
Total loans	141,439,130	163,620,241
Allowance for loan losses	(3,921,205)	(2,735,898)
Unearned income, net of amortization	<u>(285,915)</u>	<u>(396,423)</u>
Loans, net of allowance for loan losses and unearned income	<u>\$ 137,232,010</u>	<u>\$ 160,487,920</u>

At December 31, 2009, \$16,007,164 and \$8,158,982 of loans were pledged to support borrowings at Federal Home Loan Bank and Federal Reserve Bank of San Francisco, respectively.

Changes in the allowance for loan losses for the years ended December 31, were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
BALANCE, beginning of year	\$ 2,735,898	\$ 1,555,738	\$ 1,260,499
Charge-offs	(10,180,493)	(2,832,757)	(344,123)
Recoveries	310,800	162,917	96,362
Provision for loan losses	<u>11,055,000</u>	<u>3,850,000</u>	<u>543,000</u>
BALANCE, end of year	<u>\$ 3,921,205</u>	<u>\$ 2,735,898</u>	<u>\$ 1,555,738</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN LOSSES – (continued)

The following table summarizes non-performing loans as of December 31:

	<u>2009</u>	<u>2008</u>
Loans on nonaccrual status	<u>\$ 10,753,157</u>	<u>\$ 12,835,577</u>
Recorded investment in impaired loans	<u>\$ 18,151,140</u>	<u>\$ 19,125,012</u>
Impaired loans with specific allowance	<u>\$ 6,011,559</u>	<u>\$ 18,316,272</u>
Impaired loans without specific allowance	<u>\$ 13,571,708</u>	<u>\$ 808,740</u>
Total allowance for loan losses on impaired loans	<u>\$ 869,845</u>	<u>\$ 1,216,104</u>

	<u>2009</u>	<u>2008</u>	<u>2007</u>
The average recorded investment in impaired loans during the year	<u>\$ 23,021,950</u>	<u>\$ 6,000,000</u>	<u>\$ 75,000</u>
Interest income recognized on impaired loans during the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest income recognized on impaired loans (cash basis)	<u>\$ -</u>	<u>\$ 12,978</u>	<u>\$ -</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – PREMISES AND EQUIPMENT

The major classifications of premises and equipment as of December 31 are summarized as follows:

	<u>2009</u>	<u>2008</u>
Buildings	\$ 1,918,432	\$ 1,918,432
Leasehold improvements	1,608,413	1,608,413
Furniture and equipment	1,192,832	1,193,191
Software	<u>261,025</u>	<u>260,063</u>
	4,980,702	4,980,099
Less accumulated depreciation and amortization	<u>(2,282,461)</u>	<u>(1,945,680)</u>
	2,698,241	3,034,419
Land	<u>2,638,261</u>	<u>2,638,261</u>
Premises and equipment, net of accumulated depreciation and amortization	<u>\$ 5,336,502</u>	<u>\$ 5,672,680</u>

NOTE 6 – DEPOSITS

Time certificates of deposit of \$100,000 or more aggregated to \$50,470,708 and \$26,575,940 at December 31, 2009 and 2008, respectively.

The scheduled maturities for all time certificates of deposit are as follows:

Years ending December 31, 2010	\$ 70,557,663
2011	8,282,120
2012	5,255,227
2013	1,562,949
2014	653,691
Thereafter	<u>87,223</u>
	<u>\$ 86,398,873</u>

At December 31, 2009 and 2008, the Bank held \$46,700,584 and \$47,109,655 of brokered certificates of deposit, respectively.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – OTHER BORROWINGS

Federal Home Loan Bank advances – The Bank, as a member of the Federal Home Loan Bank (FHLB) of Seattle, has entered into a credit arrangement with the FHLB under which authorized borrowings are collateralized by the Bank’s FHLB stock and loans, or other instruments, which may be pledged. The Bank has notes payable to the FHLB of Seattle in the aggregate amount of \$20,703,974 and \$27,277,253 at December 31, 2009 and 2008, respectively. The notes carry interest rates ranging from 1.35% to 6.82%, with a weighted average interest rate of 3.42% at December 31, 2009. Principal and interest payments are made monthly and the notes mature beginning in 2010 through 2024. Maximum credit available from the FHLB for notes payable, lines of credit, and the Cash Management Advance program totaled \$28,732,415 at December 31, 2009. Available borrowings and their respective terms are subject to eligible collateral being pledged and are reduced by outstanding letters of credit. At December 31, 2009, there were no outstanding letters of credit at FHLB and \$36,769,462 of loans and other securities were pledged as collateral.

The Bank is required to maintain a minimum stock investment in the FHLB as a member. The minimum requirement was \$889,700 for December 31, 2009.

Correspondent bank lines of credit – The Bank also has federal funds line of credit agreements with the Federal Reserve Bank of San Francisco. Maximum borrowings available under this line totaled \$3,114,722 as of December 31, 2009. The line supports short-term liquidity requirements and its use may be limited, depending on the lending institution. At December 31, 2009 and 2008, there were no outstanding borrowings. The Bank had \$8,158,982 of loans pledged as collateral at Federal Reserve Bank of San Francisco at December 31, 2009.

The Holding Company has a line of credit borrowing agreement with Riverview Community Bank. The maximum borrowings available under this agreement total \$2,625,000. At December 31, 2009, total outstanding borrowings totaled \$ 2,600,715, at an interest rate of 7.38%, with a maturity date of October 24, 2018. The loan is collateralized by a building used as a branch and administrative headquarters in Northwest Portland with a net book value at December 31, 2009 of \$2,249,316.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – OTHER BORROWINGS – (continued)

Future scheduled principal payments due on notes payable are as follows:

Years ending December 31, 2010	\$ 15,295,301
2011	3,295,301
2012	2,295,301
2013	295,301
2014	685,469
Thereafter	<u>1,438,016</u>
	<u>\$ 23,304,689</u>

NOTE 8 – JUNIOR SUBORDINATED DEBENTURES

Albina has issued \$6,186,000 of junior subordinated debentures payable to Albina Statutory Trust-I and Albina Statutory Trust-II, wholly-owned statutory business trusts that concurrently issued \$6,000,000 in guaranteed undivided beneficial interests in Albina's fixed/floating rate junior subordinated debentures. These debentures, which represent the sole asset of the trusts, possess the same terms as the Trust Preferred Securities issued by the trusts. These debentures are mandatorily redeemable upon maturity of the debentures or upon earlier redemption as provided in the indenture agreements. Albina has the right to redeem the debentures in whole or in part through a call option at a price equal to the unpaid principal and accrued but unpaid interest as of the redemption date.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – JUNIOR SUBORDINATED DEBENTURES – (continued)

Following are the significant terms of the separate issuances of junior subordinated debentures:

Trust Name	Issue Date	Issued Amount	Rate	Maturity Date
Albina Statutory Trust-I	March 2003	\$ 4,124,000	3.43% ⁽¹⁾	March 2033
Albina Statutory Trust-II	May 2004	<u>2,062,000</u>	3.03% ⁽²⁾	May 2034
		<u>\$ 6,186,000</u>		

(1) Variable at this rate on December 31, 2009, adjusting every three months to the applicable three-month LIBOR plus 3.15%

(2) Variable at this rate on December 31, 2009, adjusting every three months to the applicable three-month LIBOR plus 2.75%

The accrued interest on both issuances of junior subordinated debentures is paid to the trusts by Albina, and the trusts in turn distribute the interest income as dividends on the Trust Preferred Securities. Interest payments are deferrable at the discretion of Albina for the first five years. As of December 31, 2008, all contractual interest payments to the trusts and all contractual dividend payments by the trusts were current. During 2009, Albina elected to defer its contractual interest payments on these debentures, under the extension of interest payment terms in its agreements. These terms allow Albina to defer interest payments for up to twenty consecutive quarters, through June 2014. During such time, interest shall continue to accrue and at the end of the deferral period, all accrued interest shall be due and payable. At December 31, 2009, Albina has \$115,392 of accrued, unpaid interest on these debentures.

The debentures issued by the trusts, less the capital securities of the trusts, qualify as Tier 1 capital under guidance set forth by the Board of Governors of the Federal Reserve System.

For the years ended December 31, 2009, 2008, and 2007, interest expense on the debentures and the corresponding dividends paid on the Trust Preferred Securities totaled \$247,229, \$369,325 and \$438,866, respectively.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – INCOME TAXES

Components of the income tax provision (benefit) are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current tax			
Federal	\$ 3,295	\$ 81,355	\$ 117,314
State	<u>15,000</u>	<u>52,808</u>	<u>26,837</u>
	<u>18,295</u>	<u>134,163</u>	<u>144,151</u>
Deferred tax			
Federal	19,642	(567,928)	145,833
State	<u>4,958</u>	<u>(117,872)</u>	<u>30,267</u>
	<u>24,600</u>	<u>(685,800)</u>	<u>176,100</u>
Income tax provision (benefit)	<u>\$ 42,895</u>	<u>\$ (551,637)</u>	<u>\$ 320,251</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – INCOME TAXES – (continued)

Deferred income taxes represent the tax effect of differences in timing between financial income and taxable income. The nature and components of deferred tax assets and liabilities are as follows:

	2009	2008
Deferred tax assets		
Net operating loss	\$ 2,361,500	\$ 198,700
Allowance for loan losses	414,100	675,500
Deferred compensation	261,500	202,700
Amortization of intangible assets	28,400	32,500
Share based compensation	26,500	20,900
Charitable contributions	33,400	24,800
Tax credit carryforward	203,200	158,800
Unrealized loss on interest rate swap	-	93,700
Accumulated depreciation	114,500	69,400
Other real estate owned	231,500	-
Non-accrual loan interest	843,800	303,100
Total deferred tax assets	4,518,400	1,780,100
Deferred tax liabilities		
Accumulated depreciation	(75,600)	(58,000)
Prepaid expenses	(22,500)	(22,100)
Bank Enterprise Award basis adjustment	(1,492,400)	(1,500,500)
Unrealized gain on investment securities	-	(36,500)
Other	(58,300)	(81,200)
Total deferred tax liabilities	(1,648,800)	(1,698,300)
Valuation allowance	(2,869,600)	-
Net deferred tax assets	\$ -	\$ 81,800

At December 31, 2009, Albina had available to offset future taxable income, net operating loss carryforwards of approximately \$6,022,000 that will expire in year 2028, if not utilized. In addition, Albina has general business credit carryforwards of \$203,200.

Management believes, based upon projections, that the deferred tax assets may not be realized in the normal course of operations and, accordingly, has reduced the deferred tax assets by a full valuation allowance.

During the years ended December 31, 2009, 2008, and 2007, Albina recognized no interest and penalties.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business to meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and the issuance of letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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 and letters of credit written 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.

Commitments to extend credit are agreements to lend to customers as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing properties.

Letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds cash, marketable securities, or real estate as collateral supporting those commitments for which collateral is deemed necessary.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

– (continued)

A summary of the notional amounts of the Bank’s financial instruments with off-balance sheet risk at December 31, 2009 and 2008, respectively, are as follows:

	2009	2008
Loans	\$ 11,496,351	\$ 18,686,495
Credit cards	4,982,218	4,998,906
Commitments to extend credit	16,478,569	23,685,401
Letters of credit	848,361	458,357
Notional amount of interest rate swap	-	1,583,510
	\$ 17,326,930	\$ 25,727,268

At December 31, 2009 and 2008, Albina had recorded reserves for commitments to extend credit totaling \$65,000.

NOTE 11 – CONCENTRATIONS OF CREDIT RISK

The majority of the Bank’s loans, commitments, and commercial and standby letters of credit have been granted to customers in its market area. The majority of such customers are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 4. The Bank’s loan policy does not allow the extension of credit to any single borrower or group of related borrowers in excess of \$1,000,000 without approval from the Board of Directors’ Loan Committee.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Albina leases two branch office facilities under operating lease agreements. Future minimum rental payments under these agreements are as follows:

Years ending December 31, 2010	\$ 339,080
2011	80,226
	\$ 419,306

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – COMMITMENTS AND CONTINGENCIES – (continued)

The leases expire during periods ranging from 2010 through 2011, and each carries options which would allow Albina to lease the properties with extended expirations ranging from 2010 through 2026.

Rental expense for all operating leases was \$246,867, \$222,448 and \$257,643, for the years ended December 31, 2009, 2008, and 2007, respectively.

Legal contingencies – Albina may become a defendant in certain claims and legal actions arising in the ordinary course of business. There are no matters presently known to Albina that are expected to have a material adverse effect on the consolidated financial condition of Albina.

NOTE 13 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders of Albina, and the companies with which they are associated, are customers of and have had banking transactions with Albina in the ordinary course of business, and Albina expects to have such transactions in the future. All loans and commitments to loan included in such transactions were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and, in the opinion of the management of Albina, do not involve more than the normal risk of collectibility or present any other unfavorable features.

An analysis of activity with respect to loans to directors, executive officers, and principal stockholders of Albina is as follows:

	<u>2009</u>	<u>2008</u>
BALANCE, beginning of year	\$ 4,450,727	\$ 4,459,047
Additions	300,000	231,447
Repayments	<u>(1,841,820)</u>	<u>(239,767)</u>
BALANCE, end of year	<u>\$ 2,908,907</u>	<u>\$ 4,450,727</u>

At December 31, 2009 and 2008, deposits held for related parties were \$1,488,867 and \$2,173,901, respectively.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – STOCKHOLDERS’ EQUITY

Preferred stock – Albina is authorized to issue up to 1,000,000 shares of preferred stock. The Board of Directors of Albina has the authority to issue preferred stock in one or more series, and to designate the preferences, limitations, and relative rights of the shares of any such series. The Board of Directors also has the authority to determine the liquidation and dividend rights on any preferred stock that may be issued, including the priority of such rights over the liquidation and dividend rights of holders of common stock.

There are 20,000 shares of preferred stock designated as Series A 1% preferred stock (Series A Preferred) with a minimum liquidation preference of \$1 per share, and liquidation participation rights at ten times the amount distributable on liquidation with respect to the common stock up to a maximum of \$100 per share. Holders of Series A Preferred fully participate with the Series B Preferred and the holders of common stock in any gain or loss in stockholders’ equity if the amount to which the Series A Preferred would be entitled upon liquidation is less than \$100 per share. This stock is entitled to a noncumulative annual dividend equal to 1% (\$1 per share) of its stated per share value, when and as declared by the Board of Directors, which must be paid in any year in which a cash dividend on the common stock is declared. Series A Preferred has the right to elect directors representing 25% of the total number of directors to be elected and serve Albina. Holders of the Series A Preferred have no other voting rights except for matters which directly affect the rights of that class of stock. At December 31, 2009 and 2008, 16,300 Series A preferred shares were issued and outstanding.

There are 10,000 shares of preferred stock designated as Series B 1% nonvoting preferred stock (Series B Preferred). These shares are identical to the Series A Preferred except that the Series B Preferred has no voting rights with respect to the election of the Board of Directors, and has no other voting rights except as required by law. At December 31, 2009 and 2008, 8,518 Series B preferred shares were issued and outstanding.

Common stock – Authorized common stock consists of 3,000,000 shares without par value of Class A voting common stock and 1,000,000 shares without par value of Class B nonvoting common stock. Holders of Class A and Class B common stock each have the same rights to the assets of Albina upon liquidation, subject to any liquidation preference of preferred stockholders, which may be outstanding. There are no preemptive rights to acquire additional securities that Albina may issue. The holders of common stock are entitled to receive dividends, if any, as may be declared by the Board of Directors. Rights to receive dividends on the common stock are subject to the prior rights of shares of preferred stock then outstanding.

Each share of the Class A common stock is entitled to one vote on all matters presented for stockholder vote, including the election of Directors, subject to special voting rights of the holders of the Series A Preferred. Stockholders do not have the right to accumulate votes in the election of the Directors.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – STOCKHOLDERS’ EQUITY – (continued)

Stockholders of Class B common stock have no voting rights other than as required by law, but otherwise have equal rights in all respects to stockholders of Class A common stock.

NOTE 15 – STOCK-BASED COMPENSATION

Albina has granted stock options to certain employees under a stock option plan approved by the Board of Directors and shareholders. Under this plan, 150,000 shares of Class A common stock are reserved. All options generally vest over three years, have exercise prices more than or equal to the fair market value of the stock as of the grant date, and expire ten years from the date of grant.

Compensation costs of \$24,988, \$28,393 and \$56,949 were recognized as salaries and benefits expense for the years ended December 31, 2009, 2008 and 2007, respectively.

The following table summarizes information about stock option activity for the year ended December 31, 2009.

	Nonstatutory Options	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)
Options outstanding December 31, 2008	58,975	\$ 9.19	
Options forfeited	<u>(1,002)</u>	\$ 12.92	
Options outstanding December 31, 2009	<u><u>57,973</u></u>	\$ 9.12	4.92
Options exercisable December 31, 2009	<u><u>53,635</u></u>	\$ 8.82	4.74
Options available to grant December 31, 2009	<u><u>119,252</u></u>		

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – STOCK-BASED COMPENSATION – (continued)

The aggregate intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of options exercised during the years ended December 31, 2008 and 2007, was approximately \$2,730 and \$271,300, respectively. There were no options exercised or unrecognized compensation costs related to non-vested stock options in 2009.

For the years ended December 31, 2008 and 2007, Albina received income tax benefits of \$1,048 and \$94,005, respectively, related to the exercise of non-qualified employee stock options and disqualifying dispositions from the exercise of incentive stock options. There was no income tax benefit during 2009.

NOTE 16 – EARNINGS (LOSS) PER SHARE OF COMMON STOCK

The following table illustrates the computations of basic and diluted earnings (loss) per share of common stock for the years ended December 31, 2009, 2008, and 2007. The 2009, 2008, and 2007 computations of diluted earnings (loss) per share exclude 57,973, 58,975, and 28,500 stock options, respectively, because their effect on the computation would be anti-dilutive.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net income (loss)	\$ (9,478,280)	\$ (927,064)	\$ 704,331
Liquidation value adjustment to preferred stockholders	<u>1,783,804</u>	<u>-</u>	<u>-</u>
Net income available (loss attributable) to common stockholders	<u>\$ (7,694,476)</u>	<u>\$ (927,064)</u>	<u>\$ 704,331</u>
Earnings (loss) per share of common stock			
Basic and diluted	<u>\$ (7.19)</u>	<u>\$ (0.87)</u>	<u>\$ 0.67</u>
Weighted average number of common shares outstanding			
Basic and diluted	<u>1,070,534</u>	<u>1,068,868</u>	<u>1,047,800</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – EMPLOYEE BENEFIT PLANS AND AGREEMENTS

Albina maintains an employee stock purchase plan (ESPP) for the benefit of its employees, reserving 16,500 shares of Albina Community Bancorp Class A common stock. The ESPP allows participation of all employees over the age of 18 who have also met minimum service requirements. Participating employees defer compensation in amounts ranging from 1% to 10% of their eligible compensation to purchase stock on a quarterly basis at a price generally equal to the weighted average market price of Albina's stock during the quarter. Under Section 423 of the Internal Revenue Code and intrinsic value-based methods for determining stock-based compensation, the ESPP qualifies as a noncompensatory plan.

During the years ended December 31, 2009, 2008, and 2007, employees were issued the following shares of Albina Community Bancorp Class A common stock pursuant to the ESPP:

	Shares Issued	Average Price
Years ending December 31, 2009	2,429	\$ 1.98
2008	545	\$ 7.92
2007	542	\$ 11.68

Proceeds received in connection with the stock issued above for the years ending December 31, 2009, 2008 and 2007 were \$4,801, \$4,314, and \$6,332, respectively. As of December 31, 2009 and 2008, Albina had a liability of \$1,072 and \$1,102, respectively, representing funds received from participants for future purchases under the ESPP.

Albina has adopted a 401(k) savings investment plan which allows employees to defer certain amounts of compensation for income tax purposes under Section 401(k) of the Internal Revenue Code. Essentially, all employees over the age of 18 are eligible to participate in the plan. Employees may elect to defer and contribute up to statutory limits. Their contributions and those of Albina, which are limited to 50% of employee contributions up to 6% of total participant compensation, are invested by plan trustees in employee-designated funds. For the years ended December 31, 2008, and 2007, Albina contributed \$54,005 and \$34,711 to the plan. There were no contributions during 2009.

Albina has entered into employment agreements ranging from one to three years with certain executive officers. In addition to providing each covered officer with compensation and other customary benefits, under certain circumstances, if conditions for termination as provided in the employment agreement are met, the officer is entitled to receive between 100% and 200% of his or her salary in a lump sum at termination. At current compensation levels, and if all officers under contract were terminated pursuant to termination provisions, Albina would be required to make a lump sum payment of approximately \$155,000.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – EMPLOYEE BENEFIT PLANS AND AGREEMENTS – (continued)

Albina has purchased bank-owned life insurance (BOLI) to support life insurance and salary continuation benefits for certain key employees. As of December 31, 2009 and 2008, Albina recognized a salary continuation benefit obligation of \$666,834 and \$527,867, respectively. Payments under the salary continuation plan are for ten years and commence when the respective key employee reaches the age of 65 and terminates employment. As of December 31, 2009 and 2008, the cash surrender value of BOLI was \$2,587,134 and \$4,056,398, respectively.

During 2009, Albina surrendered two of its BOLI policies for proceeds totaling \$1,569,221.

NOTE 18 – REGULATORY MATTERS

Albina and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on a bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, banks 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. 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 Albina and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that Albina and the Bank meet all capital adequacy requirements to which they are subject.

As of the most recent notifications from its regulatory agencies, the Bank was categorized as adequately capitalized under the regulatory framework for prompt corrective action. However, Albina was below adequately capitalized for one ratio, Tier 1 Capital to average assets. To be categorized as adequately capitalized, Albina and the Bank must maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes may have changed the institutions' category.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 – REGULATORY MATTERS – (continued)

Actual capital amounts and ratios for both Albina and the Bank are presented in the following table:

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2009</u>						
(dollars in thousands)						
Total capital to risk-weighted assets						
Albina Community Bancorp	\$ 9,537	6.0%	\$ 12,759	≥8%	N/A	N/A
Albina Community Bank	\$ 10,431	6.7%	\$ 12,429	≥8%	\$ 15,143	≥10%
Tier 1 capital to risk-weighted assets						
Albina Community Bancorp	\$ 4,168	2.6%	\$ 6,380	≥4%	N/A	N/A
Albina Community Bank	\$ 8,486	5.5%	\$ 6,215	≥4%	\$ 9,086	≥6%
Tier 1 capital to average assets						
Albina Community Bancorp	\$ 4,168	1.9%	\$ 8,708	≥4%	N/A	N/A
Albina Community Bank	\$ 8,486	4.1%	\$ 8,307	≥4%	\$ 10,403	≥5%
<u>December 31, 2008</u>						
(dollars in thousands)						
Total capital to risk-weighted assets						
Albina Community Bancorp	\$ 20,720	11.9%	\$ 13,963	≥8%	N/A	N/A
Albina Community Bank	\$ 19,109	11.2%	\$ 13,687	≥8%	\$ 17,109	≥10%
Tier 1 capital to risk-weighted assets						
Albina Community Bancorp	\$ 16,767	9.6%	\$ 6,981	≥4%	N/A	N/A
Albina Community Bank	\$ 16,964	9.9%	\$ 6,843	≥4%	\$ 10,265	≥6%
Tier 1 capital to average assets						
Albina Community Bancorp	\$ 16,767	8.0%	\$ 8,359	≥4%	N/A	N/A
Albina Community Bank	\$ 16,964	8.2%	\$ 8,244	≥4%	\$ 10,305	≥5%

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table's present information about Albina's assets measured at fair value on a recurring and non-recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by Albina to determine such fair value:

	Fair Value Measurements at Report Date Using				Total Period Losses Included in Earnings
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<u>December 31, 2009:</u>					
<u>Recurring items</u>					
Available-for-sale investment securities	\$ 37,611,680	\$ -	\$ 37,611,680	\$ -	
<u>Non-recurring items</u>					
Other real estate owned	\$ 2,793,792	\$ -	\$ -	\$ 2,793,792	\$ 691,700
Impaired loans, net of specific reserves	5,141,714	-	-	5,141,714	\$ 8,157,787
Net assets and liabilities measured at fair value	\$ 45,547,186	-	\$ 37,611,680	\$ 7,935,506	
<u>December 31, 2008:</u>					
<u>Recurring items</u>					
Available-for-sale investment securities	\$ 17,684,349	\$ -	\$ 17,684,349	\$ -	
Derivative instruments	(247,870)	-	(247,870)	-	
<u>Non-recurring items</u>					
Impaired loans, net of specific reserves	\$ 17,100,168	\$ -	\$ -	\$ 17,100,168	\$ 2,014,297
Net assets and liabilities measured at fair value	\$ 34,536,647	\$ -	\$ 17,436,479	\$ 17,100,168	

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 – FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

The following tables disclose the estimated fair value and the related carrying value of Albina's financial assets and liabilities at December 31:

	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and due from banks	\$ 674,707	\$ 674,707	\$ 2,364,029	\$ 2,364,029
Interest-bearing deposits with other banks	\$ 7,200,860	\$ 7,200,860	\$ 13,221,539	\$ 13,221,539
Federal funds sold	-	-	\$ 4,171,929	\$ 4,171,929
Time deposits with other banks	\$ 2,836,000	\$ 2,836,000	\$ 4,531,881	\$ 4,731,000
Investment securities, at fair value	\$ 37,611,680	\$ 37,611,680	\$ 17,684,349	\$ 17,684,349
Federal Home Loan Bank stock, at cost	\$ 1,325,200	\$ 1,325,200	\$ 1,325,200	\$ 1,325,200
Loans, net of allowance for loan losses and unearned income	\$ 137,232,010	\$ 130,054,331	\$ 160,487,920	\$ 163,112,000
Financial liabilities				
Demand and savings deposits and money market accounts	\$ 78,528,308	\$ 78,528,308	\$ 64,317,386	\$ 64,317,386
Time certificates of deposit	\$ 86,398,873	\$ 85,866,000	\$ 102,799,844	\$ 104,047,000
Other borrowings	\$ 23,304,689	\$ 23,898,000	\$ 28,314,272	\$ 28,957,000
Junior subordinated debentures	\$ 6,186,000	\$ 2,413,000	\$ 6,186,000	\$ 3,071,000

While estimates of fair value are based on management's judgment of the most appropriate factors, there can be no assurance that were Albina to have disposed of such items at December 31, 2009 or 2008, the estimated fair values would necessarily have been achieved at that date. Since market values may differ depending on various circumstances, the estimated fair values at December 31, 2009 and 2008 should not necessarily be considered to apply at subsequent dates.

Albina normally intends to hold the majority of its financial instruments until maturity; it does not expect to realize many of the estimated amounts disclosed. In addition, other assets and liabilities of Albina that are not defined as financial instruments are not included in the above disclosures, such as furniture and equipment. Also, nonfinancial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for Albina Community Bancorp (unconsolidated parent company only) is as follows:

CONDENSED BALANCE SHEETS

	December 31,	
	2009	2008
	(in thousands)	
ASSETS		
Cash and cash equivalents	\$ 1,067	\$ 84
Premises and equipment, net	2,249	2,279
Other assets	45	328
Investment in subsidiary bank	9,394	16,872
Investment in unconsolidated subsidiary trusts	186	186
TOTAL ASSETS	\$ 12,941	\$ 19,749
LIABILITIES		
Junior subordinated debentures held by trusts that issued guaranteed capital debt securities	\$ 6,186	\$ 6,186
Other borrowings	2,601	1,045
Other liabilities	515	35
Total liabilities	9,302	7,266
STOCKHOLDERS' EQUITY	3,639	12,483
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 12,941	\$ 19,749

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – PARENT COMPANY FINANCIAL INFORMATION – (continued)

CONDENSED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2009	2008	2007
		(in thousands)	
INCOME			
Equity in undistributed earnings			
(loss) of subsidiaries	\$ (10,357)	\$ (567)	\$ 1,125
Grant revenue	2,000	-	-
Other income	8	12	34
	<u>8</u>	<u>12</u>	<u>34</u>
Total income (loss)	<u>(8,349)</u>	<u>(555)</u>	<u>1,159</u>
EXPENSES			
Interest	442	384	439
Administrative and other	687	(12)	16
	<u>687</u>	<u>(12)</u>	<u>16</u>
Total expenses	<u>1,129</u>	<u>372</u>	<u>455</u>
NET INCOME (LOSS)	<u>\$ (9,478)</u>	<u>\$ (927)</u>	<u>\$ 704</u>

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 – PARENT COMPANY FINANCIAL INFORMATION – (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
	(in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (9,478)	\$ (927)	\$ 704
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Equity in undistributed earnings of subsidiaries	10,357	(567)	(1,125)
Depreciation expense	30	30	29
Net change in other assets and liabilities	763	(125)	(278)
Net cash from operating activities	<u>1,672</u>	<u>(1,589)</u>	<u>(670)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiary bank	<u>(2,250)</u>	<u>-</u>	<u>-</u>
Net cash from investing activities	<u>(2,250)</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	1,556	1,045	-
Excess tax benefit from options exercised	-	1	77
Net proceeds from common stock issuances	<u>5</u>	<u>8</u>	<u>217</u>
Net cash from financing activities	<u>1,561</u>	<u>1,054</u>	<u>294</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	983	(535)	(376)
CASH AND CASH EQUIVALENTS, beginning of year	<u>84</u>	<u>619</u>	<u>995</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,067</u></u>	<u><u>\$ 84</u></u>	<u><u>\$ 619</u></u>