ANNUAL REPORT

Albina Community Bancorp

Community Impact Scorecard

Since starting in 1996, Albina Community Bank has always existed for a reason. Right away, that sets us apart from other banks with a similar package of products, services, and return rates. Through our wide array of competitive banking options, our community return rates, and your loyalty to a local bank, we're together contributing to the vitality of our unique city.

Community Impact Scorecard	**2007**	**2006**	**2005**	Since **2002**
Nonprofit organizations as customers	415	395	356	378 (Avg.)
Funds generated by The Loop VISA™ Card (Formerly Scholastic Plastic) (1)	$17,047	$13,705	$9,229	$52,434
New commercial loans (# / $)	118 / $75,625,140	87 / $34,612,673	82 / $30,351,529	876 / $227,683,421
New business micro loans (# / $) (2)	41 / $849,768	31 / $697,957	19 / $435,005	220 / $4,305,182
Small Business Administration Loans (SBA) (# / $)	25 / $2,566,350	6 / $754,000	12 / $790,500	93 / $7,811,350
Jobs created/maintained from loans	50 / 915	43 / 395	132 / 594	415 / 2,789
Affordable housing development loans (# units / $) (3)	112 / $13,926,550	28 / $1,493,560	42 / $900,000	328 / $25,025,194
Affordable housing homeowner loans (# units / $)	15 / $2,617,591	14 / $2,087,262	23 / $2,579,012	216 / $24,169,298
Albina diversity score (4)	31%	35%	37%	39% (Avg.)
Total volunteer hours by employees	2,713	3,555	3,943	19,794

(1) Funds benefit local nonprofit organizations in area designated by cardholders: Education; Health/Social Services; Environment; The Arts; and Economic Development (see Portland Japanese Gardens story - next page)

(2) Business loans under $50,000

(3) Based on 80% of median income for a family of four

(4) Percent of staff of racial or ethnic minority

Stephen Bloom, Executive Director of Portland Japanese Gardens
- 611 Southwest Kingston Avenue, Portland, Oregon - www.japanesegarden.com

Inspiration.

Art. Cultural Awareness.

Communing With Nature.

Tranquility.

An Albina Nonprofit Organization Banking Relationship

A Day In The Office

The Strolling Pond Garden. The Flat Garden. The Tea Garden. The Natural Garden—or one of the most beautiful views of Portland and its mountains anywhere. It will be a hard choice on where to take today's break from pruning plants, studying nature, art and the Japanese culture, or providing the business inspiration behind one of Portland's top nonprofit organizations.

Commune With Nature – In The Midst Of A Busy City

Inspired by the Asian culture and its spiritual beliefs for a tranquil and balanced existence, Mr. Stephen Bloom, the Garden's Executive Director conducts his business meetings in the Garden if weather permits. "It's a place to relieve stress and commune with nature and also a place to think about how the Garden is helping make Portland neighbors more relaxed and balanced."

Stepping Stones

Nonprofit organizations support our most vulnerable populations, add diverse cultures to our city, and help keep our Portland neighborhoods safe, unique and beautiful. The Japanese Garden Society of Oregon is a private, nonprofit organization funded by donations, memberships, memorials, grants and gate admissions.

The Portland Japanese Gardens provides stepping stones to a healthier, greener, and more tranquil existence. Access for everyone is important and in 2006 the organization started offering regular Free Admission Days to the Garden, in addition to their monthly workshops on garden pruning, bamboo fence building, art exhibitions with international guest speakers, and cultural events. A Japanese garden should speak to all the senses, not to just the mind alone.

Find A More Peaceful Banking Relationship

At Albina Community Bank, we know that an ordinary banking transaction can make an extraordinary difference in our local neighborhoods. And we also know that local nonprofit organizations help keep Portland neighborhoods balanced. We're proud to have provided local banking relationships to 415 nonprofit organizations in 2007.

Thanks to the Portland Japanese Garden, Portland neighbors have a place to commune with nature amidst a busy city life. Please visit www.japanesegarden.com for a schedule of events and more information about how the organization is working to make a local difference. Take a deep breath and find your peace. And then choose the "Arts" option with Albina's Loop VISA™ Card, and Albina will donate 1% of your purchases to nonprofit organizations including Portland Japanese Garden, at no cost to you.

Fellow Shareholders:

2007 was a year of great progress for Albina Community Bancorp set against the backdrop of a lot of drama in the financial services industry. Our financial metrics were very strong with earnings growing 41% to $704,000, or $0.67 per diluted share, from $498,000, or $0.76 per diluted share in 2006. While our December 2006 stock offering increased the number of shares outstanding this year and thus impacted our earnings per share, it also provided a strong capital base for growth.

One of the keys to our good year involves what we don't do and the diversity of our portfolio. We do not make or hold sub-prime loans, or the now infamous Structured Investment Vehicles (SIV's) or Collateralized Debt Obligations (CDO's). We don't originate many residential mortgage loans to hold in our portfolio.

We do originate home loans (as a broker for other lenders) and work to be certain those loans are fully explained to our borrowers. That has given us great flexibility in meeting the greatly varied needs of our clients, enabling us to find the best rates and terms a client may need in their particular circumstance.

Our construction loans amounted to about 17% of our total loans at year end, and included mixed use and commercial construction in the Portland metropolitan area. We do almost no speculative detached single family construction financing. A significant part of our lending has been in commercial real estate, and is fairly well diversified among loan types. We also serve a variety of small to medium sized business with commercial & industrial lending, cash management and investment services.

To quote the former FDIC chairman, William Seidman,

> "One group, by and large, you can't blame (for the subprime lending situation) are the community banks. They were much more likely to make and hold loans and thus the loans were much more likely to be good ones. Plus bankers have it in their DNA to make sure they are repaid."

The real story of our financial performance in 2007 is that net earnings grew 41% over 2006. This growth was fueled by 53% loan growth, and top line revenue increased at twice the rate of operating expense. Net income was muted by the need to fund our loan loss reserve to support the growth in loans. We ended 2007 with solid asset quality as measured by our low level of delinquent loans and non-performing assets..

2007 brought us a year of good growth because we had invested in branches, products, support systems and people in the prior 2-3 years. Those are the tools that enabled us to acquire and deepen our client relationships with local company's like Mr. Formal (see feature later in the report) and Schiller & Vroman, whom we featured in a prior report. The new capital has given us the expanded lending limit to lead projects like the Mississippi Avenue Lofts project in the Mississippi Avenue neighborhood.

All of this has come from the belief by the board and management that we must think long term about what it takes to build a sustainable business model that has relevance to clients and prospective clients throughout the Portland metropolitan area…not just in Northeast Portland.

The outlook for the Northwest economy continues to be considerably brighter than for many other parts of the country, and we see continued opportunities in our markets to build a strong sustainable platform for growth. With that said, we expect 2008 to be a challenging economic environment. We believe we have prepared well to meet those challenges and to capitalize on the opportunities that will present themselves in our marketplace. We have strong assets, loyal depositors, good liquidity, manageable rate sensitivity and limited exposure to the most volatile segments of the economy. Whatever the tests that come in 2008, we are up to the task.

Thank you for investing in our company. We also hope you will bring us all your banking business, and that you will recommend us to your family, friends and business associates, as well.

Best Wishes for a prosperous 2008,

Michael Henderson, *Chairman of Albina Community Bank and Bancorp*

Robert McKean, *Chief Executive Officer, Director of Albina Community Bank and Bancorp*

PRODUCTS and SERVICES

Whether you're buying your first house, saving for that trip around the world, starting or building a business, or redeveloping a local neighborhood, Albina Community Bank offers a wide range of competitive personal and business banking products and services for all your aspirations.

Albina Personal Banking Products/Services

- Personal checking, money market and other deposit accounts
- Certificates of deposit, including Albina's Charitable CD
- Personal VISA™ credit card (Choose a local nonprofit organization and Albina will donate 1% of all purchases at no cost to you.)
- Personal loans and lines of credit
- Individual Retirement Accounts (IRAs)
- Online banking and bill payment services

Albina Business Banking Products/Services:

- Business checking, money market and other deposit accounts
- Business VISA™ credit card
- Business loans and lines of credit
- Commercial real estate loans
- Government guaranteed lending
- Online banking and cash management services
- Merchant services
- Payroll services

Bill Jackson and Peter Wilcox, Development Partners (Absent - David Yoho)
- North Mississippi Avenue, Portland, Oregon - www.mississippiavenuelofts.com

MISSISSIPPI AVENUE LOFTS

Inspiration.

Preserving Trees. Saving Energy.

Building Green.

An Albina Commercial
Real Estate Loan and
Business Banking Relationship

Live Green. Live Well.

Portland housing is now better for our environment, better for our health and better for our spirit. With unlimited access to unique retail stores, restaurants, and the local music scene, lucky residents will have the best of all worlds when Mississippi Avenue Lofts is completed in July 2008 in the Mississippi Historic District.

Targeted for LEED® Gold Certification from the US Green Building Council (USGBC), Mississippi Avenue Lofts is a new sustainable 56,000 square foot 4-story mixed-use development featuring 32 live/work one, two-bedroom and penthouse lofts, secure parking and 5900 square feet of ground floor commercial space.

Keeping Portland A Leader In Green Building

500 tons of material recycled during de-construction; 350,000 pounds of 98% post consumer recycled rebar; 180,000 pounds of 95% post consumer recycled structural steel fabricated regionally; 100,000 board feet of Forest Stewardship Council (FSC) certified timber from a local supplier.

Those are just a few examples of how this project in itself is a perfect example of sustainable building. Inside and out,



Photos by: Mark Ford / Scenic

every detail has been considered in this high performance building, from the state of the art energy sharing heating and cooling system, efficient use of space, to exposed timber beamed ceilings, polished concrete floors, and regionally produced 100% pre-consumer recycled SkyBlend particle board coarse in all cabinets and built-ins.

Love What You Do

The development team of Mr. Peter Wilcox, Mr. Bill Jackson, and Mr. David Yoho has taken an unprecedented approach to incorporating new innovative sustainable technologies in the project; and their excitement is obvious when they talk about Mississippi Avenue Lofts and keeping Portland a leader in sustainable building.

The project in itself is a perfect example of green building both inside and out.

It's definitely not the cheapest way to build, but the team wouldn't have it any other way. "It's the only way to build if you have kids, grandkids, or love nature," noted Mr. Wilcox, an architect and development partner in love with the diverse neighborhoods of North and Northeast Portland. An ex-Multnomah County Housing Director, Mr. Wilcox has committed 25 years and nearly 1,000 units of affordable housing to the city, including Albina's mixed-use MLK Office. He's now also free to follow his own green heart.

Support Your Local Community

The Mississippi Avenue Lofts is proud to support the local economy by providing jobs and opportunities for regional and minority-owned businesses in necessary building trades.

Consistent with their efforts to use more responsible products and services, the Mississippi Avenue Lofts team is also committed to local community banking and partners with Albina as the primary construction and residential lender. Despite plenty of offers from larger banks to provide financing for the development, Mr. Wilcox preferred his local banking relationship and was proud to introduce his development partners to Albina. At Albina, we aim to build these types of banking relationships with our customers, and are proud to provide financing to help make Portland greener and a national leader in sustainable building

Thanks to Mississippi Avenue Lofts and its green development team, Northeast Portland will soon be home to one of the first buildings of its type in the USA, and the first in Oregon to be Certified LEED® Gold from the USGBC using the v2.2 Rating System. Please visit www.mississippiavenuelofts.com to learn more about how the project is doing its part to reduce, reuse and recycle – or how you can become one of the few new lucky homeowners.

Ed Honeycutt, Founder/Owner
- Headquarters and Store Location, 1205 SE Grand Ave., Portland, Oregon –www.mrformaltuxedos.com

Inspiration.

Mannequins. Family.

Committing A Lifetime

To A Business.

An Albina Commercial Loan, Business Line of Credit and Business Banking Relationship

Invite All Your Friends

If you were hosting a black-tie party with 35,000 male guests, Mr. Formal would have all the tuxedos and accessories covered. So invite all your friends.

Memories from February 1976

Mr. Ed Honeycutt, Founder/Owner of Mr. Formal, was barely twenty-one years old when he rented 500 square feet in a modest building next to empty fields on Cedar Hills Boulevard in Beaverton, Oregon, and started his first tuxedo rental company in February 1976. Low on budgets in the early years, he smiles when he recalls how he used to get his good friends to model tuxedos and pose on the corners of streets waving to drivers for advertisement.

Business Sunshine And Storms

Forty-five stores throughout the Northwest, and over 275 employees later, Mr. Formal (aka, Cromwell Formalwear-Oregon, The Tux Shops-Washington and Tuxedo Den-California) is now one of the largest independently owned men's formal wear rental and sales businesses in the country.

Dedicating 32 years to building a business, Mr. Honeycutt has seen the country's changing history of formal events, like less formal parties or the changing demographics of marrying couples. And he remains excited to roll with the changes. "Business is as unpredictable as life," he has realized, "all we can do is plan as best as possible to weather its storms."

A True "Family" Business

Several hundred dollars borrowed from his father in 1975 helped Mr. Honeycutt purchase used mannequins and furniture to open his first store. Twelve years later his father and sister would join Mr. Formal's team of employees. Working together and sharing business success with family and employees is important to Mr. Honeycutt.

In a tour of Mr. Formal's headquarters and warehouse space at 1205 SE Grand Avenue, Mr. Honeycutt's eyes light up the same when he meets each employee. "Mr. Formal employees are the key to our business," credited Mr. Honeycutt. Many of our employees have been with our business for 20 to 30 years.

Access To The Decision-Making Process At A Local Bank

"There are plenty of banks that specialize in 'small' businesses and 'large' businesses, but few banks that meet the needs of a middle-sized business," noted Mr. Honeycutt. "Scott Bossom, Albina's Commercial Relationship Manager and the top executives of the bank took the time to thoroughly understand my unique business, as well as the business' management, experience, and changing market conditions. Their continued commitment to our company has made it possible for our management team to confidently move forward with our plans for the future."

"Mr. Formal employees are the key to our business"

Thanks to Mr. Formal, Portland is home to one of the top independently-owned men's formal wear rental and sales businesses in the country. When it's time to dress your best, please visit www.mrformaltuxedos.com, or visit any of the 20 Portland metro and Willamette valley locations to choose your wedding suits or tuxedo.

QUEEN BEE and CHICKPEA BABY
Unique Bags and Accessories

Rebecca Pearcy, Founder/Owner/Designer (front left)
1847 East Burnside, Portland, Oregon – www.queenbee-creations.com

Small Businesses – Keeping Portland Neighborhoods Unique

Portland is a mecca for artistic, free-spirited and music-loving individuals from around the country. Its proximity to mountains, water, green life, and its independent spirit make it the #1 city in the country for individuals aged 22 - 36, who are looking for a new home and to start their own business. Here are some of the things that inspire them, and how Albina Community Bank plays a role.

Inspiration.

Color. Music. Art. Nature.

A Sewing Machine.

Needing A Wallet

An Albina Business Line Of Credit and Business Banking Relationship

Love What You Do

Raised in a family of artists, Rebecca Pearcy was just doing what she loved when Queen Bee Creations started in her bedroom in 1996 – creating art, singing, sewing and making people smile through her unique sense of style, color and detail.

After learning many arts and crafts at an early age, Ms. Pearcy started designing and sewing one-of-a-kind clothes for herself during high school. To help work her way through college, she did the same, but also set up a booth on campus to share her stylish designs with classmates.

The Queen Bee Creations (and Chickpea Baby Line of Diaper Bags)

Queen Bee Creations offers unique handbags and accessories, with the Chickpea Baby line for the hip mom and dad looking for a functional and fun diaper bag. Once familiar with Queen Bee's line of bags, her simple, colorful and quality designs can be spotted from local yoga classes to international airports.

Love The Earth

A ginkgo leaf. A poppy flower. Birds singing. Ms. Pearcy's whimsical designs often feature nature and its colorful simplicity. Likewise, Ms. Pearcy is also passionate about ensuring

Queen Bee's environmental responsibilities are met through products that ensure that nature's colors and shapes remain perfect.

Ms. Pearcy continuously researches utilizing increasingly sustainable materials in her bags and accessories, from re-wool (recycled wool felt), to recycled Banner Bags, created from used banners from local organizations like the Portland Art Museum. Each stylish Banner Bag also helps keep one more banner from nature's landfills.

Love Keeping Jobs Local

All Queen Bee and Chickpea Baby bags and accessories are "Made In Portland." The company's hive and headquarters are located at 1847 E. Burnside, and include a sewing machine room where you'll find the business' talented and good-humored sewers who provide the local quality touch behind each bag. Thirteen local Bee employees are able to create 300-500 bags and accessories each week, and even more during the busy holiday season.

Understanding the economic impact in our local Portland neighborhoods, Ms. Pearcy is also passionate about keeping production and quality of her bag line Portland-made. And it's obvious that she also appreciates the work of each fun Bee employee.

Love Your Local Bank

While building a fast growing business, Ms. Pearcy acknowledges that the financial aspects of a business are often new territory for an artist. Although it may take time to become comfortable with, "sometimes part of the business growth game is to spend money to build your business," she has learned. With her banking relationship with Albina's Social Impact Banking Office, Ms. Pearcy has also found her "best banking experience yet." Albina is proud to provide a business banking relationship to help keep up with the things that inspire the Queen Bee the most.

...Sometimes part of the business growth game is to spend money to build your business"

If you are looking for that one-of-a-kind rain-proof handbag or a great gift for a faraway friend, find Queen Bee's unique, colorful, and nature friendly designs locally at the Queen Bee Studio at 1847 E. Burnside, Powell Book Stores and New Seasons or at the Fireworks Gallery in the Seattle-Tacoma airport. Or of course, choose your one-of-a-kind bag at www.queenbee-creations.com.

FIRE ON THE MOUNTAIN
Portland's Original Wings

Sara Sawicki and Jordan Busch, Founders/Owners
- 4225 North Interstate Avenue and 1708 East Burnside, Portland, Oregon - www.portlandwings.com

Inspiration.

Mountains.

Music.

Friendship.

An Albina Small Business Loan and Business Banking Relationship

Climb Mountains

Thanks to two mountain-climbing friends, there's a Fire On The Mountain in Portland. Two Fires actually, with the buffalo wing restaurant's just recently opened second location at 1708 East Burnside to support over-burn from their North Portland location.

Portland's original buffalo wings were inspired on the peaks of Colorado mountains with two friends who used to talk about opening a restaurant together – Jordan Busch, an unconvinced and free-spirited attorney who used to hang out at buffalo wing restaurants throughout college and law school, and Sara Sawicki, a free-spirited ski bum with an educational background in Communications and years of restaurant experience. And they really did.

Add Your Own Flavor

Jamaican Jerk - Raspberry Habanero - Soon-To-Be-Famous-Spicy-Peanut - Or milder for the less mountain-climbing types.

Listen to advice. Master your art. Learn your market. Follow your heart. Be willing to move somewhere new. And then add your own spices – And a wall mural of Jerry Garcia, Santana, Willie Nelson, Bob Marley, Janis Joplin and Einstein painted by several local artists including a Fire On The Mountain employee. Nobody ever said that starting your own business was easy.

Starting A Fire On The Mountain

While still living in Colorado in 2002, Mr. Busch discovered via internet research that there were no wing restaurants in Portland. He then did some additional hands-on research by going to work for a wing hangout in Denver. Chasing live music, mountains, and an open wings market, Ms. Sawicki and Mr. Busch relocated to Portland in September 2003. On January 1, 2005, the first Fire On The Mountain opened at 4225 North Interstate Avenue after Ms. Sawicki discovered a small building in the still changing neighborhood.

Be Prepared For All Kinds Of Weather

On a mountain, anything can happen. Likewise, when you own your own business. There are no clocks to punch, and broken water heaters and other business emergencies are all yours.

Be Kind To Nature And Its Creatures

As conscious people, treating employees well is important to the business owners. Several familiar faces are still there since the North Portland location first opened. Fire On The Mountain provides 35 local jobs to our Portland neighbors. The business also recyles all used oil and donates it to local biodiesel companies.

The "Banking" Part Of Building A Business

"Establishing a relationship with a local bank is an important part of starting a business," noted Mr. Busch, who began researching local banking options upon his arrival in Portland. A small business loan from Albina helped provide the spark to start the Fire, and the genius team and our local neighbors, are providing the business coals. Take a bite. Listen to music. Hang out.

Portland's original buffalo wings were inspired on the peaks of Colorado mountains with two friends who used to talk about opening a restaurant together

Thanks to a Fire On The Mountain, we've now got one of the best hangout spots in the country. Eat great buffalo wings and support local Portland musicians. Visit www.portlandwings.com for an upcoming schedule of local musicians playing at Fire On The Mountain, or call 503-230-wings.


MANAGEMENT and BOARD OF DIRECTORS

Each of their resumes will show years of diverse experience in how to master a business – from banking, to financial investments, to commercial real estate development, to development in underserved neighborhoods of our city. They come from many backgrounds and from all over the city, and meet at a mission crossroad, and a belief that a bank can make a profit and a meaningful difference in our local Portland neighborhoods at the same time.

Management: (From left)

- Robert McKean, *Chief Executive Officer, Director of Albina Community Bank and Bancorp*
- Randy Knipple, *Senior Vice President and Chief Credit Officer, Albina Community Bank*
- Cheryl Cebula, *President and Chief Operating Officer, Albina Community Bank*
- Mark Yee, *Senior Vice President and Chief Lending Officer, Albina Community Bank*
- Jim Schlotfeldt, *Senior Vice President and Chief Financial Officer, Albina Community Bancorp*

Board of Directors: (From left)

- Bernard Foster, *The Skanner News Group, Director of Albina Community Bancorp*
- John "Rocky" Dixon, *Endeavor Capital, Director of Albina Community Bancorp*
- Sheila Holden, *PacifiCorp, Director of Albina Community Bancorp*
- Robert McKean, *Chief Executive Officer, Director of Albina Community Bank and Bancorp (front)*
- James Bradshaw, *D.A. Davidson & Co., Director of Albina Community Bank and Bancorp (back)*
- Valencia Fisker, *Portland General Electric, Director of Albina Community Bancorp*
- Graham Bryce, *QG Investment Co., Director of Albina Community Bank*
- Howard Shapiro, *Vice Chairman of Albina Community Bank*
- Jeana Woolley, *JM Woolley & Associates, Director of Albina Community Bancorp*
- Ted Gilbert, *Baron Equities And Resources, Inc., Director of Albina Community Bancorp*
- Michael Henderson, *Chairman of Albina Community Bank and Bancorp*

About Albina

Albina Community Bank offers the same products and services as any bank. We also offer a mission - and a proven belief that a bank can make a buck and a meaningful difference in our local neighborhoods at the same time.

As our mission states: Albina Community Bank creates hope and financial opportunity by building lasting banking relationships with those who care most about our communities."

Albina Community Bank is the sole subsidiary of Albina Community Bancorp. We're proud to remain independently and locally-owned and operated by individual shareholders throughout our community. As just one of approximately 55 commercial banks across the country certified as a Community Development Financial Institution (CDFI) by the U.S. Treasury Department, we're here to provide financial opportunity and to build rewarding banking relationships with all of our neighbors.

We live here too. So all deposits that come to Portland's local bank are re-deposited in our local neighborhoods for local businesses and local neighbors like the ones you'll read about throughout our 2007 Annual Report. Welcome to Albina Community Bank. We'd be honored to hear what inspires you.

Administrative Offices
430 NW 10th Ave., Suite 101
Portland, OR 97209
Phone: 503-288-7293

MLK Office
2002 NE MLK Jr. Blvd.
Portland, OR 97212
503-287-7537

St. Johns Office
8040 N. Lombard St.
Portland, OR 97203
503-285-9966

Social Impact Banking Office
430 NW 10th Ave.
Portland, OR 97209
503-445-2150

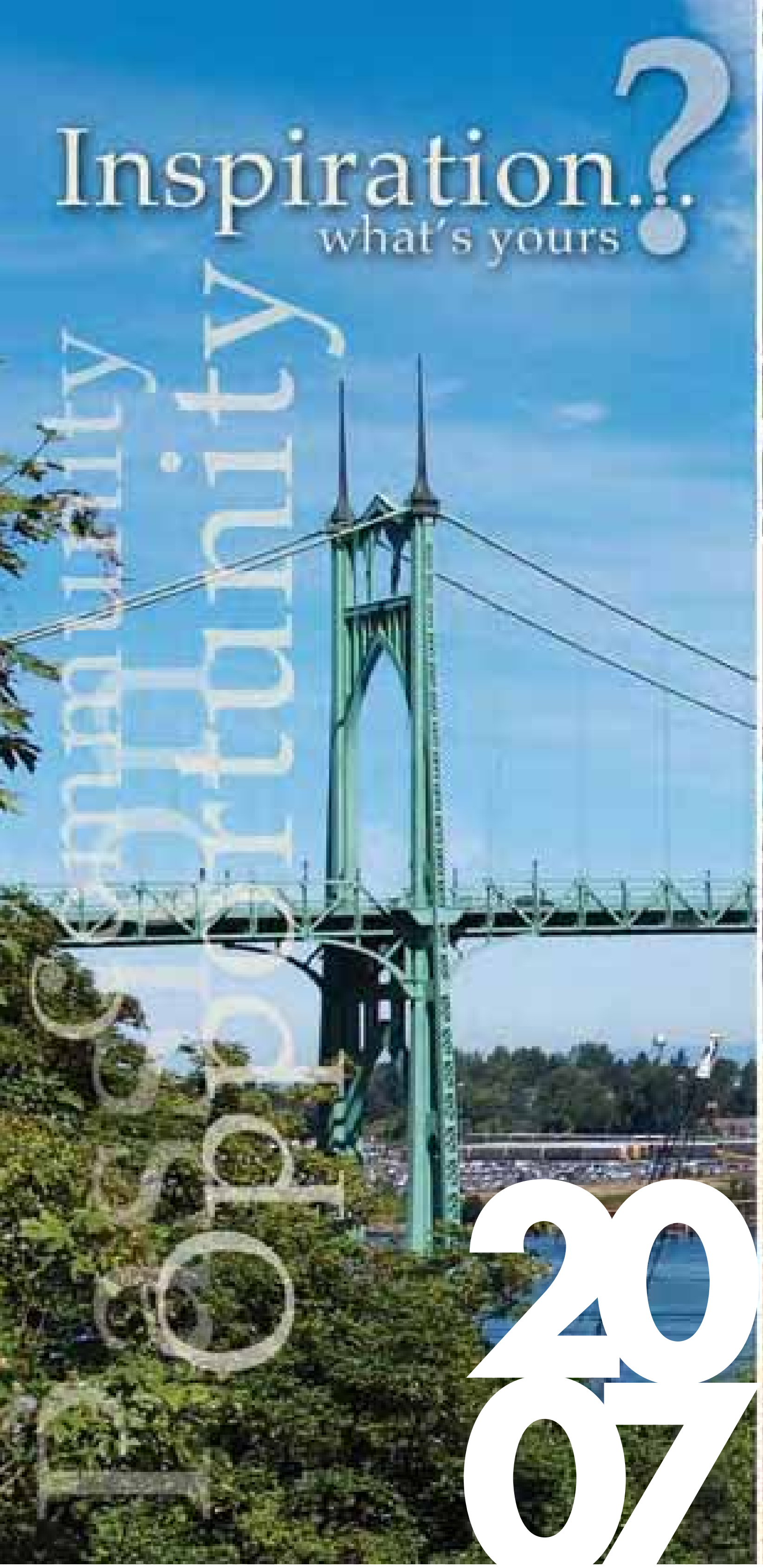
Rose City Office
5636 NE Sandy Blvd.
Portland, OR 97213
503-445-8700

Beaumont Office
4020B NE Fremont St.
Portland, OR 97212
503-445-8720

New Columbia Remote ATM
4610 N. Trenton St.
Portland, OR 97203

Alternative Service Delivery Options:

- Free withdrawals at over 2,000 Key Bank ATMs in 15 states
- Courier services
- Remote Deposit Capture
- Deposit relationships with other financial institutions
- Online banking and cash management services



Photos by Russ Gorman Photography
www.russgormanphotography.com

Albina Community Bancorp

Albina Community Bank Administrative Offices
430 NW 10th Ave., Suite 101, Portland, OR 97209
www.albinabank.com

ALBINA COMMUNITY BANCORP
AND SUBSIDIARIES

INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007, 2006, AND 2005

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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, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
February 25, 2008

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 2,021,093	$ 2,534,238
Interest-bearing deposits with other banks	4,307,078	2,037,012
Federal funds sold	4,467,747	1,013,940
Total cash and cash equivalents	10,795,918	5,585,190
Time deposits with other banks	5,625,000	3,098,000
Investment securities, at fair value	10,732,649	22,150,416
Federal Home Loan Bank stock, at cost	615,300	422,800
Loans, net of allowance for loan losses and unearned income	146,056,931	95,593,562
Premises and equipment, net of accumulated amortization and depreciation	5,970,477	6,128,070
Accrued interest receivable and other assets	1,829,846	1,405,810
Cash surrender value of bank-owned life insurance	3,885,885	2,883,899
TOTAL ASSETS	$ 185,512,006	$ 137,267,747
LIABILITIES		
Deposits	$ 145,840,376	$ 109,234,127
Federal funds purchased	2,500,000	-
Notes payable	15,360,955	8,201,228
Junior subordinated debentures	6,186,000	6,186,000
Accrued interest payable and other liabilities	2,177,129	1,269,549
Total liabilities	172,064,460	124,890,904
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Preferred stock, at liquidation value	2,481,800	2,481,800
Common stock	8,542,098	8,174,547
Retained earnings	2,439,633	1,735,302
Accumulated other comprehensive loss, net of tax	(15,985)	(14,806)
Total stockholders' equity	13,447,546	12,376,843
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 185,512,006	$ 137,267,747

See accompanying notes.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
	2007	2006	2005
INTEREST INCOME			
Interest and fees on loans	$10,254,879	$ 7,194,350	$ 6,539,621
Investment securities	568,053	881,155	443,716
Federal funds sold	97,565	160,372	65,262
Other interest income	262,963	126,851	74,857
Total interest income	11,183,460	8,362,728	7,123,456
INTEREST EXPENSE			
Time deposits	2,998,617	2,105,818	1,592,306
Money market accounts	980,134	804,069	292,630
Interest-bearing demand deposit accounts	29,657	25,445	10,286
Savings accounts	29,420	30,408	27,858
Other borrowed funds	928,585	627,682	578,626
Total interest expense	4,966,413	3,593,422	2,501,706
Net interest income	6,217,047	4,769,306	4,621,750
PROVISION FOR LOAN LOSSES	543,000	138,691	282,618
Net interest income after provision for loan losses	5,674,047	4,630,615	4,339,132
NONINTEREST INCOME			
Government program payments	530,126	500,000	497,000
Service charges on deposit accounts	607,462	607,099	539,401
Merchant services and card fee income	529,535	344,692	179,403
Loan fees on brokered loans	201,210	134,682	213,444
Gain (loss) on sale of investment securities	149,552	(19,000)	-
Increase in cash surrender value of bank-owned life insurance	139,822	126,962	126,036
Other noninterest income	249,215	262,283	311,462
Total noninterest income	2,406,922	1,956,718	1,866,746
NONINTEREST EXPENSE			
Salaries and employee benefits	3,874,008	3,276,689	2,847,488
Occupancy and equipment	714,375	683,718	597,243
Data processing	421,075	362,691	354,304
Professional fees	345,071	337,161	338,373
Advertising	84,085	68,815	77,729
Other noninterest expenses	1,617,773	1,429,088	1,068,374
Total noninterest expense	7,056,387	6,158,162	5,283,511
Income before income tax provision (benefit)	1,024,582	429,171	922,367
INCOME TAX PROVISION (BENEFIT)	320,251	(69,227)	250,279
NET INCOME	$ 704,331	$ 498,398	$ 672,088
BASIC EARNINGS PER SHARE OF COMMON STOCK	$ 0.67	$ 0.81	$ 1.15
DILUTED EARNINGS PER SHARE OF COMMON STOCK	$ 0.67	$ 0.76	$ 1.09

See accompanying notes.

ALBINA COMMUNITY BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Preferred Stock		Common Stock			Accumulated		
	Number of Shares	Amount	Number of Shares	Amount	Retained Earnings	Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
BALANCE, December 31, 2004	24,818	$ 2,481,800	386,677	$ 3,481,733	$ 566,763	$ (62,927)	$ 6,467,369	
Proceeds from stock issuances under stock incentive plans	-	-	7,184	62,946	-	-	62,946	
Net income	-	-	-	-	672,088	-	672,088	$ 672,088
Change in unrealized loss on investment securities available-for-sale, net of taxes	-	-	-	-	-	(89,576)	(89,576)	(89,576)
Comprehensive income								$ 582,512
BALANCE, December 31, 2005	24,818	$ 2,481,800	393,861	$ 3,544,679	$ 1,238,851	$ (152,503)	$ 7,112,827	
Net proceeds from common stock offering	-	-	416,666	4,484,315	-	-	4,484,315	
50% stock dividend and cash paid for fractional shares	-	-	202,324	-	(1,947)	-	(1,947)	
Proceeds from issuances under stock incentive plans	-	-	10,873	79,156	-	-	79,156	
Stock-based compensation	-	-	-	18,482	-	-	18,482	
Tax benefit resulting from exercise of nonstatutory stock options	-	-	-	47,915	-	-	47,915	
Net income					498,398	-	498,398	$ 498,398
Change in fair value of investment securities available-for-sale, net of taxes						144,997	144,997	144,997
Reclassification adjustment for realized losses included in net income, net of taxes	-	-	-	-	-	(11,400)	(11,400)	(11,400)
Change in fair value of interest rate swap, net of taxes	-	-	-	-	-	4,100	4,100	4,100
Comprehensive income								$ 636,095
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	$ 704,331
Change in fair value of investment securities available-for-sale, net of taxes	-	-	-	-	-	(50,337)	(50,337)	(50,337)
Reclassification adjustment for realized gains included in net income, net of taxes	-	-	-	-	-	89,731	89,731	89,731
Change in fair value of interest rate swap, net of taxes	-	-	-	-	-	(40,573)	(40,573)	(40,573)
Comprehensive income								$ 703,152
BALANCE, December 31, 2007	24,818	$ 2,481,800	1,067,882	$ 8,542,098	$ 2,439,633	$ (15,985)	$ 13,447,546	

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 704,331	$ 498,398	$ 672,088
Adjustments to reconcile net income to net cash from operating activities:			
Net (accretion of discounts) and amortization of premiums on investment securities	(31,359)	(70,910)	9,742
(Gain) loss on sales of investment securities	(149,552)	19,000	-
Federal Home Loan Bank stock dividend	-	-	(1,300)
Depreciation and amortization	337,573	320,550	281,791
Gain on disposal of investment in limited liability company	-	-	(39,700)
Deferred income taxes	176,100	577,300	(1,270)
Change of investment in bank-owned life insurance, net of change in salary continuation benefits obligation	7,453	(20,339)	(44,865)
Provision for loan losses	543,000	138,691	282,618
Stock-based compensation expense	56,949	18,482	-
Excess tax benefit from exercise of stock options	(77,292)	(47,915)	-
Increase (decrease) in cash due to changes in certain assets and liabilities:			
Accrued interest receivable and other assets	(331,344)	(111,747)	(55,780)
Accrued interest payable and other liabilities	536,568	(84,702)	297,704
Net cash from operating activities	1,772,427	1,236,808	1,401,028
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of time deposits with other banks	(2,627,000)	(1,600,000)	-
Maturity of time deposits with other banks	100,000	-	1,250,000
Purchases of investment securities	(7,223,808)	(8,857,539)	(9,496,059)
Proceeds from maturities, calls, and sales of investment securities	18,883,093	6,379,910	4,633,467
Purchases of Federal Home Loan Bank stock	(192,500)	-	(92,800)
Net increase in loans resulting from originations and collections	(51,006,369)	(8,459,869)	(8,183,578)
Purchases of premises and equipment	(179,980)	(1,398,085)	(207,050)
Proceeds from disposal of investment in limited liability company	-	-	405,295
Investment in bank-owned life insurance	(875,000)	-	-
Net cash from investing activities	(43,121,564)	(13,935,583)	(11,690,725)

	Years Ended December 31,		
	2007	2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in deposits	$ 36,606,249	$ 4,738,521	$ 14,413,279
Net change in federal funds purchased	2,500,000	-	-
Advances on notes payable	17,500,000	6,750,000	-
Repayment of notes payable	(10,340,273)	(2,233,633)	(1,238,368)
Cash paid for fractional shares	-	(1,947)	-
Net proceeds from common stock issuances	216,597	4,563,471	62,946
Excess tax benefit from exercise of stock options	77,292	47,915	-
Net cash from financing activities	46,559,865	13,864,327	13,237,857
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,210,728	1,165,552	2,948,160
CASH AND CASH EQUIVALENTS, beginning of year	5,585,190	4,419,638	1,471,478
CASH AND CASH EQUIVALENTS, end of year	$ 10,795,918	$ 5,585,190	$ 4,419,638
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 4,907,152	$ 3,569,973	$ 2,410,810
Cash paid during the year for taxes	$ 10,500	$ 131,000	$ 345,400
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Change in fair value of investment securities available-for-sale, net of taxes	$ 39,394	$ 133,597	$ 89,576
Change in fair value of interest rate swap, net of taxes	$ (40,573)	$ 4,100	$ -

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.

Albina Development Company, LLC (ADC) is a single-member LLC that was formed August 12, 2005, for the purpose of organizing and managing qualified Community Reinvestment Act Investment Funds. This subsidiary had no activity during 2007, 2006, or 2005.

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 FIN 46R, “Consolidation of Variable Interest Entities,” both of these trusts are excluded from Albina’s consolidated financial statements because Albina is not the primary beneficiary.

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.

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

Financial statement presentation and use of estimates – The consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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. Management believes the assumptions used in arriving at this estimate 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, 2007, the Bank had cash deposits at other financial institutions in excess of FDIC insured limits. However, the Bank places these deposits with large, well-capitalized financial institutions, thus management believes the risk of loss to be minimal.

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, 2007 and 2006 are "available-for-sale."

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.

Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary, result in write-downs of the individual securities to their fair value. The related write-downs would be included in earnings as realized losses. Premiums and discounts are recognized in interest income using the effective interest method over the period to maturity.

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

Federal Home Loan Bank stock – The Bank's investment in Federal Home Loan Bank (FHLB) stock is a restricted investment carried at par value, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding FHLB advances. The Bank may request redemption at par value of any shares in excess of the amount it is required to hold. Stock redemptions are made at the discretion of the FHLB.

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.

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 Banks also maintain an unallocated allowance to provide for other credit loses 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.

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 5 to 30 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 reserve for loan losses. Subsequent write-downs to net realizable value, if any, or any disposition gains or losses are included in noninterest income or expense.

Investment in limited liability corporation – In April 2002, the Bank invested $365,000 in a limited liability corporation (LLC) formed for the purpose of owning a commercial building in North Portland that was considered as a potential site for future bank operations. The Bank's interest in the LLC was accounted for under the equity method of accounting. During 2005, the Bank divested itself of this investment, recognizing a $39,700 gain upon disposal.

Income taxes – Deferred income tax assets and liabilities are determined based on the tax effects of the differences between book and tax bases of various balance sheet assets and liabilities. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the income tax provision. Valuation allowances are established to reduce deferred tax assets if it is determined to be more likely than not that all or a portion of the potential deferred tax assets will not be realized.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. The Company had no unrecognized tax benefits and thus made no adjustment to the January 1, 2007 beginning balance of retained earnings. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in tax expense.

Advertising costs – Advertising costs are expensed as they are incurred. Advertising costs were $84,085, $68,815, and $77,729, for the years ended December 31, 2007, 2006, and 2005, respectively.

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

Earnings per share of common stock – Basic earnings per share of common stock is computed by dividing net income available to stockholders, less preferred stock dividends, by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends and splits. Diluted earnings per share of common stock is computed similar to basic earnings 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 – Effective January 1, 2006, Albina adopted Financial Accounting Standards Board Statement No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R). Under SFAS No. 123R, 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 weighted-average 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. The Company 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 following schedule reflects the weighted-average assumptions included in this model as it relates to the valuation of options granted for the years ended December 31:

	2007	2006	2005
Expected dividends	0.00%	0.00%	0.00%
Expected term (years)	6.5	6.5	7
Expected volatility	32.23%	22.60%	23.74%
Risk-free rate	4.76%	4.77%	4.00%
Weighted average grant date fair value of options granted	$ 4.94	$ 4.56	$ 3.91

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

Prior to the adoption of SFAS 123R on January 1, 2006, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. 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.

Excess tax benefits of $77,292 and $47,915 are classified as financing cash inflows for the years ended December 31, 2007 and 2006, respectively.

Albina adopted SFAS 123R using the modified prospective transition method, which required adoption as of January 1, 2006, the first day of Albina's 2006 fiscal year. In accordance with the modified prospective method, the Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R.

Under SFAS 123, prior to its revision, the Company previously accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" (APB No. 25). Accordingly, prior to January 1, 2006, no accounting recognition was given to stock options granted at fair market value until they were exercised, at which time the net proceeds, including tax benefits realized, were credited to stockholders' equity.

The following table presents the pro forma effect on net income and earnings per share had Albina applied the fair value recognition provisions of SFAS 123 for the year ended December 31, 2005:

	2005
Net income, as reported	$ 672,088
Total stock-based employee compensation expense determined under fair value-based methods for all awards, net of related tax effects	(40,490)
Pro forma net income	$ 631,598
Earnings per share:	
Basic – as reported	$ 1.15
Basic – pro forma	$ 1.07
Diluted – as reported	$ 1.09
Diluted – pro forma	$ 1.01

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

Government program payments – During 2007, 2006, and 2005 the Bank, 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 the Bank has received written notice of the amount and timing of the funds to be received. Since the programs generally require the Bank to substantially complete all provisions prior to applying for the funds, which supports the completion of the earnings process, the funds received in 2007, 2006, and 2005 were recognized as income when received.

Derivatives and off-balance sheet financial instruments – Albina and its subsidiaries hold one derivative financial instrument. 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 under the shortcut method as prescribed under Financial Accounting Standards Board Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities.” As of each reporting period, Albina 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. Providing that the Bank holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be settled and effectively terminated at market rates at any time during the term of the swap at the option of Albina. As of December 31, 2007 this derivative represented a liability of approximately $60,473, and as of December 31, 2006, its fair value was an asset in the amount of approximately $6,796.

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 financial instruments – The following methods and assumptions were used by Albina in estimating fair values of financial instruments as disclosed herein:

Cash, cash equivalents, time deposits with other banks, and federal funds sold – For these financial instruments, the carrying value as presented is a reasonable estimate of fair value.

Investment securities and restricted equity securities – Fair values for investment securities, excluding restricted equity securities, are based on quoted market prices. The carrying values of restricted equity securities approximate fair values.

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

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.

Short-term 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 the Bank's current incremental borrowing rate for similar types of borrowing arrangements.

Long-term debt – The fair value of the Bank's long-term debt, including the junior subordinated debentures, is estimated using a discounted cash flow analysis based on the Bank's current incremental borrowing rate for similar types of borrowing arrangements.

Derivative instruments – The fair value of the Bank's interest rate swap is estimated based on cash flow projections acquired from a third party.

Off-balance sheet instruments – The Bank'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.

Stock dividends – In May 2006, Albina's Board of Directors declared a stock split effected in the form of a 50% common stock dividend. In May 2004, Albina's Board of Directors also declared a 10% common stock dividend. All common stock per share financial information for periods prior to these dates have been restated.

NOTE 2 – INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2007				
U.S. government agency securities	$ 5,000,000	$ 34,140	$ (940)	$ 5,033,200
Mortgage-backed securities	5,701,129	32,962	(34,642)	5,699,449
	$ 10,701,129	$ 67,102	$ (35,582)	$ 10,732,649
December 31, 2006				
U.S. government agency securities	$ 18,098,766	$ 66,961	$ (39,353)	$ 18,126,374
Mortgage-backed securities	4,080,738	12,341	(69,037)	4,024,042
	$ 22,179,504	$ 79,302	$ (108,390)	$ 22,150,416

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, 2007:

	Less Than 12 Months		12 Months or More		Totals	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agency securities	$ -	$ -	$ 999,060	$ (940)	$ 999,060	$ (940)
Mortgage-backed securities	1,394,816	(14,248)	1,760,692	(20,394)	3,155,508	(34,642)
Total temporarily impaired securities	$ 1,394,816	$ (14,248)	$ 2,759,752	$ (21,334)	$ 4,154,568	$ (35,582)

NOTE 2 – INVESTMENT SECURITIES – (continued)

The Bank holds one U.S. government agency security and six mortgage-backed securities that are considered to be temporarily impaired investments. Temporary impairment for these investments is due to interest rate risk associated with fixed-rate obligations and prepayment risk resulting from premature calls of similar classes of securities. Management believes that, while actual fluctuations in unrealized losses will occur over the life of each investment security, the temporary impairment on each investment security in an unrealized loss position at December 31, 2007, will be incrementally relieved as the individual investment security approaches its contractual maturity date.

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, 2007.

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2007, 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
Due within one year	$ 728,142	$ 721,620
Due after one year through five years	3,928,380	3,925,898
Due after five years through ten years	2,427,938	2,445,224
Due after ten years	3,616,669	3,639,907
	$ 10,701,129	$ 10,732,649

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, 2007 and 2006, investment securities with an amortized cost of $9,972,985 and $21,179,884, respectively, have been pledged to secure notes payable at the Federal Home Loan Bank and public or other deposits, as required by law.

NOTE 3 – LOANS

The composition of loan balances is summarized as follows:

	2007	2006
Real estate secured:		
Residential mortgage	$ 12,829,135	$ 8,593,630
Commercial real estate	73,307,198	58,912,535
Real estate construction	25,638,814	10,448,332
Other loans:		
Commercial	13,968,826	9,948,345
Consumer	22,365,686	9,267,342
Total loans	148,109,659	97,170,184
Allowance for loan losses	(1,555,738)	(1,260,499)
Unearned income, net of amortization	(496,990)	(316,123)
Loans, net of allowance for loan losses and unearned income	$ 146,056,931	$ 95,593,562

At December 31, 2007 and 2006, loans of $45,309,643 and $32,775,089, respectively, were pledged to support Federal Home Loan Bank borrowings.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for loan losses were as follows:

	2007	2006	2005
BALANCE, beginning of year	$ 1,260,499	$ 1,258,387	$ 1,157,136
Charge-offs	(344,123)	(180,958)	(217,040)
Recoveries	96,362	44,379	35,673
Provision for loan losses	543,000	138,691	282,618
BALANCE, end of year	$ 1,555,738	$ 1,260,499	$ 1,258,387

Nonaccrual loans totaled $35,207 and $206,886 at December 31, 2007 and 2006, respectively. Interest income that would have been recognized on nonaccrual loans had they remained current was $23,105, $42,350, and $13,502 for 2007, 2006, and 2005, respectively. At December 31, 2006, the Bank had $149,030 of loans considered by management to be impaired. There were no such loans at December 31, 2007. The average recorded investment in impaired loans during 2007 and 2006 was approximately $75,000 and $365,000, respectively. Impaired loans on nonaccrual status totaled $149,030 at December 31, 2006.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES – (continued)

The specific allowance for loan losses established for impaired loans was $56,300 at December 31, 2006.

NOTE 5 – PREMISES AND EQUIPMENT

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

	2007	2006
Buildings	$ 1,918,432	$ 1,918,432
Leasehold improvements	1,608,413	1,494,431
Furniture and equipment	1,165,892	1,073,342
Software	203,663	196,198
	4,896,400	4,682,403
Less accumulated depreciation and amortization	(1,606,544)	(1,268,971)
	3,289,856	3,413,432
Land	2,638,261	2,638,261
Software in progress	42,360	76,377
Premises and equipment, net of accumulated depreciation and amortization	$ 5,970,477	$ 6,128,070

NOTE 6 – DEPOSITS

Deposit account balances are summarized as follows:

	2007	2006
Noninterest-bearing demand deposits	$ 23,365,985	$ 19,529,686
Interest-bearing demand deposits	6,614,378	5,569,370
Savings accounts	5,645,965	6,089,354
Money market accounts	32,803,344	23,918,343
Time certificates of deposit	77,410,704	54,127,374
Total deposits	$ 145,840,376	$ 109,234,127

Time certificates of deposit of $100,000 or more aggregated to $16,255,836 and $14,162,127 at December 31, 2007 and 2006, respectively.

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

Years ending December 31,	2008	$ 68,024,968
	2009	7,089,986
	2010	1,922,343
	2011	186,648
	2012	186,759
		$ 77,410,704

NOTE 7 – LINES OF CREDIT AND BORROWED FUNDS

Federal Home Loan Bank advances – The Bank has notes payable to the FHLB of Seattle in the aggregate amount of $15,360,955 and $8,201,228 at December 31, 2007 and 2006, respectively. The notes carry interest rates ranging from 4.76% to 6.82%, with a weighted average interest rate of 5.13% at December 31, 2007. Principal and interest payments are made monthly and the notes mature beginning in 2008 through 2024.

The Bank is required to maintain a minimum stock investment in the FHLB as a member. The minimum requirement was $615,300 and $422,800 for December 31, 2007 and 2006, respectively. The Bank also has a line of credit with the FHLB available to purchase federal funds equal to 25% of total assets or approximately $33 million, net of $15,360,955 in notes payable and $2,500,000 in federal funds purchased outstanding at December 31, 2007.

NOTE 7 – LINES OF CREDIT AND BORROWED FUNDS – (continued)

Correspondent bank lines of credit – At December 31, 2007, the Bank had available a $5,000,000 short-term federal funds line of credit and $4,500,000 in lines of credit with correspondent banks available to support the issuance of letters of credit. These lines are unsecured. As of December 31, 2007, no letters of credit were outstanding under these correspondent bank lines.

Future scheduled principal payments due on notes payable and junior subordinated debentures are as follows:

Years ending December 31,	2008	$ 8,082,624
	2009	2,071,017
	2010	4,562,761
	2011	62,761
	2012	62,761
	Thereafter	6,705,031
		$ 21,546,955

NOTE 8 – TRUST PREFERRED SECURITIES

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.

NOTE 8 – TRUST PREFERRED SECURITIES – (continued)

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

Trust Name	Issue Date	Issued Amount	Rate	Maturity Date	Redemption Date
Albina Statutory Trust-I	March 2003	$ 4,124,000	6.40% (1)	March 2033	March 2008
Albina Statutory Trust-II	May 2004	2,062,000	8.14% (2)	May 2034	March 2010
		$ 6,186,000			

(1) Fixed interest at this rate through March 2008, after which time the rate adjusts every three months to the applicable three-month London Interbank Offering Rate (LIBOR) plus 3.15%

(2) Variable at this rate on December 31, 2007, 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, 2007 and 2006, all contractual interest payments to the trusts and all contractual dividend payments by the trusts were current.

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, 2007, 2006, and 2005, interest expense on the debentures and the corresponding dividends paid on the Trust Preferred Securities totaled $438,866, $430,756, and $357,772, respectively.

NOTE 9 – COMMON STOCK ISSUANCES

In 2007, Albina issued 542 shares of Class A common stock at an average price of $11.68 pursuant to its Employee Stock Purchase Plan, receiving proceeds of $6,332. Also in 2007, 43,616 stock options were exercised for Class A common stock, with Albina receiving proceeds of $210,265.

NOTE 9 – COMMON STOCK ISSUANCES – (continued)

In 2006, Albina issued 416,666 shares of Class A common stock and raised $4,484,315, under an offering of securities registered within Regulation A of the Securities Act of 1933, at an offering price of $12.00 per share. Albina issued 573 shares of class A common stock (147 shares prior to the May stock dividend and 426 shares subsequent to the dividend), receiving proceeds of $5,881, pursuant to its Employee Stock Purchase Plan. Also in 2006, 10,250 stock options (all prior to the stock dividend) were exercised for Class A common stock, with Albina receiving proceeds of $73,275.

In 2005, Albina issued 767 shares of Class A common stock at an average price of $11.16 pursuant to its Employee Stock Purchase Plan, receiving proceeds of $8,563. Also in 2005, 6,417 stock options were exercised for Class A common stock, with Albina receiving proceeds of $54,383.

NOTE 10 – STOCKHOLDERS' EQUITY

Albina's capital stock is comprised of the following preferred and common shares:

	2007	2006
Preferred stock, no par value, 1,000,000 shares authorized, 24,818 shares issued and outstanding at December 31, 2007 and 2006, respectively:		
Series A 1%, minimum $1 per share liquidation preference, noncumulative, 20,000 shares designated, 16,300 shares issued and outstanding at December 31, 2007 and 2006	$ 1,630,000	$ 1,630,000
Series B 1%, minimum $1 per share liquidation preference, noncumulative, 10,000 shares designated, 8,518 shares issued and outstanding at December 31, 2007 and 2006	851,800	851,800
Preferred stock, at liquidation value	$ 2,481,800	$ 2,481,800

NOTE 10 – STOCKHOLDERS' EQUITY – (continued)

	2007	2006
Common stock:		
Class A, without par value, 3,000,000 shares authorized, 980,916 and 936,758 shares issued and outstanding at December 31, 2007 and 2006, respectively	$ 8,003,865	$ 7,634,367
Class B, without par value, 1,000,000 shares authorized, 86,966 and 86,966 shares issued and outstanding at December 31, 2007 and 2006, respectively	538,233	538,233
Total common stock	$ 8,542,098	$ 8,172,600

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.

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.

NOTE 10 – STOCKHOLDERS' EQUITY – (continued)

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.

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 11 – INCOME TAXES

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

	2007	2006	2005
Current tax:			
Federal	$ 117,314	$ (535,405)	$ 228,500
State	26,837	(111,122)	23,049
	144,151	(646,527)	251,549
Deferred tax:			
Federal	145,833	478,077	(1,052)
State	30,267	99,223	(218)
	176,100	577,300	(1,270)
Income tax provision (benefit)	$ 320,251	$ (69,227)	$ 250,279

NOTE 11 – 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:

	2007	2006
Deferred tax assets:		
Net operating loss	$ -	$ 200,600
Allowance for loan losses	439,700	349,700
Deferred compensation	161,700	110,100
Amortization of intangible assets	37,100	35,600
Unrealized loss on investment securities	-	10,180
Charitable contributions	-	18,300
Stock-based compensation	13,200	5,400
Other	41,600	71,400
Total deferred tax assets	693,300	801,280
Deferred tax liabilities:		
Accumulated depreciation	(3,200)	(110,900)
Prepaid expenses	(31,500)	(40,600)
Federal Home Loan Bank stock dividend	(22,000)	(22,000)
Bank Enterprise Award basis adjustment	(1,265,000)	(1,060,600)
Unrealized gain on investment securities	(11,000)	-
Other	(8,800)	(44,800)
Total deferred tax liabilities	(1,341,500)	(1,278,900)
Net deferred tax liabilities	$ (648,200)	$ (477,620)

Management believes, based upon Albina's historical performance, that the deferred tax assets will be realized in the normal course of operations and, accordingly, management has not reduced the deferred tax assets by a valuation allowance.

The Company had no unrecognized tax benefits at January 1, 2007 and at December 31, 2007.

During the years ended December 31, 2007, 2006, and 2005, the Company recognized no interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and Oregon. The Company is no longer subject to U.S. or Oregon state examinations by tax authorities for years before 2004.

NOTE 12 – 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.

A summary of the notional amounts of the Bank's financial instruments with off-balance sheet risk at December 31, 2007 and 2006, respectively, are as follows:

	2007	2006
Commitments to extend credit	$ 31,525,992	$ 16,997,402
Letters of credit	-	588,441
Interest rate swap	1,583,510	1,583,510
	$ 33,109,502	$ 19,169,353

NOTE 13 – 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 3. 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 14 – COMMITMENTS AND CONTINGENCIES

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

Years ending December 31,	2008	$	134,357
	2009		127,195
	2010		64,102
	2011		38,038
		$	363,692

The leases expire during periods ranging from 2009 through 2011, and each carries options which would allow Albina to lease the properties with extended expirations ranging from 2009 through 2026.

Rental expense for all operating leases was $257,643, $166,211, and $164,111 for the years ended December 31, 2007, 2006, and 2005, 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 15 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, and principal stockholders of the Bank, and the companies with which they are associated, are customers of and have had banking transactions with the Bank in the ordinary course of business, and the Bank 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 the Bank, do not involve more than the normal risk of collectibility or present any other unfavorable features.

NOTE 15 – TRANSACTIONS WITH RELATED PARTIES – (continued)

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

	2007	2006
BALANCE, beginning of year	$ 6,239,958	$ 6,264,101
Additions	819,990	3,243,979
Repayments	(2,600,901)	(3,268,122)
BALANCE, end of year	$ 4,459,047	$ 6,239,958

At December 31, 2007 and 2006, deposits held for related parties were $1,755,581 and $3,951,490, respectively.

NOTE 16 – EARNINGS PER SHARE OF COMMON STOCK

The following table illustrates the computations of basic and diluted earnings per share of common stock for the years ended December 31, 2007, 2006, and 2005, restated for stock dividends. The 2007 computation of diluted earnings per share excludes 28,500 stock options because their effect on the computation would be anti-dilutive.

	2007	2006	2005
Basic earnings per share:			
Income available to common stockholders	$ 704,331	$ 498,398	$ 672,088
Weighted average common shares outstanding	1,047,800	615,533	586,287
Basic earnings per share of common stock	$ 0.67	$ 0.81	$ 1.15

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

	2007	2006	2005
Diluted earnings per share:			
Income available to common stockholders	$ 704,331	$ 498,398	$ 672,088
Weighted average common shares outstanding	1,047,800	615,533	586,287
Net effect of dilutive stock options	1	37,669	30,995
Weighted average common shares outstanding and common stock equivalents	1,047,801	653,202	617,282
Diluted earnings per share of common stock	$ 0.67	$ 0.76	$ 1.09

NOTE 17 – 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, 100,000 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.

Under APB No. 25, for all options originally granted by the Company, no compensation cost was recognized related to stock options during the year ended December 31, 2005. Under SFAS 123R, compensation costs of $56,949 and $18,482 were recognized as salaries and benefits expense for the years ended December 31, 2007 and 2006, respectively.

NOTE 17 – STOCK-BASED COMPENSATION – (continued)

The following table summarizes information about stock option activity for the year ended December 31, 2007.

	Options Available for Grant	Options Outstanding	Weighted - Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
BALANCE, December 31, 2006	132,000	89,609	$ 6.38	6.09	
Options forfeited under 2005 Plan	3,250	(3,250)	$ 10.78		
Options granted	(27,000)	27,000	$ 12.43		
Options exercised	-	(43,616)	$ 4.82		
BALANCE, December 31, 2007	108,250	69,743	$ 9.49	7.23	$ 113,153
Options exercisable at December 31, 2007		39,243	$ 6.97	5.81	$ 113,153

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, 2007, 2006, and 2005, was approximately $271,300, $152,200, and $105,100, respectively. As of December 31, 2007, there was $97,000 of total unrecognized compensation cost related to non-vested stock options which is expected to be recognized over a weighted-average period of approximately 2.5 years.

For the years ended December 31, 2007 and 2006, the Company received income tax benefits of $94,005 and $47,915, respectively, related to the exercise of non-qualified employee stock options and disqualifying dispositions from the exercise of incentive stock options. For the year ended December 31, 2005, no tax benefit related to the exercise of non-qualified employee stock options was received by the Company.

Information regarding the number, weighted-average exercise price, and weighted-average remaining contractual life of options by range of exercise price at December 31, 2007, is as follows:

Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Options Currently Exercisable	Weighted Average Exercise Price
$5.45 – $6.97	36,243	5.60	$ 6.33	36,243	$ 6.33
$10.25 – $14.67	33,500	9.00	$ 12.91	3,000	$ 14.67
	69,743	7.23	$ 9.49	39,243	$ 6.97

NOTE 18 – EMPLOYEE BENEFIT PLANS AND AGREEMENTS

During 2003, Albina implemented 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. However, had Albina applied the fair value-based method of determining compensation expense as defined in SFAS No. 123, the plan would have been considered compensatory, requiring Albina to recognize a charge to earnings for compensation expense related to shares purchased at a discount during 2005.

During the years ended December 31, 2007, 2006, and 2005, employees were issued 542, 573, and 767 shares, respectively, of Albina Community Bancorp Class A common stock pursuant to the ESPP. As of December 31, 2007 and 2006, Albina had a liability of $1,084 and $2,389, respectively, representing funds withheld 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 ending December 31, 2007, 2006, and 2005, Albina contributed $34,711, $43,086, and $45,000, respectively, to the plan.

Albina has entered into employment agreements ranging from two to four years with certain executive officers of the Bank. 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, the Bank would be required to make a lump sum payment of approximately $259,000.

Albina has purchased bank-owned life insurance (BOLI) to support life insurance and salary continuation benefits for certain key employees. As of December 31, 2007 and 2006, Albina recognized a salary continuation benefit obligation of $421,117 and $286,678, 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, 2007 and 2006, the cash surrender value of BOLI was $3,885,885 and $2,883,899, respectively.

NOTE 19 – 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, 2007 and 2006, 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 well-capitalized under the regulatory framework for prompt corrective action. 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.

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
December 31, 2007						
(dollars in thousands)						
Total capital to risk-weighted assets:						
Albina Community Bancorp	$21,020	12.6%	$13,355	≥8%	N/A	N/A
Albina Community Bank	$18,124	11.0%	$13,177	≥8%	$16,471	≥10%
Tier 1 capital to risk-weighted assets:						
Albina Community Bancorp	$17,952	10.8%	$ 6,677	≥4%	N/A	N/A
Albina Community Bank	$16,503	10.0%	$ 6,589	≥4%	$ 9,883	≥6%
Tier 1 capital to average assets:						
Albina Community Bancorp	$17,952	10.1%	$ 7,105	≥4%	N/A	N/A
Albina Community Bank	$16,503	10.0%	$ 7,004	≥4%	$ 8,755	≥5%

NOTE 19 – REGULATORY MATTERS – (continued)

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2006						
(dollars in thousands)						
Total capital to risk-weighted assets:						
Albina Community Bancorp	$19,651	17.5%	$ 9,476	≥8%	N/A	N/A
Albina Community Bank	$16,472	14.7%	$ 8,986	≥8%	$11,232	≥10%
Tier 1 capital to risk-weighted assets:						
Albina Community Bancorp	$16,521	14.7%	$ 4,738	≥4%	N/A	N/A
Albina Community Bank	$15,211	13.5%	$ 4,493	≥4%	$ 6,739	≥6%
Tier 1 capital to average assets:						
Albina Community Bancorp	$16,521	13.3%	$ 4,951	≥4%	N/A	N/A
Albina Community Bank	$15,211	11.9%	$ 5,096	≥4%	$ 6,370	≥5%

NOTE 20 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table estimates fair values and the related carrying values of Albina's financial instruments at December 31, 2007 and 2006 (in thousands):

	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	$ 2,022	$ 2,022	$ 2,534	$ 2,534
Interest-bearing deposits with other banks	$ 4,307	$ 4,307	$ 2,037	$ 2,037
Federal funds sold	$ 4,468	$ 4,468	$ 1,014	$ 1,014
Time deposits with other banks	$ 5,625	$ 5,726	$ 3,098	$ 3,098
Investment securities, at fair value	$ 10,733	$ 10,733	$ 22,150	$ 22,150
Federal Home Loan Bank stock, at cost	$ 615	$ 615	$ 423	$ 423
Loans, net of allowance for loan losses and unearned income	$ 146,057	$ 144,404	$ 95,594	$ 95,464
Financial liabilities:				
Demand and savings deposits and money market accounts	$ 69,048	$ 68,170	$ 55,107	$ 55,107
Time certificates of deposit	$ 77,410	$ 77,356	$ 54,127	$ 53,978
Federal funds purchased	$ 2,500	$ 2,500	$ -	$ -
Notes payable	$ 15,361	$ 15,606	$ 8,201	$ 8,116
Junior subordinated debentures	$ 6,186	$ 6,181	$ 6,186	$ 6,257

NOTE 20 – FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

While estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were the Bank to dispose of such items at December 31, 2007 and 2006, the estimated fair values would necessarily be achieved at those dates, since market values may differ depending on various circumstances. The estimated fair values at December 31, 2007 and 2006, should not necessarily be relied upon at subsequent dates.

In addition, other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also nonfinancial instruments typically not recognized in the consolidated 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 earnings potential of loan servicing rights, the trained work force, customer goodwill, and similar items.

NOTE 21 – PARENT COMPANY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS

	December 31,	
	2007	2006
	(in thousands)	
ASSETS		
Cash and cash equivalents	$ 619	$ 995
Premises and equipment, net	2,309	2,339
Other assets	68	72
Investment in subsidiary bank	16,487	15,212
Investment in unconsolidated subsidiary trusts	186	186
TOTAL ASSETS	$ 19,669	$ 18,804

NOTE 21 – PARENT COMPANY FINANCIAL INFORMATION – (continued)

CONDENSED BALANCE SHEETS

	December 31, 2007	December 31, 2006
	(in thousands)	
LIABILITIES		
Junior subordinated debentures held by trusts that issued guaranteed capital debt securities	$ 6,186	$ 6,186
Other liabilities	35	241
Total liabilities	6,221	6,427
STOCKHOLDERS' EQUITY	13,448	12,377
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 19,669	$ 18,804

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31, 2007	2006	2005
	(in thousands)		
INCOME			
Dividend income	$ -	$ 210	$ 200
Equity in undistributed earnings of subsidiaries	1,125	627	796
Other income	34	141	90
Total income	1,159	978	1,086
EXPENSES			
Interest	439	431	392
Administrative and other	16	49	22
Total expenses	455	480	414
NET INCOME	$ 704	$ 498	$ 672

NOTE 21 – PARENT COMPANY FINANCIAL INFORMATION – (continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2007	2006	2005
		(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 704	$ 498	$ 672
Adjustments to reconcile net income to net cash from operating activities:			
Equity in undistributed earnings of subsidiaries	(1,125)	(627)	(796)
Depreciation expense	29	29	30
Net change in other assets and liabilities	(278)	458	(47)
Net cash from operating activities	(670)	358	(141)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in subsidiaries	-	(4,100)	-
Net cash from investing activities	-	(4,100)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Excess tax beneift from options exercised	77	48	-
Net proceeds from common stock issuances, net of cash paid for fractional shares	217	4,562	63
Net cash from financing activities	294	4,610	63
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(376)	868	(78)
CASH AND CASH EQUIVALENTS, beginning of year	995	127	205
CASH AND CASH EQUIVALENTS, end of year	$ 619	$ 995	$ 127