Independent Auditor's Report
and Financial Statements for

CenterPointe Community Bank

December 31, 2010 and 2009

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
CenterPointe Community Bank

We have audited the accompanying balance sheets of CenterPointe Community Bank as of December 31, 2010 and 2009, and the related statements of operations, changes in stockholders' equity, comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of CenterPointe Community Bank's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CenterPointe Community Bank as of December 31, 2010 and 2009, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
March 1, 2011

	December 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	$ 2,642,316	$ 2,380,335
Interest-bearing deposits with other banks	400	1,000
Federal funds sold	5,530,000	9,295,000
Short-term time certificates of deposit with other banks	-	1,449,000
Cash and cash equivalents	8,172,716	13,125,335
Time certificates of deposit with other banks	2,494,000	-
Investment securities available-for-sale, at fair value	5,488,382	5,235,033
Federal Home Loan Bank stock, at cost	45,000	45,000
Loans receivable, net of unearned income and allowance for loan losses	52,636,049	39,740,998
Premises and equipment, net of accumulated depreciation and amortization	1,359,964	1,605,431
Accrued interest receivable	256,947	225,952
Other assets	656,971	533,335
TOTAL ASSETS	$ 71,110,029	$ 60,511,084
LIABILITIES		
Noninterest-bearing demand deposits	$ 16,714,071	$ 16,870,771
NOW and money market accounts	26,505,431	20,069,654
Savings accounts	5,198,655	908,077
Time certificates of deposit	15,390,137	16,957,825
Total deposits	63,808,294	54,806,327
Accrued interest payable and other liabilities	647,950	221,947
Total liabilities	64,456,244	55,028,274
COMMITMENTS AND CONTINGENCIES (Notes 14 and 15)		
STOCKHOLDERS' EQUITY		
Common stock, no par value; 12,000,000 shares authorized; 1,139,464 and 1,085,685 shares issued and outstanding as of December 31, 2010 and 2009, respectively	11,158,966	10,637,747
Accumulated deficit	(4,535,708)	(5,127,109)
Accumulated other comprehensive income (loss), net of taxes	30,527	(27,828)
Total stockholders' equity	6,653,785	5,482,810
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 71,110,029	$ 60,511,084

See accompanying notes.

CENTERPOINTE COMMUNITY BANK
STATEMENTS OF OPERATIONS

	Year Ended December 31, 2010	2009
INTEREST INCOME		
Interest and fees on loans	$ 3,571,435	$ 2,089,764
Interest on investment securities available-for-sale	205,717	292,945
Interest on federal funds sold, and interest-bearing deposits and time deposits with other banks	47,419	10,483
Total interest income	3,824,571	2,393,192
INTEREST EXPENSE		
Interest on interest-bearing deposits	589,638	657,601
Interest on federal funds purchased	196	2,017
Total interest expense	589,834	659,618
Net interest income before provision for loan losses	3,234,737	1,733,574
PROVISION FOR LOAN LOSSES	163,000	226,000
Net interest income after provision for loan losses	3,071,737	1,507,574
NONINTEREST INCOME		
Total other-than-temporary impairment on investment securities	-	(487,154)
Portion of loss on investment securities recognized in other comprehensive income	-	251,654
Net impairment losses recognized in earnings on investment securities	-	(235,500)
Service charges and fees	83,619	50,212
Loss on sale of loan	-	(22,185)
Gains on sales of investment securities	82,673	1,437
Total noninterest income (loss)	166,292	(206,036)
NONINTEREST EXPENSE		
Salaries and employee benefits	1,496,438	1,565,800
Data processing	356,580	312,098
Depreciation	291,729	285,140
Occupancy expense	237,891	244,026
Regulatory assessment	127,282	87,092
Professional fees	109,483	76,568
Advertising and promotional expenses	72,321	72,640
Other noninterest expenses	254,904	260,683
Total noninterest expense	2,946,628	2,904,047
Income (loss) before income tax benefit	291,401	(1,602,509)
INCOME TAX BENEFIT	(300,000)	-
NET INCOME (LOSS)	$ 591,401	$ (1,602,509)
EARNINGS (LOSS) PER SHARE OF COMMON STOCK		
Basic and diluted	$ 0.52	$ (1.48)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING DURING THE PERIOD		
Basic and diluted	1,126,507	1,085,685

See accompanying notes.

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCE, December 31, 2008	1,085,685	$ 10,614,997	$ (3,524,600)	$ (105,564)	$ 6,984,833
Stock-based compensation expense	-	22,750	-	-	22,750
Other comprehensive income, net of tax	-	-	-	77,736	77,736
Net loss	-	-	(1,602,509)	-	(1,602,509)
BALANCE, December 31, 2009	1,085,685	10,637,747	(5,127,109)	(27,828)	5,482,810
Restricted stock awards vesting	2,900	-	-	-	-
Stock-based compensation expense	-	34,340	-	-	34,340
Stock issued pursuant to private placement, net of offering costs	50,879	486,879	-	-	486,879
Other comprehensive income, net of tax	-	-	-	58,355	58,355
Net income	-	-	591,401	-	591,401
BALANCE, December 31, 2010	1,139,464	$ 11,158,966	$ (4,535,708)	$ 30,527	$ 6,653,785

STATEMENTS OF CHANGES IN COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31, 2010	2009
Net income (loss)	$ 591,401	$ (1,602,509)
Other comprehensive income:		
Unrealized holding gains (losses) on investment securities available-for-sale, net of tax	107,959	(62,702)
Reclassification adjustment for realized gains on securities included in net income (loss), net of tax	(49,604)	(862)
Reclassification adjustment for other-than-temporary impairment included in earnings, net of tax	-	141,300
Total other comprehensive income, net of tax	58,355	77,736
COMPREHENSIVE INCOME (LOSS)	$ 649,756	$ (1,524,773)

See accompanying notes.

CENTERPOINTE COMMUNITY BANK
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 591,401	$ (1,602,509)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Depreciation and amortization	291,729	285,140
Provision for loan losses	163,000	226,000
Net accretion of discounts and premiums on investment securities available-for-sale	79,798	8,226
Other-than-temporary impairment on investment securities available-for-sale	-	235,500
Gain on sale of investment securities available-for-sale	(82,673)	(1,437)
Loss on sale of loan	-	22,185
Stock-based compensation	34,340	22,750
Deferred taxes	117,176	(715,609)
Change in deferred tax asset valuation allowance	(417,176)	715,609
Increase (decrease) in cash due to changes in certain assets and liabilities:		
Accrued interest receivable and other assets	101,660	(290,601)
Accrued interest payable and other liabilities	(73,997)	(202,718)
Net cash from operating activities	805,258	(1,297,464)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities available-for-sale	(3,772,324)	(2,497,828)
Proceeds from maturity of investment securities available-for-sale	2,551,624	6,526,453
Proceeds from sales of investment securities available-for-sale	1,572,290	698,700
Purchase of Federal Home Loan Bank stock	-	(45,000)
Maturities of certificates of deposit with other banks	3,444,000	1,000,000
Purchase of certificates of deposit with other banks	(5,938,000)	-
Proceeds from sale of loan	-	718,801
Net originations of loans receivable	(13,058,051)	(18,355,042)
Purchase of premises and equipment	(46,262)	(40,421)
Net cash from investing activities	(15,246,723)	(11,994,337)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in deposits	9,001,967	28,634,569
Net change in federal funds purchased	-	(2,500,000)
Proceeds from private placement common stock offering, net of direct offering costs	486,879	-
Net cash from financing activities	9,488,846	26,134,569
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,952,619)	12,842,768
CASH AND CASH EQUIVALENTS, beginning of period	13,125,335	282,567
CASH AND CASH EQUIVALENTS, end of period	$ 8,172,716	$ 13,125,335

See accompanying notes.

	Year Ended December 31,	
	2010	2009
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid in cash	$ 657,397	$ 652,921
Income taxes paid in cash	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (loss) on investment securities available-for-sale, net of taxes	$ 107,959	$ (62,702)
Purchase of available-for-sale security not yet settled at year-end	$ 500,000	$ -
Exchange of corporate bonds for corporate bonds and stock	$ -	$ 817,000

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – On February 18, 2007, CenterPointe Community Bank (the Bank) was incorporated and received State of Oregon, Department of Consumer and Business Services (State), approval to commence the sale of common stock in the Bank. On this same date, the Bank also received regulatory approval from the Federal Deposit Insurance Corporation (FDIC) and the State to provide banking services in the State of Oregon.

The Bank opened for business on September 4, 2007, with an office in Hood River, Oregon and opened its second branch in The Dalles, Oregon in July 2008. The Bank provides banking services to small businesses, professionals, farmers, and consumers primarily in the Columbia River Gorge of Oregon and Washington. As a state-chartered institution, the Bank is subject to regulation by the State of Oregon, Department of Consumer and Business Services and the FDIC.

Method of accounting and use of estimates – The financial statements have been prepared in accordance with generally accepted accounting principles and reporting practices applicable to the banking industry. In preparing the 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 balance sheet, and revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates or assumptions made by management relate to the adequacy of the allowance for loan losses, the fair value of available-for-sale investment securities, and the useful lives and methods of depreciating premises and equipment.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from banks, interest-bearing deposits with correspondent financial institutions with original maturities of 90 days or less, and federal funds sold. Federal funds sold represent excess cash funds that are generally invested on a daily basis. At times, balances may exceed the FDIC insured limit. Management believes that risk with respect to these balances is minimal due to the credit quality of correspondent institutions. The Bank has not experienced any losses in such accounts. At December 31, 2010, the Bank was not required to maintain reserves with the Federal Reserve Bank or any other financial institution.

Investment securities – The Bank is required to specifically identify its investment securities as “held-to-maturity,” “available-for-sale,” or “trading accounts.” Management has designated all investment securities held at December 31, 2010 and 2009, as “available-for-sale.”

Securities are classified as available-for-sale if the Bank intends to hold those debt securities for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors such as: (1) changes in market interest rates and related changes in the prepayment risk, (2) needs for liquidity, (3) changes in the availability of and the yield on alternative instruments, and (4) changes in funding sources and terms.

Unrealized holding gains and losses, net of tax, on available-for-sale securities are reported as other comprehensive income and carried as accumulated comprehensive income or loss within stockholders’ equity until realized. Fair values for these investment securities are based on quoted market prices. Realized gains and losses are determined using the specific-identification method and included in earnings. Premiums and discounts arising from the purchase of investment securities are recognized in interest income using the effective interest method. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

Management reviews investment securities on an ongoing basis for the presence of other-than-temporary impairment (OTTI) or permanent impairment, taking into consideration current market conditions; fair value in relationship to cost; extent and nature of the change in fair value; issuer rating changes and trends; whether management intends to sell a security or if it is likely that the Bank will be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity; and other factors. For debt securities, if management intends to sell the security or it is likely that the Bank will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If management does not intend to sell the security and it is not likely that the Bank will be required to sell the security, but management does not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings.

The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors (i.e., the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income (loss)). Impairment losses related to all other factors are presented as separate categories within other comprehensive income.

Federal Home Loan Bank stock – The Bank holds an investment in Federal Home Loan Bank of Seattle (FHLB) stock as a restricted equity security carried at par 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. Stock redemptions are made at the discretion of the FHLB. In 2009, the Seattle FHLB announced that it would report a risk-based capital deficiency under the regulations of the Federal Housing Finance Agency (the FHFA), its primary regulator. As a result, the Seattle FHLB has stopped paying a dividend and stated that it would suspend the repurchase and redemption of outstanding common stock until its retained earnings deficiency was reclaimed.

Stock in the Seattle FHLB is classified as restricted stock and is evaluated for impairment at each reporting date. The determination of whether the investment is impaired is based on the Bank's assessment of the ultimate recoverability of par value rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability is influenced by criteria such as (1) the significance of the decline in the net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of the legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB, and (4) the liquidity position of the FHLB. The Bank has concluded that the FHLB stock investment is not impaired as of December 31, 2010.

Loans receivable, net of unearned income and allowance for loan losses – 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.

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

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. 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 their examinations.

A loan is considered to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (both interest and principal) according to the contractual terms of the loan agreement. Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. As a practical expedient, fair value may be measured based on a loan's observable market price or the underlying collateral securing the loan. Collateral may be real estate or business assets including equipment. The value of collateral is determined based on independent appraisals. 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 the accrual of interest is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

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

Premises and equipment – Furniture, equipment, leasehold improvements, and computer software and hardware 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 15 years. Amortization of leasehold improvements is computed using the straight-line method over the related lease term or life of the assets, whichever is shorter. The costs of maintenance and repairs are expensed as they are incurred, while major expenditures for renewals and betterments are capitalized. When property or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains or losses are included in income.

Advertising and promotional expenses – The Bank expenses advertising and promotional costs as they are incurred.

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

Stock-based compensation – The Bank applies fair value recognition provisions in accounting for stock-based compensation. Under this accounting standard, share-based awards that do not require future service are expensed immediately. Share-based employee awards that require future service are amortized over the requisite service period, net of forfeitures of such awards. The Bank recognizes stock-based compensation expense on a straight-line basis.

The fair value of restricted stock is measured based on the market price of the Bank's stock on the date of grant.

The fair value of stock options granted is estimated based on several assumptions. Expected volatility is based on the historical volatility of the price of the Bank's stock for a period consistent with the expected life of the options and considers historical stock volatility within the banking industry, since the Bank has not been in existence long enough to generate its own volatility factors. The Bank uses historical data to estimate option exercise and employee termination rates within the valuation model. The expected term of options represents the period of time that stock options are expected to be outstanding and is estimated based on historical exercise and forfeiture activity. Expected dividends are estimated to be zero due to the Bank's historical practice of not paying dividends. The risk-free rate of return for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

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

The Bank adopted the provisions of FASB Accounting Standards Codification (ASC) 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on January 1, 2009, which had no financial statement impact to the Bank. The Bank recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Bank recognizes interest and penalties related to income tax matters in income tax expense. The Bank does not anticipate that the amount of unrecognized tax benefits will significantly increase or decrease in the next 12 months. There were no interest and penalties accrued for the year ended December 31, 2010. The Bank files U.S. federal and Oregon state income tax returns, which are subject to examination by the taxing authorities for years 2007 and later.

Off-balance sheet financial instruments – The Bank holds no derivative financial instruments. However, in the ordinary course of business, the Bank enters into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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

Fair value of assets and liabilities – Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The Bank determines fair value based upon quoted prices when available or through the use of alternative approaches, such as matrix or model pricing, when market quotes are not readily accessible or available. The valuation techniques used are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Bank's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available. The Bank's own data used to develop unobservable inputs shall be adjusted for market consideration when reasonably available.

The Bank used the following methods and significant assumptions to estimate fair value for certain assets measured and carried at fair value on a recurring or non-recurring basis in the financial statements:

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

Reclassification – Certain reclassifications have been made to the 2009 financial statements to conform to current year presentations. There has been no change to prior year's net loss or loss per share as a result of the reclassifications.

Subsequent events – Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. The Bank recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Bank's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before financial statements are available to be issued. The Bank has evaluated subsequent events through March 1, 2011, which is the date the financial statements were issued.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities at December 31, 2010 and 2009, are summarized as follows:

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency-backed collateralized mortgage obligations:				
GNMA issued	$ 933,081	$ 6,172	$ (3)	$ 939,250
FHLMC issued	459,230	4,356	-	463,586
Agency-backed asset-backed securities:				
FHLMC issued, collateralized by second mortgages	699,240	-	(27,834)	671,406
Agency-backed structured notes:				
FNMA issued	1,499,430	1,145	(1,960)	1,498,615
FHLB issued	1,544,508	65,419	(630)	1,609,297
Corporate debt obligations				
Financial institutions – rated AAA	303,257	2,971	-	306,228
	$ 5,438,746	$ 80,063	$ (30,427)	$ 5,488,382

	2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Agency-backed collateralized mortgage obligations:				
GNMA issued	$ 653,886	$ 21,039	$ (4)	$ 674,921
FHLMC issued	639,713	15,558	-	655,271
Agency-backed mortgage-backed securities:				
FHLMC issued	265,281	8,283	-	273,564
Agency-backed structured notes:				
FNMA issued	300,000	1,104		301,104
FHLB issued	1,633,764	51,731	(312)	1,685,183
Corporate debt obligations:				
Financial institutions – rated CC	305,670	-	(2,901)	302,769
Financial institutions – not rated	636,000	8,730	-	644,730
Private label collateralized mortgage obligation	672,146	-	(146,655)	525,491
Corporate common stock				
Financial institutions	181,000	-	(9,000)	172,000
	$ 5,287,460	$ 106,445	$ (158,872)	$ 5,235,033

NOTE 2 – INVESTMENT SECURITIES – (continued)

As described in the following tables, at December 31, 2010, the Bank had four investment securities in a loss position and at December 31, 2009, the Bank had five investment securities in a loss position, of which one investment security had been in a gross loss position for over one year. The Bank evaluated the unrealized losses and determined that the declines in value at December 31, 2010 and 2009 were temporary and related to the change in market interest rates since the date of purchase.

	2010					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency-backed collateralized mortgage obligations	$ 7,325	$ (3)	$ -	$ -	$ 7,325	$ (3)
Agency-backed asset backed securities	671,406	(27,834)	-	-	671,406	(27,834)
Agency-backed structured notes	996,838	(2,590)	-	-	996,838	(2,590)
	$ 1,675,569	$ (30,427)	$ -	$ -	$ 1,675,569	$ (30,427)

	2009					
	Less Than 12 Months		12 Months or Greater		Totals	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Agency-backed collateralized mortgage obligations	$ 28,020	$ (4)	$ -	$ -	$ 28,020	$ (4)
Agency-backed structured notes	349,688	(312)	-	-	349,688	(312)
Private label collateralized mortgage obligation	-	-	525,492	(146,655)	525,492	(146,655)
Corporate debt obligations	302,769	(2,901)	-	-	302,769	(2,901)
Corporate common stock	172,000	(9,000)	-	-	172,000	(9,000)
	$ 852,477	$ (12,217)	$ 525,492	$ (146,655)	$ 1,377,969	$ (158,872)

NOTE 2 – INVESTMENT SECURITIES – (continued)

The amortized cost and estimated fair value of investment securities at December 31, 2010, by contractual maturity are shown below. Actual settlements 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 in one year or less	$ 2,295,950	$ 2,303,522
Due after one year through five years	2,478,717	2,520,597
Due after five years through ten years	164,079	164,263
Due ten years and beyond	500,000	500,000
	$ 5,438,746	$ 5,488,382

As of December 31, 2010, the Bank had no investment securities pledged to secure public or other deposits, as required by law or for any other purpose. There were $82,673 and $1,437 in realized gains on sales of securities for the years ended December 31, 2010 and 2009, respectively.

During 2009, the Bank determined that other-than-temporary impairment existed on an investment in corporate debentures due to the bankruptcy of the guarantor entity. In accordance with the bankruptcy settlement, the Bank's investment was retired and the Bank was issued new bonds and stock in the reorganized entity in an amount less than the Bank's original investment. As a result of this deficiency, the Bank recognized other-than-temporary impairment for the year ended December 31, 2009, on corporate securities in the amount of $183,000. Also during 2009, the Bank determined that other-than-temporary impairment existed on an investment in a collateralized mortgage obligation security due to an estimated credit loss of $52,500.

During 2010, the aforementioned securities were sold. The sale of the corporate securities resulted in an aggregated gain of $141,000. The sale of the private label collateralized mortgage obligation resulted in a loss of $68,000.

NOTE 3 – LOANS

The composition of loan balances is summarized as follows:

	2010	2009
Commercial real estate loans	$ 25,465,986	$ 16,816,469
Agriculture loans	10,660,902	10,984,820
Commercial loans	7,719,777	5,636,081
Residential real estate loans	5,835,245	3,751,904
Construction loans	3,831,747	2,501,464
Consumer loans	188,426	863,220
Overdrafts	1,524	1,877
Total loans	53,703,607	40,555,835
Less allowance for loan losses	(636,130)	(473,855)
Less unearned income	(431,428)	(340,982)
Loans receivable, net of unearned income and allowance for loan losses	$ 52,636,049	$ 39,740,998

NOTE 4 – ALLOWANCE FOR LOAN LOSSES

During 2010, the Bank adopted the disclosure provisions of Financial Accounting Standards Board Accounting Standards Update 2010-20 resulting in additional credit quality disclosures at December 31, 2010. Comparative 2009 disclosures have been provided on a summary basis.

The following table displays the activity in the allowance for loan losses by significant segments of the loan portfolio during the year ended December 31, 2010 and summarized activity in the allowance for loan losses for the year ended December 31, 2009:

	Balance, Beginning of Year	Charge-offs	Recoveries	Provision (Benefit) for Loan Losses	Balance, End of Year
December 31, 2010					
Commercial real estate	$ 137,320	$ -	$ -	$ 158,611	$ 295,931
Agriculture	76,439	-	-	59,958	136,397
Commercial	68,379	-	-	13,467	81,846
Residential real estate	33,957	-	-	32,732	66,689
Construction	99,051	-	-	(52,829)	46,222
Consumer and overdraft	8,112	(1,171)	446	(5,847)	1,540
Unallocated	50,597	-	-	(43,092)	7,505
Total	$ 473,855	$ (1,171)	$ 446	$ 163,000	$ 636,130
December 31, 2009	$ 250,167	$ (2,312)	$ -	$ 226,000	$ 473,855

At December 31, 2010 and 2009, all loans were collectively evaluated for impairment.

Credit quality indicators – The Bank's risk rating methodology assigns risk ratings ranging from 1 to 10, where a higher rating represents higher risk. The 10 risk rating categories can be generally described by the following groupings:

Pass – These loans range from minimal credit risk to lower than average, but still acceptable, credit risk. Primary repayment sources generate satisfactory debt service coverage under normal conditions. Cash flow from recurring sources is expected to continue to produce adequate debt service capacity. There are five categories within the pass definition, but none of the loans rise to the level of Watch.

Watch – Loans are graded as Watch when for various reasons close monitoring is required. This may include loans that have performed satisfactorily, but because of recent events, deteriorating trends, or signs of developing problems require close monitoring. The situation, if not monitored, could develop into potential weaknesses that result in the loan being adversely risk rated.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES – (continued)

Special Mention – A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or the Bank's credit position at some future date. They contain unfavorable characteristics and are generally undesirable. Loans in this category are currently protected but are potentially weak and constitute an undue and unwarranted credit risk, but not to the point of a Substandard classification. A Special Mention loan has potential weaknesses, which if not checked or corrected, weaken the asset or inadequately protect the Bank's position at some future date. Unlike a Substandard credit, there is a reasonable expectation that these temporary issues will be corrected within the normal course of business, rather than a liquidation of assets, and in a reasonable period of time

Substandard – A Substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not necessarily exist in each individual asset classified as Substandard. The likely need to liquidate assets to correct the problem, rather than repayment from successful operations, is the key distinction between Special Mention and Substandard loans.

Doubtful – Loans classified as Doubtful have all the weaknesses inherent in one classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work towards strengthening of the asset, classification as a Loss (and immediate charge-off) is deferred until more exact status may be determined.

Loss – These loans are considered uncollectible and of such little value that their continuance as active assets of the Bank is not warranted. This classification does not mean that the loan has no recovery or salvage value, but rather that it is not practical or desirable to defer writing it off as an asset. While Loss is an active grade in the risk rating system, any loan considered to be in this category is to be charged-off as soon as possible.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES – (continued)

The following tables show credit quality indicators of the loan portfolio as of December 31:

	December 31, 2010				
	Pass	Watch	Special Mention	Substandard	Total
Commercial real estate	$ 25,465,986	$ -	$ -	$ -	$ 25,465,986
Agriculture	6,835,532	2,988,011	-	837,359	10,660,902
Commercial	7,187,372	356,837	-	175,568	7,719,777
Residential real estate	5,835,245	-	-	-	5,835,245
Construction	3,831,747	-	-	-	3,831,747
Consumer	189,950	-	-	-	189,950
Total	$ 49,345,832	$ 3,344,848	$ -	$ 1,012,927	$ 53,703,607

	December 31, 2009				
	Pass	Watch	Special Mention	Substandard	Total
Commercial real estate	$ 16,816,469	$ -	$ -	$ -	$ 16,816,469
Agriculture	10,177,346	-	807,474		10,984,820
Commercial	5,636,081	-	-	-	5,636,081
Residential real estate	3,751,904	-	-	-	3,751,904
Construction	2,151,656	-	349,808	-	2,501,464
Consumer	865,097	-	-	-	865,097
Total	$ 39,398,553	$ -	$ 1,157,282	$ -	$ 40,555,835

As of December 31, 2010, loans totaling $1,138,723 within the Watch and $145,610 within the Substandard risk categories were subject to 90% government agency guarantees.

At December 31, 2010 and 2009, the Bank had no loans with payments past due greater than 29 days. Additionally, there were no loans on non-accrual status or loans considered impaired by management as of December 31, 2010 and 2009, or for the periods then ended.

NOTE 5 – PREMISES AND EQUIPMENT

The classifications of premises and equipment at December 31, 2010 and 2009, are summarized as follows:

	2010	2009
Leasehold improvements	$ 1,428,731	$ 1,428,731
Furniture, fixtures, and equipment	425,832	387,001
Computer software	102,403	102,403
Computer hardware	264,953	257,522
	2,221,919	2,175,657
Less accumulated depreciation and amortization	(861,955)	(570,226)
Premises and equipment, net of accumulated depreciation and amortization	$ 1,359,964	$ 1,605,431

Depreciation and amortization expense was $291,729 and $285,140 for the years ended December 31, 2010 and 2009, respectively.

NOTE 6 – TIME CERTIFICATES OF DEPOSIT

Time certificates of deposit of $100,000 and over aggregated $11,170,296 and $13,058,223 at December 31, 2010 and 2009, respectively. Contractual maturities for all time certificates at December 31, 2010, are as follows:

Years ending December 31,	2011	$ 11,773,990
	2012	2,032,483
	2013	771,388
	2014	242,250
	2015	570,026
		$ 15,390,137

NOTE 7 – LINES OF CREDIT AND OTHER BORROWINGS

The Bank, as a member of the Federal Home Loan Bank (FHLB) of Seattle, has entered into a credit arrangement with the FHLB under which authorized borrowings are collateralized by the Bank's FHLB stock as well as loans or other instruments which may be pledged. The Bank also participates in the Cash Management Advance (CMA) program with the FHLB.

At December 31, 2010 and 2009, the Bank did not have any outstanding notes payable with the FHLB or any outstanding borrowings under the CMA program.

NOTE 7 – LINES OF CREDIT AND OTHER BORROWINGS – (continued)

Maximum borrowings available from the FHLB for notes payable, lines of credit, and the CMA program totaled $4.3 million at December 31, 2010. Available borrowings are subject to eligible collateral being pledged and are reduced by outstanding letters of credit. The Bank did not have any securities pledged as collateral with the FHLB at December 31, 2010.

The Bank also has federal funds line of credit agreements with two financial institutions. Maximum aggregate borrowings available under these lines totaled $4.0 million as of December 31, 2010 and December 31, 2009. The federal funds lines support short-term liquidity and the frequency of its use may be limited by the lending institutions. At December 31, 2010 and December 31, 2009, there were no outstanding borrowings under the federal funds lines of credit agreements.

NOTE 8 – INCOME TAXES

At December 31, 2010 and 2009, the Bank had federal and state net operating loss carryforwards of approximately $4,391,000 and $4,624,000, respectively, and unamortized pre-opening expenses, capitalized for tax purposes, of approximately $539,000 and $585,000, respectively, available to offset future taxable income. Unless utilized in earlier tax years, the carryforwards will expire beginning in 2027. The pre-opening expenses are being amortized and deducted for tax purposes over a 180-month period.

Components of the income tax benefit are as follows:

	2010	2009
Current tax		
Federal	$ -	$ -
State	-	-
	-	-
Deferred tax		
Federal	93,567	(571,429)
State	23,609	(144,180)
	117,176	(715,609)
Change in valuation allowance	(417,176)	715,609
Income tax benefit	$ (300,000)	$ -

NOTE 8 – INCOME TAXES – (continued)

Deferred income taxes represent the tax effect of differences in timing between financial statement income and taxable income. The asset and liability components of the net deferred tax asset at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Deferred tax assets		
Unamortized pre-opening expenses	$ 211,461	$ 229,586
Net operating loss carryforward	1,721,770	1,813,123
Allowance for loan losses	218,484	163,764
Unrealized loss on investment securities available-for-sale	-	24,599
Other	20,113	103,364
	2,171,828	2,334,436
Deferred tax liabilities		
Accumulated depreciation	(167,872)	(214,500)
Prepaid expenses	(35,241)	(38,315)
Loan origination costs	(32,753)	(21,450)
Unrealized gain on investment securities available-for-sale	(19,110)	-
Accrual to cash adjustment	(45,018)	(27,452)
	(299,994)	(301,717)
Valuation allowance	(1,590,944)	(2,008,120)
Net deferred tax asset	$ 280,890	$ 24,599

A valuation allowance has been established at December 31, 2010 and 2009, since it is uncertain if the Bank will be able to utilize all of the existing deferred tax assets as an offset to future tax liabilities. A $300,000 tax benefit was recognized during 2010 related to the partial reversal of the previously established valuation allowance for deferred tax assets anticipated to be realized in the near term.

NOTE 8 – INCOME TAXES – (continued)

The following summarizes the differences between the benefit for income taxes for financial statement purposes and the federal statutory rate of 34% for the years ended December 31, 2010 and 2009:

	2010		2009	
Federal tax, at statutory rates	$ 100,109	34.0%	$ (544,853)	34.0%
State income taxes, net of federal effect	15,352	5.2%	(83,555)	5.2%
Change in valuation allowance	(417,176)	(141.7)%	715,609	(44.7)%
Other	1,715	0.6%	(87,201)	5.5%
Federal tax, at effective rate	$ (300,000)	(101.9)%	$ -	0.0%

NOTE 9 – COMMON STOCK AND WARRANTS

Founders' warrants – Individuals, who placed capital at risk to fund the Bank's organizational expenses prior to the initial offering of common stock, received one common stock warrant for each $10.00 invested. The Bank issued to these individuals 70,500 warrants, each of which is exercisable for one share of common stock at a price of $10.00 per share. The warrants expire on September 4, 2011. As of December 31, 2010, none of these warrants have been exercised.

Warrants issued to placement agent – As compensation for services rendered in connection with the initial offering of common stock, the Bank issued a warrant to its Placement Agent. The warrant allows the Placement Agent to purchase up to 6,830 shares of common stock at $10.00 per share. The warrants expire September 4, 2011, and may be exercised at any time until expiration. As of December 31, 2010, none of these warrants have been exercised.

Private placement offering of common stock – During 2009, the Bank initiated a Confidential Private Placement Offering (Offering), selling 50,879 shares of common stock to directors and officers at a price of $10 per share. The Offering closed on March 15, 2010. Proceeds to the Bank, net of direct offering costs of $21,911, totaled $486,879 and will be used to fund continuing operations and anticipated growth.

NOTE 10 – SHARE BASED AWARDS

The Bank has established the CenterPointe Community Bank Stock Option and Equity Compensation Plan (the Plan), which was approved by stockholders on November 28, 2007, and allows for the issuance of up to 240,000 shares of stock awards in the form of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, or restricted stock units (collectively referred to as "awards") to selected employees and directors. Of the 240,000 shares available for issuance, 60,000 may be issued to directors. If any shares of stock subject to an award under the Plan are forfeited or cancelled, such shares are returned to the pool of shares available for future issuance under the Plan. During the year ended December 31, 2009, the Bank awarded 98,855 shares of stock options to select employees and directors at a price of $10.00 per share. The stock options vest over four years and expire 10 years from the grant date of January 29, 2009.

The following weighted average assumptions were used to estimate the grant date fair value of options granted for the year ended December 31, 2009:

Dividend yield	0.00%
Expected life (years)	6.25
Expected volatility	37.92%
Risk-free rate	1.70%
Weighted average grant date fair value of options granted	$1.09

The following table summarizes stock options outstanding under this plan:

	Incentive Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Average Remaining Contractual Life (in years)
Options outstanding – December 31, 2009	83,427	$ 10.00		
Options granted in 2010	-	$ -	$ -	
Options forfeited in 2010	-	$ -		
Options outstanding – December 31, 2010	83,427	$ 10.00		8.08
Options exercisable – December 31, 2010	20,856	$ 10.00		
Options available for grant – December 31, 2010	156,573			

As of December 31, 2010, there was $45,445 of unrecognized compensation cost related to non-vested stock options that will be recognized over 2.1 years.

NOTE 10 – SHARE BASED AWARDS – (continued)

The following table summarizes restricted stock award activity under the Plan:

	Number of Shares		Aggregate Fair Value		Weighted Average Fair Value Per Share
Restricted stock awards unvested at beginning of period	-			$	-
Awards granted	22,152	$	88,608	$	4.00
Awards vested	(2,900)	$	11,600	$	4.00
Restricted stock awards unvested at end of period	19,252	$	77,008	$	4.00

As of December 31, 2010, there was $77,008 of unrecognized compensation costs related to non-vested restricted stock awards that will be recognized over a period of three years.

Subsequent to year-end, the Bank awarded 26,379 shares of restricted stock to officers and directors of the Bank. The restricted shares vest over a period of one to two years and have an aggregate fair value of $94,964.

NOTE 11 – EMPLOYEE BENEFIT PLAN

The Bank has a salary deferral and profit sharing plan (the Plan) under the provisions of Section 401(k) of the Internal Revenue Code whereby eligible employees may defer a portion of their gross wages. Employees eligible to participate in the Plan must have completed 90 days of service and be over 18 years of age. Employees may contribute up to the maximum provided by IRS statutes. The Bank makes discretionary contributions to the Plan and its contributions vest over a period of five years. The Bank's contributions to the Plan for the years ended December 31, 2010 and 2009, totaled $18,835 and $19,560, respectively.

NOTE 12 – TRANSACTIONS WITH RELATED PARTIES

Certain directors, executive officers, principal stockholders and companies in which they have an interest, 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. Loans and commitments to loan included in such transactions have been made in compliance with applicable laws on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collection or present any other unfavorable features. Loans granted to directors, executive officers, principal stockholders and companies with which they are associated were as follows:

	2010	2009
BALANCE, beginning of year	$ 745,516	$ 829,439
Additions	1,938,891	2,188,832
Repayments	(1,414,643)	(2,272,755)
BALANCE, end of year	$ 1,269,764	$ 745,516

Related-party deposits held by the Bank at December 31, 2010 and 2009 were $10,358,302 and $10,416,098, respectively.

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

The majority of the Bank's loans and commitments to lend have been granted to customers in the Bank's market area, the majority of whom are also depositors of the Bank. Concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding. The Bank's loan policies do 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.

NOTE 14 – 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 letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit 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.

NOTE 14 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK – (continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some 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 is based on management's credit evaluation of the counterparty. Collateral held varies, but may include cash, accounts receivable, inventory, equipment, residential real estate, crops, and income-producing commercial properties.

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

	2010	2009
Commitments to extend credit	$ 8,345,906	$ 8,073,561
Standby letters of credit	500,000	5,000
	$ 8,845,906	$ 8,078,561

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Operating lease commitments – The Bank leases office space for use in its banking operations and as its corporate headquarters. This lease is a ten-year, noncancellable-operating lease expiring December 2016, with options to extend for two additional five-year terms. The Bank also has leased space for its second branch facility. This lease is a ten-year, noncancellable-operating lease expiring September 2018, with options to extend for two additional five-year terms. The following is a schedule of estimated future minimum rental payments based upon price indexes currently in effect at December 31, 2010:

Years ending December 31,	2011	$ 163,486
	2012	168,102
	2013	172,891
	2014	177,860
	2015	183,015
	Thereafter	219,368
		$ 1,084,722

Rental expense under all operating leases was $223,340, for the year ended December 31, 2010 and $210,148 for the year ended December 31, 2009.

NOTE 15 – COMMITMENTS AND CONTINGENCIES – (continued)

Legal contingencies – The Bank may become a defendant in certain claims and legal actions arising in the ordinary course of business. There can be no assurance that the ultimate outcome will not differ materially from the Bank's assessment of each matter. There can also be no assurance that all matters that may be brought against the Bank are known at any point in time. In the opinion of management, after consultation with legal counsel, there are no matters presently known to the Bank that are expected to have a material adverse effect on the Bank's financial condition or results of operations.

NOTE 16 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can trigger certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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 classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1 capital (as defined by regulation) to risk-weighted assets (as defined) and of Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2010, that the Bank meets all regulatory requirements to which it is 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, 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 Bank's category.

	Actual		For Capital Adequacy Purposes		To Be Considered Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
December 31, 2010						
Total capital (to risk-weighted assets)	$ 6,984	11.59%	$ 4,820	≥8%	$ 6,025	≥10%
Tier 1 capital (to risk-weighted assets)	$ 6,342	10.53%	$ 2,410	≥4%	$ 3,615	≥6%
Tier 1 capital (to average assets)	$ 6,342	8.75%	$ 2,900	≥4%	$ 3,625	≥5%

NOTE 16 – REGULATORY MATTERS – (continued)

(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Considered Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009						
Total capital (to risk-weighted assets)	$ 5,999	12.31%	$ 3,900	≥8%	$ 4,875	≥10%
Tier 1 capital (to risk-weighted assets)	$ 5,511	11.31%	$ 1,950	≥4%	$ 2,925	≥6%
Tier 1 capital (to average assets)	$ 5,511	9.84%	$ 2,239	≥4%	$ 2,799	≥5%

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	Fair Value Measurements at Report Date Using			
Recurring items at December 31, 2010	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities				
Agency-backed collateralized mortgage obligations	$ 1,402,836	$ -	$ 1,402,836	$ -
Agency-backed asset backed securities	671,406	-	671,406	-
Agency-backed structured notes	3,107,912	-	3,107,912	-
Corporate debt obligations	306,228	-	306,228	-
Total	$ 5,488,382	$ -	$ 5,488,382	$ -

NOTE 17 – FAIR VALUES OF FINANCIAL INSTRUMENTS – (continued)

	Fair Value Measurements at Report Date Using			
Recurring items at December 31, 2009	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale investment securities				
Agency-backed collateralized mortgage obligations	$ 1,330,192	$ -	$ 1,330,192	$ -
Agency-backed mortgage-backed securities	273,564	-	273,564	-
Agency-backed structured notes	1,986,287	-	1,986,287	-
Corporate debt obligations	947,499	-	947,499	-
Private label collateralized mortgage obligation	525,491	-	525,491	-
Corporate common stock	172,000	172,000	-	-
Total	$ 5,235,033	$ 172,000	$ 5,063,033	$ -

Recurring assets are initially measured at fair value and are required to be remeasured at fair value in the financial statements at each reporting date.

The Bank applies various methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements. For investment securities, the Bank obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond’s terms and conditions, among other things. When market quotes are not readily accessible or available, alternative approaches are utilized, such as matrix or model pricing.