

UNITED STATES
COMPTROLLER OF THE CURRENCY
WASHINGTON, D. C. 20219

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011

FIRST NATIONAL BANK ALASKA

ALASKA 92-0006595

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Anchorage, Alaska 99510-0720
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company.

Yes No

There were 331,919 shares of \$100 par value common stock outstanding as of July 31, 2011.

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PART I**ITEM 1. CONDENSED STATEMENTS OF CONDITION** *(unaudited)*

<i>Dollars in thousands</i>	JUNE 30, 2011	DECEMBER 31, 2010
ASSETS		
Cash and cash equivalents	\$180,891	\$74,269
Securities:		
Available-for-sale	1,239,662	1,300,117
Held-to-maturity (fair value: 2011 - \$0; 2010 - \$23,232)	—	23,000
Real estate loans to be sold	15,264	20,854
Loans, net of allowance for loan losses of \$15,600 and \$15,000 for 2011 and 2010	1,173,912	1,201,682
Premises and equipment, net	41,947	42,066
Other real estate owned, net	18,841	18,230
Other assets	45,842	45,391
Total Assets	\$2,716,359	\$2,725,609
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	\$768,024	\$780,772
Interest bearing	1,008,518	1,014,943
Total Deposits	1,776,542	1,795,715
Securities sold under agreements to repurchase	499,014	473,136
Federal funds purchased	—	25,000
Notes payable and capital lease obligations	1,560	1,536
Other liabilities	7,985	7,787
Total Liabilities	2,285,101	2,303,174
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, \$100 par value (Authorized: 2011 and 2010 - 400,000 shares) (Issued: 2011 - 331,969 shares and 2010 - 332,054 shares)	33,197	33,205
Surplus	40,000	40,000
Retained earnings	349,170	340,573
Accumulated other comprehensive income	8,891	8,657
Total Shareholders' Equity	431,258	422,435
Total Liabilities and Shareholders' Equity	\$2,716,359	\$2,725,609

See accompanying notes to condensed financial statements.

PART I**ITEM 1. CONDENSED STATEMENTS OF INCOME** *(unaudited)*

<i>Dollars in thousands</i>	FOR 3 MONTHS ENDED JUNE 30,	
	2011	2010
INTEREST INCOME AND LOAN FEES		
Interest and fees on loans	\$20,033	\$20,102
Interest and dividends on investment securities	6,283	8,327
Interest on cash and cash equivalents	94	114
Total Interest and Loan Fee Income	26,410	28,543
INTEREST EXPENSE		
Interest on deposits	637	837
Interest on federal funds purchased and securities sold under agreements to repurchase	156	178
Interest on notes payable, capital lease obligations and other	25	34
Total Interest Expense	818	1,049
Net Interest And Loan Fee Income	25,592	27,494
Provision (credit) for loan losses	760	(226)
Net Interest And Loan Fee Income After Provision For Loan Losses	24,832	27,720
NONINTEREST INCOME		
Bankcard fees	4,854	4,410
Service charges on deposit accounts	1,085	1,256
Gain on sale of mortgage loans	433	299
Mortgage loan servicing income	621	567
Net gains on investment securities	427	—
Other noninterest income	1,850	2,229
Total Noninterest Income	9,270	8,761
NONINTEREST EXPENSE		
Salaries and employee benefits	11,592	11,223
Occupancy, net	1,740	1,676
Furniture and equipment	624	822
Bankcard	3,564	3,544
Other noninterest expense	3,977	4,573
Total Noninterest Expense	21,497	21,838
Income Before Taxes	12,605	14,643
Provision for income taxes	4,145	4,879
Net Income	\$8,460	\$9,764
EARNINGS PER COMMON SHARE <i>(not in thousands)</i>	\$25.48	\$29.41
CASH DIVIDENDS PER COMMON SHARE <i>(not in thousands)</i>	\$12.50	\$25.00

See accompanying notes to condensed financial statements.

PART I**ITEM 1. CONDENSED STATEMENTS OF INCOME,** *continued (unaudited)*

<i>Dollars in thousands</i>	FOR 6 MONTHS ENDED JUNE 30,	
	2011	2010
INTEREST INCOME AND LOAN FEES		
Interest and fees on loans	\$39,865	\$39,708
Interest and dividends on investment securities	13,354	17,231
Interest on cash and cash equivalents	171	198
Total Interest and Loan Fee Income	53,390	57,137
INTEREST EXPENSE		
Interest on deposits	1,322	1,668
Interest on federal funds purchased and securities sold under agreements to repurchase	324	350
Interest on notes payable, capital lease obligations and other	51	68
Total Interest Expense	1,697	2,086
Net Interest and Loan Fee Income	51,693	55,051
Provision for loan losses	1,576	525
Net Interest and Loan Fee Income After Provision For Loan Losses	50,117	54,526
NONINTEREST INCOME		
Bankcard fees	9,120	8,381
Service charges on deposit accounts	2,169	2,488
Gain on sale of mortgage loans	856	639
Mortgage loan servicing income	1,227	1,163
Net gains on investment securities	747	138
Other noninterest income	3,301	3,940
Total Noninterest Income	17,420	16,749
NONINTEREST EXPENSE		
Salaries and employee benefits	22,941	22,435
Occupancy, net	3,641	3,359
Furniture and equipment	1,220	1,602
Bankcard	6,541	6,583
Other noninterest expense	8,119	8,598
Total Noninterest Expense	42,462	42,577
Income Before Taxes	25,075	28,698
Provision for income taxes	8,040	9,530
Net Income	\$17,035	\$19,168
EARNINGS PER COMMON SHARE <i>(not in thousands)</i>	\$51.30	\$57.73
CASH DIVIDENDS PER COMMON SHARE <i>(not in thousands)</i>	\$25.00	\$50.00

See accompanying notes to condensed financial statements.

PART I**ITEM 1. CONDENSED STATEMENTS OF COMPREHENSIVE INCOME** *(unaudited)*

<i>Dollars in thousands</i>	FOR 3 MONTHS ENDED JUNE 30,	
	2011	2010
COMPREHENSIVE INCOME		
Net Income	\$8,460	\$9,764
Other Comprehensive Income, Net of Taxes:		
Increase in unrealized net holding gains during period, net of tax effect of \$(2,461) and \$(1,378), 2011 and 2010	3,525	1,973
Reclassification of net gains included in net income, net of tax effect of \$175 and \$0, 2011 and 2010	(252)	—
Net Gains Recognized in Other Comprehensive Income	3,273	1,973
Comprehensive Income	\$11,733	\$11,737

<i>Dollars in thousands</i>	FOR 6 MONTHS ENDED JUNE 30,	
	2011	2010
COMPREHENSIVE INCOME		
Net Income	\$17,035	\$19,168
Other Comprehensive Income, Net of Taxes:		
Increase in unrealized net holding gains during period, net of tax effect of \$(470) and \$(1,048), 2011 and 2010	673	1,499
Reclassification of net gains included in net income, net of tax effect of \$308 and \$57, 2011 and 2010	(439)	(81)
Net Gains Recognized in Other Comprehensive Income	234	1,418
Comprehensive Income	\$17,269	\$20,586

See accompanying notes to condensed financial statements.

PART I**ITEM 1. CONDENSED STATEMENTS OF CASH FLOWS** *(unaudited)**Dollars in thousands*

OPERATING ACTIVITIES	FOR 6 MONTHS ENDED JUNE 30,	
	2011	2010
Net income	\$17,035	\$19,168
Adjustments to reconcile net income to net cash provided by operating activities	6,847	6,277
Real estate loans to be sold-originated	(94,727)	(81,080)
Real estate loans to be sold-shipped	100,317	76,925
Net other operating activity	(95)	(274)
Net Cash Provided By Operating Activities	29,377	21,016

INVESTING ACTIVITIES

Proceeds from calls and maturities of securities, available-for-sale	143,515	157,045
Proceeds from sales of securities, available-for-sale	65,293	35,156
Proceeds from maturity of securities, held to maturity	23,000	—
Purchase of securities, available-for-sale	(151,836)	(138,771)
Net (increase) decrease in loans, net of undisbursed portion	25,505	(22,443)
Net other investing activity	(1,464)	(403)
Net Cash Provided By Investing Activities	104,013	30,584

FINANCING ACTIVITIES

Net decrease in total deposits	(19,173)	(3,784)
Net increase in securities sold under agreements to repurchase	25,878	750
Net decrease in federal funds purchased	(25,000)	—
Payments on notes and capital leases	(27)	(28)
Dividends paid	(8,301)	(16,602)
Retirement of common stock	(145)	—
Net Cash Used In Financing Activities	(26,768)	(19,664)
Increase in cash and cash equivalents	106,622	31,936
Cash and Cash Equivalents, January 1,	74,269	169,572
Cash and Cash Equivalents, June 30,	\$180,891	\$201,508

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for interest	\$1,747	\$2,227
Cash paid during the period for income taxes	\$9,266	\$10,738

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:

Transfer of loans to other real estate owned	\$716	\$7,150
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See accompanying notes to condensed financial statements.

PART I**ITEM 1. CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY***Dollars in thousands***SHAREHOLDERS' EQUITY**

	2011	2010
Balance, January 1,	\$422,435	\$453,098
Net income for the six months ended June 30,	17,035	19,168
Cash dividends declared on common stock	(8,301)	(16,602)
Retirement of common stock	(145)	—
Change in accumulated other comprehensive income	234	1,418
Balance, June 30,	\$431,258	\$457,082

See accompanying notes to condensed financial statements.

PART I

ITEM 1. NOTES TO CONDENSED FINANCIAL STATEMENTS

Note 1 – General Information

The accompanying unaudited condensed financial statements have been prepared by First National Bank Alaska (the bank) in accordance with U.S. generally accepted accounting principles (GAAP) and instructions to Form 10-Q under the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period ended June 30, 2011 are not necessarily indicative of the results anticipated for the year ending December 31, 2011. These condensed financial statements should be read in conjunction with the bank's annual report filed on Form 10-K for the year ended December 31, 2010.

Management affirms all of its accounting policies as described in the bank's 2010 annual report filed on Form 10-K. During the six month period ended June 30, 2011, the bank has not changed any of its policies or altered the way it formulates critical accounting estimates.

Use of accounting estimates in the preparation of financial statements, in order to conform with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, valuation of other real estate owned, fair values of financial instruments and deferred income taxes.

Earnings per share are computed on the basis of the weighted average number of shares outstanding of 331,978 and 332,054 for the quarters ended June 30, 2011 and 2010, respectively. Earnings per share are computed on the basis of the weighted average number of shares outstanding of 332,041 and 332,054 for the six months ended June 30, 2011 and 2010, respectively.

In April 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2011-2, "A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring" ("ASU 2011-2"). ASU 2011-2 clarifies the guidance for determining whether a loan restructuring constitutes a troubled debt restructuring ("TDR") outlined in Accounting Standards Codification ("ASC") No. 310-40, "Receivables-Troubled Debt Restructurings by Creditors", by providing additional guidance to a creditor in making the following required assessments needed to determine whether a restructuring is a TDR: (i) whether or not a concession has been granted in a debt restructuring; (ii) whether a temporary or permanent increase in the contractual interest rate precludes the restructuring from being a TDR; (iii) whether a restructuring results in an insignificant delay in payment; (iv) whether a borrower that is not currently in payment default is experiencing financial difficulties; and (v) whether a creditor can use the effective interest rate test outlined in debtor's guidance on restructuring payables (ASC Topic No. 470-60-55-10) when evaluating whether or not a restructuring constitutes a TDR. ASU 2011-2 is effective for interim periods beginning on or after June 15, 2011. Adoption of ASU 2011-2 is not expected to have a material effect on the bank's financial statements.

In May 2011, the FASB issued guidance representing the convergence of FASB and international accounting standards on fair value measurement. The guidance provided was primarily meant to clarify existing guidance; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The guidance is effective for interim and annual periods beginning on or after December 15, 2011, and should be applied prospectively. Early adoption is not permitted. The adoption of this guidance is not expected to have an effect on the bank's result of operations or financial position but may require expansion of the bank's disclosures.

In June 2011, the FASB amended existing guidance relating to presentation of other comprehensive income in a convergence effort with international accounting standards. This guidance eliminates the option to present the components of comprehensive income as a part of the statement of changes in stockholders' equity and requires a consecutive presentation of net income and other comprehensive income, and a reconciliation of the components of other comprehensive income. Similar to the requirements of existing guidance, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statements where the components of net income and OCI are presented. The amendments in this guidance should be applied retrospectively and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted and the amendments do not require any transition disclosures. The adoption of this guidance will not have an effect on the bank's result of operations or financial position but will require expansion of the bank's financial statement presentation.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 2 - SECURITIES

Amortized cost and fair values of securities, available-for-sale by maturity date, as of **June 30, 2011**:

<i>Dollars in thousands</i>	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
SECURITIES, AVAILABLE-FOR-SALE				
U.S. TREASURY SECURITIES:				
Maturity:				
within one year	\$75,904	\$535	\$ —	\$76,439
after 1 but within 5 years	101,771	773	—	102,544
after 5 but within 10 years	38,141	445	1	33,585
Total U.S. Treasury Securities	210,816	1,753	1	212,568
U.S. GOVERNMENT-SPONSORED ENTERPRISES:				
Maturity:				
within one year	272,792	2,124	180	274,736
after 1 but within 5 years	501,572	10,385	329	511,628
after 5 but within 10 years	84,259	3	1,048	83,212
Total U.S. Government-Sponsored Enterprises	858,621	12,512	1,557	869,576
STATES AND POLITICAL SUBDIVISIONS:				
Maturity:				
within one year	18,188	191	34	18,345
after 1 but within 5 years	35,860	1,489	1	37,348
after 5 but within 10 years	1,883	160	—	2,043
Total States And Political Subdivisions	55,931	1,840	35	57,736
CORPORATE BONDS:				
Maturity:				
within one year	20,010	215	—	20,225
after 1 but within 5 years	79,187	649	279	79,557
after 5 but within 10 years	—	—	—	—
Total Corporate Bonds	99,197	864	279	99,782
Total Securities, Available-For-Sale	\$1,224,565	\$16,969	\$1,872	\$1,239,662

Within the state and political subdivisions category, the largest concentrations of available-for-sale securities are held in Alaska with 29%, Washington with 26%, Pennsylvania with 13%, and Oregon with 10% of the category.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 2 - SECURITIES, *continued*

Amortized cost and fair values of securities, available-for-sale by maturity date, as of **December 31, 2010**:

<i>Dollars in thousands</i>	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
SECURITIES, AVAILABLE-FOR-SALE				
U.S. TREASURY SECURITIES:				
Maturity:				
within one year	\$31,020	\$361	\$ —	\$31,381
after 1 but within 5 years	148,565	854	91	149,328
after 5 but within 10 years	43,400	14	359	43,055
Total U.S. Treasury Securities	222,985	1,229	450	223,764
U.S. GOVERNMENT-SPONSORED ENTERPRISES:				
Maturity:				
within one year	279,757	3,985	12	283,730
after 1 but within 5 years	581,282	11,355	2,451	590,186
Total U.S. Government-Sponsored Enterprises	861,039	15,340	2,463	873,916
STATES AND POLITICAL SUBDIVISIONS:				
Maturity:				
within one year	16,898	214	34	17,078
after 1 but within 5 years	40,016	1,411	42	41,385
after 5 but within 10 years	3,597	154	40	3,711
Total States And Political Subdivisions	60,511	1,779	116	62,174
CORPORATE BONDS:				
Maturity:				
within one year	35,080	94	3	35,171
after 1 but within 5 years	100,329	571	1,344	99,556
after 5 but within 10 years	5,472	64	—	5,536
Total Corporate Bonds	140,881	729	1,347	140,263
Total Securities, Available-For-Sale	\$1,285,416	\$19,077	\$4,376	\$1,300,117

Within the state and political subdivisions category, the largest concentrations of available-for-sale securities are held in Alaska with 27%, Washington with 24%, Oregon with 14%, and Pennsylvania with 13% of the category.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 2 - SECURITIES, *continued*

The fair values of securities, available-for-sale included gross unrealized losses of \$1.9 million as of June 30, 2011. Securities in a continuous loss position exceeding twelve months or more total \$1.7 million and those in a continuous loss position of less than twelve months total \$214 million as of June 30, 2011. The fair values of securities, available-for-sale include gross unrealized losses or \$4.4 million as of December 31, 2010. Securities in a continuous loss position exceeding twelve months or more total \$34 thousand and those in a continuous loss position of less than twelve months total \$4.3 million as of December 31, 2010. Because the bank does not intend to sell these securities nor is it more likely than not the Bank will be required to sell these securities before its anticipated recovery, these investments are not considered other-than-temporarily impaired.

Amortized cost and fair values of securities, held-to-maturity by maturity date, as of **December 31, 2010**:

<i>Dollars in thousands</i>	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
SECURITIES, HELD-TO-MATURITY				
CORPORATE BONDS:				
Maturity:				
within one year	\$23,000	\$232	\$—	\$23,232
Total Corporate Bonds Held-to-Maturity	23,000	232	—	23,232
Total Securities, Held-to-Maturity	\$23,000	\$232	\$—	\$23,232

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The loan portfolio consists of the following as of:

<i>Dollars in thousands</i>	JUNE 30, 2011	DECEMBER 31, 2010
Commercial and industrial	\$289,554	\$285,141
Real estate construction	220,832	232,625
Real estate mortgage	194,850	189,061
Real estate commercial	466,554	491,941
Consumer and other	17,722	17,914
Loans, Gross	\$1,189,512	\$1,216,682
Allowance for loan losses	(15,600)	(15,000)
Loans, Net	\$1,173,912	\$1,201,682

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES *continued*

The following is an analysis of the changes in the allowance for loan losses by portfolio segment for the quarter ended **June 30, 2011**:

<i>Dollars in thousands</i>	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
Allowance for loan losses:				
Beginning balance, March 31, 2011	\$4,103	\$10,131	\$766	\$15,000
Provision for loan losses	328	691	(259)	760
Loans charged-off	(7)	(226)	(35)	(268)
Recoveries	75	5	28	108
Total ending allowance for loan losses, June 30, 2011	\$4,499	\$10,601	\$500	\$15,600

The following is an analysis of the changes in the allowance for loan losses by portfolio segment for six months ended **June 30, 2011**:

<i>Dollars in thousands</i>	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
Allowance for loan losses:				
Beginning balance, January 1, 2011	\$2,541	\$11,805	\$654	\$15,000
Provision for loan losses	1,827	(74)	(177)	1,576
Loans charged-off	(7)	(1,234)	(58)	(1,299)
Recoveries	138	104	81	323
Total ending allowance for loan losses, June 30, 2011	\$4,499	\$10,601	\$500	\$15,600

The following is an analysis of the change in the allowance for loan losses for the quarter ended **June 30, 2010**:

<i>Dollars in thousands</i>	2010
Balance, March 31, 2010	\$18,000
Loan Charge-Offs:	
Commercial and industrial	1
Real estate	148
Consumer and other	55
Total Loan Charge-Offs	204
Loan Recoveries:	
Commercial and industrial	154
Real estate	58
Consumer and other	218
Total Loan Recoveries	430
Net Loan Charge-Offs	(226)
Provision (credit) for loan losses	(226)
Balance, June 30, 2010	\$18,000

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *continued*

The following is an analysis of the change in the allowance for loan losses for six months ended **June 30, 2010**:

<i>Dollars in thousands</i>	2010
Balance, January 1, 2010	\$18,000
Loan Charge-Offs:	
Commercial and industrial	10
Real estate	1,169
Consumer and other	123
Total Loan Charge-Offs	1,302
Loan Recoveries:	
Commercial and industrial	297
Real estate	182
Consumer and other	298
Total Loan Recoveries	777
Net Loan Charge-Offs	525
Provision for loan losses	525
Balance, June 30, 2010	\$18,000

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011:

<i>Dollars in thousands</i>	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$3,000	\$3,095	\$5	\$6,100
Collectively evaluated for impairment	1,499	7,506	495	9,500
Total ending allowance balance	\$4,499	\$10,601	\$500	\$15,600
Loans				
Individually evaluated for impairment	\$6,991	\$39,783	\$38	\$46,812
Collectively evaluated for impairment	283,937	848,332	17,695	1,149,964
Total loans outstanding balance	\$290,928	\$888,115	\$17,733	\$1,196,776
Deferred loan fees, net				(7,264)
Total loans				\$1,189,512

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2010:

<i>Dollars in thousands</i>	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	\$1,000	\$4,000	\$—	\$5,000
Collectively evaluated for impairment	1,541	7,805	654	10,000
Total ending allowance balance	\$2,541	\$11,805	\$654	\$15,000
Loans:				
Individually evaluated for impairment	\$4,638	\$33,327	\$—	\$37,965
Collectively evaluated for impairment	281,840	886,412	17,922	1,186,174
Total loans outstanding balance	\$286,478	\$919,739	\$17,922	\$1,224,139
Deferred loan fees, net				(7,457)
Total loans				\$1,216,682

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *continued*

The following table presents information related to loans individually evaluated for impairment by class of loans as of and for the period ended **June 30, 2011**:

<i>Dollars in Thousands</i>	UNPAID PRINCIPAL BALANCE	RECORDED INVESTMENT	ALLOWANCE FOR LOAN LOSSES ALLOCATED
With no allowance recorded			
Commercial and Industrial	\$2,904	\$1,517	\$—
Real Estate			
Construction and other	5,617	4,674	—
1-4 and multifamily residential	4,469	4,185	—
Commercial real estate	16,152	13,359	—
Consumer and other	28	28	—
With an allowance recorded			
Commercial and Industrial	6,373	5,474	3,000
Real Estate			
Construction and other	15,738	14,781	2,692
1-4 and multifamily residential	865	831	139
Commercial real estate	1,726	1,953	264
Consumer and other	10	10	5
Total	\$53,882	\$46,812	\$6,100

<i>Dollars in Thousands</i>	FOR 3 MONTHS ENDED JUNE 30, 2011			FOR 6 MONTHS ENDED JUNE 30, 2011		
	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED	CASH BASIS INTEREST RECOGNIZED	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED	CASH BASIS INTEREST RECOGNIZED
With no allowance recorded						
Commercial and Industrial	\$1,628	\$40	\$41	\$1,693	\$82	\$83
Real Estate						
Construction and other	4,694	10	9	4,731	19	19
1-4 and multifamily residential	4,240	39	37	4,266	78	76
Commercial real estate	13,524	33	71	13,695	66	91
Consumer and other	30	—	—	33	1	1
With an allowance recorded						
Commercial and Industrial	8,712	—	—	9,182	\$53	43
Real Estate						
Construction and other	14,765	3	3	14,725	6	6
1-4 and multifamily residential	842	10	12	852	—	—
Commercial real estate	1,672	27	23	1,679	20	21
Consumer and other	10	—	—	10	—	—
Total	\$50,117	\$162	\$196	\$50,866	\$325	\$340

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *continued*

The following table presents information related to loans individually evaluated for impairment by class of loans as of **December 31, 2010:**

<i>Dollars in thousands</i>	UNPAID PRINCIPAL BALANCE	RECORDED INVESTMENT	ALLOWANCE FOR LOAN LOSSES ALLOCATED
With no allowance recorded			
Commercial and Industrial	\$2,556	\$2,323	\$—
Real Estate			
Construction and other	5,112	4,289	—
1-4 and multifamily residential	2,346	2,122	—
Commercial real estate	13,805	11,309	—
Consumer and other	—	—	—
With an allowance recorded			
Commercial and Industrial	2,777	2,315	1,000
Real Estate			
Construction and other	17,572	14,328	3,785
1-4 and multifamily residential	729	729	200
Commercial real estate	597	550	15
Consumer and other	—	—	—
Total	\$45,494	\$37,965	\$5,000

The following table presents the aging of the recorded investment in past due loans by class of loans as of **June 30, 2011:**

<i>Dollars in thousands</i>	30-89 DAYS PAST DUE	GREATER THAN 90 DAYS & ACCRUING	TOTAL PAST DUE	NONACCRUAL	CURRENT	TOTAL
Commercial and Industrial	\$2,956	\$—	\$2,956	\$4,527	\$283,445	\$290,928
Real Estate						
Construction and other	168	—	168	18,673	201,780	220,621
1-4 and multifamily residential	2,169	133	2,302	2,741	191,165	196,208
Commercial real estate	3,102	—	3,102	11,815	456,369	471,286
Consumer and other	128	6	134	19	17,580	17,733
Total	\$8,523	\$139	\$8,662	\$37,775	\$1,150,339	\$1,196,776
Deferred loan fees, net						(7,264)
Total loans						\$1,189,512

The following table presents the aging of the recorded investment in past due loans by class of loans as of **December 31, 2010:**

<i>Dollars in thousands</i>	30-89 DAYS PAST DUE	GREATER THAN 90 DAYS & ACCRUING	TOTAL PAST DUE	NONACCRUAL	CURRENT	TOTAL
Commercial and Industrial	\$903	\$—	\$903	\$3,493	\$282,082	\$286,478
Real Estate						
Construction and other	1,405	—	1,405	18,481	212,796	232,682
1-4 and multifamily residential	1,926	100	2,026	1,764	187,483	191,273
Commercial real estate	2,451	—	2,451	12,293	481,040	495,784
Consumer and other	123	—	123	—	17,799	17,922
Total	\$6,808	\$100	\$6,908	\$36,031	\$1,181,200	\$1,224,139
Deferred loan fees, net						(7,457)
Total loans						\$1,216,682

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *continued*

Troubled Debt Restructurings

At **June 30, 2011** and December 31, 2010 the bank had loans of **\$25.9 million** and \$9.1 million classified as troubled debt restructurings, which are included in impaired loans. These loans had allocated specific reserves of **\$4.4 million** and \$2.4 million as of **June 30, 2011** and December 31, 2010, respectively. The bank has committed to lend additional amounts totaling up to **\$0.3 million** and \$0.5 million as of **June 30, 2011** and December 31, 2010, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

Credit Quality Indicators

The bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The bank analyzes loans individually by classifying loans as to credit risk. Formal analysis of classified loans is performed quarterly, including all loans 60 days or more delinquent. Ongoing evaluation of certain performing loans is conducted through internal credit examinations and loan committee reviews.

The bank uses the following definitions for risk ratings:

Pass/Watch. Loans classified as pass/watch include current loans performing in accordance with contractual terms, pools of homogenous residential real estate and installment/consumer loans that are not individually risk rated and loans which exhibit certain risk factors that require greater than usual monitoring by management.

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

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

Doubtful/Loss. Loans classified as doubtful/loss have all the weaknesses inherent in those 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.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES, *continued*

The following table summarizes our internal risk rating by loan class based on the most recent analysis performed as of **June 30, 2011:**

<i>Dollars in thousands</i>	PASS/ WATCH	SPECIAL MENTION	SUB- STANDARD	DOUBTFUL /LOSS	TOTAL
Commercial and Industrial	\$278,743	\$3,808	\$5,979	\$2,398	\$290,928
Real Estate					
Construction and other	194,297	1,469	24,473	382	220,621
1-4 and multifamily residential	179,707	7,681	8,731	89	196,208
Commercial real estate	434,157	15,903	21,005	221	471,286
Consumer and other	17,628	43	44	18	17,733
Total	\$1,104,532	\$28,904	\$60,232	\$3,108	\$1,196,776
Deferred loan fees, net					(7,264)
Total					\$1,189,512

The following table summarizes our internal risk rating by loan class based on the most recent analysis performed as of **December 31, 2010:**

<i>Dollars in thousands</i>	PASS/ WATCH	SPECIAL MENTION	SUB- STANDARD	DOUBTFUL /LOSS	TOTAL
Commercial and Industrial	\$262,937	\$18,081	\$5,269	\$191	\$286,478
Real Estate					
Construction and other	202,806	6,135	23,600	141	232,682
1-4 and multifamily residential	176,157	7,555	7,433	128	191,273
Commercial real estate	470,542	11,226	14,016	—	495,784
Consumer and other	17,714	201	7	—	17,922
Total	\$1,130,156	\$43,198	\$50,325	\$460	\$1,224,139
Deferred loan fees, net					(7,457)
Total					\$1,216,682

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 4 - OTHER REAL ESTATE OWNED

Net other real estate owned as of **June 30, 2011** and December 31, 2010 was **\$18.8 million** and \$18.2 million, respectively. There were no valuation adjustments recorded for the six months ended June 30, 2011 and for the comparable period in 2010.

NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS

Amounts and estimated fair value of financial instruments as of:

<i>Dollars in thousands</i>	JUNE 30, 2011		DECEMBER 31, 2010	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
FINANCIAL ASSETS				
Cash and cash equivalents	\$180,891	\$180,891	\$74,269	\$74,269
Securities:				
Available-for-sale	\$1,239,662	\$1,239,662	\$1,300,117	1,300,117
Held-to-maturity	—	—	23,000	23,232
Real estate loans to be sold	15,264	15,331	20,854	20,898
Loans:				
Commercial and industrial	\$285,055	\$287,799	\$282,592	\$283,681
Real estate	871,635	880,644	901,830	913,712
Consumer and other	17,222	17,095	17,260	17,076
Total Loans	\$1,173,912	\$1,185,538	\$1,201,682	\$1,214,469
Federal Reserve Bank stock	\$2,196	N/A	\$2,196	N/A
Federal Home Loan Bank stock	\$2,139	N/A	\$2,139	N/A
Interest receivable	\$13,164	\$13,164	\$14,486	\$14,486

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS, *continued*

Amounts and estimated fair value of financial instruments as of:

<i>Dollars in thousands</i>	JUNE 30, 2011		DECEMBER 31, 2010	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
FINANCIAL LIABILITIES				
Deposits:				
Noninterest bearing	\$768,024	\$768,024	\$780,772	\$780,772
Interest bearing:				
Savings	\$501,880	\$501,880	\$477,956	\$477,956
NOW	168,272	168,272	176,090	176,090
Money market	189,778	189,778	201,494	201,494
Time	148,588	150,557	159,403	161,602
Total Interest Bearing	\$1,008,518	\$1,010,487	\$1,014,943	\$1,017,142
Total Deposits	\$1,776,542	\$1,778,511	\$1,795,715	\$1,797,914
Securities sold under agreements to repurchase	\$499,014	\$499,014	\$473,136	\$473,136
Federal funds purchased	\$—	\$—	\$25,000	\$25,000
Notes payable and capital lease obligations	\$1,560	\$1,560	\$1,536	\$1,536
Interest payable	\$230	\$230	\$279	\$279

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

<i>Dollars in thousands</i>	JUNE 30, 2011		DECEMBER 31, 2010	
	CONTRACTUAL AMOUNT	ESTIMATED FAIR VALUE	CONTRACTUAL AMOUNT	ESTIMATED FAIR VALUE
Assets:				
Loan commitments	\$383,304	\$1,729	\$322,934	\$1,688
Bankcard commitments	\$78,395	—	\$76,111	—
Standby and commercial letters of credit	\$20,998	\$167	\$20,488	\$176
Liabilities:				
Subscriptions to purchase Federal Reserve Bank stock	\$2,196	—	\$2,196	—

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS, *continued*

Fair values of loans exceed the corresponding carrying amount as a result of the average stated yields on loans as of June 30, 2011, exceeding current market rates. Conversely, where fair values of loans are below carrying amounts, market rates exceed the average stated yields. The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. Considerable judgment is required to interpret market data and develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following were considered in determining fair values as of **June 30, 2011** and December 31, 2010:

Cash and cash equivalents: The carrying amount is a reasonable estimate of the fair value.

Securities, available-for-sale and held-to-maturity: If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics.

Real estate loans to be sold: The carrying amount plus unearned loan fees is a reasonable estimate of the fair value as it reflects the short-term nature of the commitment and a commitment to sell at a fixed price.

Loans: The fair value is estimated by discounting the future scheduled cash flows using the current rates at which similar loans with similar maturities would be made to similar borrowers plus unearned income. The fair value of delinquent and non-accrual loans are estimated on an individual basis, taking into account management's estimate of probable losses associated with the loan, and discounting the estimated future cash flows using current rates for similar maturities.

Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB) of Seattle stock: The stock is required to be sold back at its par value. It is not practicable to determine the fair value of FRB or FHLB stock due to restrictions placed on transferability.

Interest receivable: The carrying amount is a reasonable estimate of the fair value.

Deposits: The estimated fair value of demand deposits, savings accounts, NOW accounts and money market accounts is the amount payable upon demand as of the reporting date.

Time deposits: The fair value is estimated as the discounted cash flows using rates currently offered for the time deposits of similar remaining maturities.

Securities sold under agreements to repurchase: The carrying amount is a reasonable estimate of the fair value.

Notes payable and capital leases: The carrying amounts are reasonable estimates of the fair value of notes payable and capital leases, as imputed interest rates approximate current market rates for similar instruments.

Interest payable: The carrying amount is a reasonable estimate of the fair value.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS, *continued*

Loan and bankcard commitments and standby and commercial letters of credit: The fair value is estimated using fees currently charged for similar arrangements, adjusted for changes in rates that occurred subsequent to the commitments being made.

Subscriptions to purchase Federal Reserve Bank stock: It is not practicable to determine the fair value of subscriptions to purchase FRB stock due to restrictions placed on its transferability

In accordance with ASC Topic 820, we measure some of the financial assets and financial liabilities disclosed in the following tables at fair value in three levels based on the markets in which the assets and liabilities are traded and reliability of the assumptions used to determine fair value. The levels are:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, or interest in open-end mutual funds that allow the bank to sell its ownership interest back to the fund at net asset value (NAV) on a daily basis. Valuations are obtained from readily available pricing sources for market transactions involving identical assets, liabilities, or funds.

Level 2 – Valuations for assets and liabilities traded in less active dealer, or broker markets, such as quoted prices for similar assets or liabilities or quoted prices in markets that are not active. Level 2 includes U.S. Treasury, U.S. government and agency debt securities, and mortgage-backed securities. Valuations are usually obtained from third party pricing services for identical or comparable assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, such as option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS, *continued*

ASSETS MEASURED AT FAIR VALUE ON A RECURRING BASIS *(dollars in thousands)*

DESCRIPTION	JUNE 30, 2011	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Securities:				
U.S. Treasury	\$212,568	\$212,568	—	—
U.S. Government agencies	869,576	—	\$869,576	—
States and political subdivisions	57,736	—	57,736	—
Corporate bonds	99,782	—	99,782	—
Securities Total	\$1,239,662	\$212,568	\$1,027,094	—

DESCRIPTION	DECEMBER 31, 2010	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Securities:				
U.S. Treasury	\$223,764	\$223,764	—	—
U.S. Government agencies	873,916	—	\$873,916	—
States and political subdivisions	62,174	—	62,174	—
Corporate bonds	140,263	—	140,263	—
Securities Total	\$1,300,117	\$223,764	\$1,076,353	—

For investment securities, where quoted prices are available in an active market for identical securities they are classified within Level 1 of the fair value hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models and quoted prices of securities with similar characteristics and the investment securities are classified within Level 2 of the fair value hierarchy.

Where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the fair value hierarchy.

The majority of the bank's investments are in high-quality U.S. Treasury, U.S. Government sponsored enterprise bonds where the fair values are determined by the bank's pricing service using quoted prices of similar securities. As of June 30, 2011 the bank had no investments in Fannie Mae or Freddie Mac common or preferred stock or mortgage -backed securities.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS, *continued*ASSETS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS *(dollars in thousands)*

DESCRIPTION	JUNE 30, 2011	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Impaired loans:				
Commercial and Industrial	\$2,474	—	—	\$2,474
Real Estate	14,470	—	—	14,470
Other real estate owned:				
Construction and development	6,109	—	—	6,109
Commercial	1,324	—	—	1,324
Bank premise	784	—	—	784
Total	\$25,161	—	—	\$25,161

DESCRIPTION	DECEMBER 31, 2010	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Impaired loans:				
Commercial and Industrial	\$1,315	—	—	\$1,315
Real Estate	11,607	—	—	11,607
Other real estate owned:				
Construction and development	6,031	—	—	6,031
Commercial	2,522	—	—	2,522
Bank premise	784	—	—	784
Total	\$22,259	—	—	\$22,259

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net principal balance of \$23.0 million, with a valuation allowance of \$6.1 million at June 30, 2011. At December 31, 2010, impaired loans had a net principal balance of \$17.9 million, with a valuation allowance of \$5.0 million.

PART I

ITEM 1. – NOTES TO CONDENSED FINANCIAL STATEMENTS, *continued*

NOTE 5 - ESTIMATED FAIR VALUE OF FINANCIAL AND NONFINANCIAL INSTRUMENTS, *continued*

Impaired loans are evaluated based on the fair value of collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations. The bank may apply management-determined discount factors to appraisal valuations to take into consideration changing market conditions and liquidation costs. Impaired loans as disclosed in the previous table are presented net of any valuation allowance and include only those impaired loans with a specific valuation allowance whereas impaired loans on page 15 include all loans specifically identified as impaired with or without a specific valuation allowance.

Other real estate owned is carried at the lower of fair value at acquisition or current estimated value net of disposal costs. At the time the property is acquired, it is recorded at estimated fair value less costs to sell, with any difference between this value and the outstanding balance on the loan charged against the allowance for loan losses. Subsequent changes in the valuation allowance are included in noninterest expense.

ASC Topic 825 provides an option to selectively report financial assets and financial liabilities at fair value and establishes presentation and disclosure requirements. The bank did not elect the fair value option for any additional financial assets or liabilities as of June 30, 2011. The bank may adopt this guidance for financial assets and liabilities in the future as permitted under the guidance.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MATERIAL CHANGES IN FINANCIAL POSITION

Condensed Comparative Statements of Condition

The following table provides condensed balance sheet change analysis for the current quarter ended June 30, 2011 and comparative balances for March 31, 2011 and December 31, 2010:

<i>Dollars in thousands</i>	JUNE 30, 2011	% CHANGE	MARCH 31, 2011	DECEMBER 31, 2010
Cash and equivalents	\$180,891	-27.7 %	\$250,256	\$74,269
Total securities	1,239,662	4.3 %	1,188,452	1,323,117
Total loans, net ⁽¹⁾	1,189,176	-1.3 %	1,204,357	1,222,536
Premises and equipment, net	41,947	0.9 %	41,579	42,066
Other real estate owned, net	18,841	1.3 %	18,605	18,230
Other assets	45,842	-3.2 %	47,363	45,391
Total Assets	\$2,716,359	-1.2 %	\$2,750,612	\$2,725,609
Noninterest bearing deposits	\$768,024	0.7 %	\$762,641	\$780,772
Interest bearing deposits	1,008,518	-1.8 %	1,026,822	1,014,943
Securities sold under agreements to repurchase	499,014	-0.1 %	499,326	473,136
Federal funds purchased	—	-100.0 %	25,000	25,000
Other liabilities	9,545	-26.6 %	13,004	9,323
Total Shareholders’ equity	431,258	1.8 %	423,819	422,435
Total Liabilities And Shareholders’ Equity	\$2,716,359	-1.2 %	\$2,750,612	\$2,725,609

⁽¹⁾Total loans, net include real estate loans to be sold

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN FINANCIAL POSITION, *continued*

The following table provides condensed comparative balance sheets and composition percentages as of **June 30, 2011**, March 31, 2011 and December 31, 2010:

<i>Dollars in thousands</i>	JUNE 30, 2011	% TOTAL	MARCH 31, 2011	% TOTAL	DECEMBER 31, 2010	% TOTAL
Cash and cash equivalents	\$180,891	6.7%	\$250,256	9.1%	\$74,269	2.7%
Total securities	1,239,662	45.6%	1,188,452	43.2%	1,323,117	48.5%
Total loans, net ⁽¹⁾	1,189,176	43.8%	1,204,357	43.8%	1,222,536	44.9%
Premises and equipment, net	41,947	1.5%	41,579	1.5%	42,066	1.5%
Other real estate owned, net	18,841	0.7%	18,605	0.7%	18,230	0.7%
Other assets	45,842	1.7%	47,363	1.7%	45,391	1.7%
Total Assets	\$2,716,359	100%	\$2,750,612	100%	\$2,725,609	100%
Noninterest bearing deposits	\$768,024	28.3%	\$762,641	27.7%	\$780,772	28.7%
Interest bearing deposits	1,008,518	37.1%	1,026,822	37.3%	1,014,943	37.2%
Securities sold under agreements to repurchase	499,014	18.4%	499,326	18.2%	473,136	17.4%
Federal funds purchased	—	0.0%	25,000	0.9%	25,000	0.9%
Other liabilities	9,545	0.3%	13,004	0.5%	9,323	0.3%
Total Shareholders’ equity	431,258	15.9%	423,819	15.4%	422,435	15.5%
Total Liabilities And Shareholders’ Equity	\$2,716,359	100%	\$2,750,612	100%	\$2,725,609	100%

⁽¹⁾ Total loans, net include real estate loans to be sold

Management Overview of Material Changes in Financial Position

Total assets decreased \$9.3 million (0.3%) as of June 30, 2011 from the December 31, 2010 level of \$2.726 billion. **Cash and cash equivalents** increased by \$106.6 million (143.6%) for the six months ended June 30, 2011 as **available-for-sale and held-to-maturity securities** decreased \$83.5 million (6.3%). **Total loans** decreased \$33.3 million (2.7%), with an increase of \$4.4 million (1.5%) and a decrease of \$31.4 million (3.4%) experienced in commercial loans and real estate loans, respectively.

Total assets decreased \$34.3 million (1.2%) for the quarter ended June 30, 2011. **Cash and cash equivalents** decreased \$69.4 million (27.7%) for the second quarter primarily as a result of available-for-sale securities purchases of \$51.2 million (4.3%) and a decrease in **total deposits** of \$12.9 million (0.7%). **Total loans** decreased \$15.2 million (1.3%). The decrease in the net loan portfolio consisted of decreases in real estate loans to be sold of \$4.9 million (24.2%) and real estate loans of \$18.1 million (2.0%), offset by increases in commercial loans of \$8.0 million (2.8%) and consumer loans of \$0.4 million (2.2%). The allowance for loan losses increased \$0.6 million (4.0%) during the second quarter.

Total liabilities decreased \$18.1 million (0.8%) during the six months ended June 30, 2011. **Total deposits** decreased \$19.2 million (1.1%) overall during the six months ended June 30, 2011. **Noninterest bearing** deposits comprised the majority of the decrease in total deposits by \$12.7 million (1.6%). Within interest bearing deposits, **NOW, money market and time** deposits decreased by \$7.8 million (4.4%), \$11.7 million (5.8%) and \$10.8 million (6.8%), respectively, offset only in part by an increase in **savings** deposits of \$23.9 million (5.0%).

Total liabilities decreased \$41.7 million (1.8%) for the quarter ended June 30, 2011. **Total deposits** decreased \$12.9 million (0.7%) overall during the quarter. **Interest bearing** deposits comprised the majority of the decrease in total deposits by \$18.3 million (1.8%), with decreases in **NOW, money market and time** deposits of \$7.9 million (4.5%), \$9.0 million (4.5%), and \$7.7 million (4.9%), respectively, offset only in part by an increase in savings deposits of \$6.3 million (1.3%).

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN FINANCIAL POSITION, *continued*

Total shareholders’ equity increased \$8.8 million (2.1%) as compared to December 31, 2010. **Retained earnings** increased \$8.6 million (2.5%) during the year. Year-to-date net income of \$17.0 million exceeded dividend declarations of \$8.3 million. **Accumulated other comprehensive income** increased by \$0.2 million (2.7%) during the year, as unrealized gains, net of tax effect, on available-for-sale securities increased to \$8.9 million at June 30, 2011, from the December 31, 2010 level of \$8.7 million.

Total shareholders’ equity increased \$7.4 million (1.8%) as compared to first quarter. **Retained earnings** increased \$4.2 million (1.2%) over March 31, 2011. Net income for the second quarter of \$8.5 million exceeded dividend declarations of \$4.2 million. **Accumulated other comprehensive income** increased \$3.3 million (58.3%) for the quarter, as unrealized gains, net of tax effect, on available-for-sale securities increased to \$8.9 million at June 30, 2011, from the March 31, 2011 level of \$5.6 million.

Securities Portfolio

The following table provides comparative securities portfolio detail and composition percentages as of **June 30, 2011**, March 31, 2011 and December 31, 2010:

<i>Dollars in thousands</i>	JUNE 30, 2011	% TOTAL	MARCH 31, 2011	% TOTAL	DECEMBER 31, 2010	% TOTAL
U.S. Treasury notes	\$210,816	17.01%	\$212,403	17.87%	\$222,985	16.85%
U.S. government agencies	858,621	69.26%	790,745	66.54%	861,039	65.08%
Municipal bank-qualified	39,730	3.21%	43,899	3.69%	45,827	3.46%
Municipal non-bank-qualified	15,414	1.24%	15,464	1.30%	13,896	1.05%
Municipal taxable	787	0.06%	787	0.07%	788	0.06%
Corporate bonds	99,197	8.00%	\$115,617	9.73%	\$163,881	11.39%
Total securities, gross	1,224,565	98.78%	1,178,915	99.20%	1,308,416	98.89%
Unrealized gains, net	15,097	1.22%	9,537	0.80%	14,701	1.11%
Total Securities, net	\$1,239,662	100%	\$1,188,452	100%	\$1,323,117	100%

Total net securities increased \$51.2 million (4.3%) and decreased \$83.5 million (6.3%) for the quarter and six months ended June 30, 2011, respectively. Total securities decreased from December 31, 2010 levels as securities matured and were awaiting reinvestment as of June 30, 2011. Net unrealized gains increased by \$5.6 million (58.3%) and \$0.4 million (2.7%) from March 31, 2011 and December 30, 2010 levels, respectively, which is the result of lower market yields during the second quarter.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN FINANCIAL POSITION, *continued*

Securities Portfolio, continued

The following table provides comparative information regarding the average term, duration and yield to maturity for each of the primary securities categories as of June 30, 2011 and December 31, 2010:

TERM AND DURATION IN MONTHS	JUNE 30, 2011			DECEMBER 31, 2010		
	TERM	AVERAGE DURATION	YIELD	TERM	AVERAGE DURATION	YIELD
U.S. Treasury notes	24.9	23.2	1.41%	29.4	27.5	1.36%
U.S. government agencies	28.2	25.7	2.22%	25.1	22.7	2.47%
Municipal bank-qualified	26.4	18.4	3.20%	31.6	23.6	3.21%
Municipal non bank-qualified	35.9	28.4	2.89%	42.5	33.9	2.86%
Corporate bonds	33.0	31.1	1.85%	28.8	26.8	2.47%

FHLB Stock

As of **June 30, 2011** the bank held \$2,139 of Federal Home Loan Bank Seattle (FHLB Seattle) Class B stock that is included in other assets. On October 25, 2010, the FHLB Seattle entered into a Stipulation and Consent Order (Order) with its primary regulator, the Federal Housing Finance Agency (Finance Agency). The Finance Agency continues to deem FHLB Seattle undercapitalized under the Finance Agency’s Prompt Corrective Action rule and the Order requires FHLB Seattle to take certain specified actions related to its business and operations. Among other things, the Order does not allow FHLB Seattle to purchase stock or pay dividends until it:

- Achieves and maintains certain financial and operational metrics,
- Remediates certain concerns regarding its oversight and management, asset improvement program, capital adequacy and retained earnings, risk management, compensation practices, examination findings, and information technology, and
- Returns to a “safe and sound” condition as determined by the Finance Agency.

Further, any stock repurchases, redemptions and dividend payments will be subject to Finance Agency approval. The bank has concluded the holdings in FHLB Seattle are other than temporarily impaired and will continue to monitor the activities of FHLB Seattle for ultimate recoverability.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN FINANCIAL POSITION, *continued*

Loan Portfolio and Allowance for Loan Losses Analysis

The following table provides comparative loan portfolio detail and composition percentages as of **June 30, 2011**, March 31, 2011 and December 31, 2010:

<i>Dollars in thousands</i>	JUNE 30, 2011		MARCH 31, 2011		DECEMBER 31, 2010
Commercial and industrial	\$289,554	24.3%	\$281,587	23.5%	\$285,141
Real estate	882,236	74.2%	900,292	75.1%	913,627
Consumer and other	17,722	1.5%	17,340	1.4%	17,914
Total Loans, gross	1,189,512		1,199,219		1,216,682
Allowance for loan losses	(15,600)		(15,000)		(15,000)
Total Loans, net	\$1,173,912	100%	\$1,184,219	100%	\$1,201,682
Allowance as a % of loans	1.31%		1.25%		1.23%
Delinquent in excess of 30 days	\$8,662		\$8,549		\$6,908
Non-accrual loans	\$37,775		\$34,903		\$36,031

Loans decreased \$9.7 million during the second quarter. Loan demand continues to be generally flat and the decrease in loans is occurring ratably across the lending segments. Geographically, small increases in lending activity are focused in the regional areas outside of Southcentral Alaska and are offset by loan decreases in the major metropolitan areas.

Nonaccrual loans increased from December 31, 2010 levels by \$1.7 million (4.8%) and from March 31, 2011 by \$2.9 million (8.2%). Consistent with their predominant position in the loan portfolio, real estate loans comprise the dominant position in the nonaccrual loan pool. The increase in this pool during the second quarter of 2011 resulted from additional speculative construction and commercial real estate loans marking ninety day delinquencies during the period.

Management considers associated collateral, risk of loss and qualitative factors such as environmental (geographic, economic, political) and internal (changes in policies, underwriting standards, collateral values, quality control system) factors in determining the allowance for loan losses and believes it maintains an allowance for loan losses adequate to cover the current estimate of probable losses. Management continues to closely monitor market conditions for potential future adjustments.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

LIQUIDITY AND CAPITAL RESOURCES

Liquidity management is the process by which banks provide the continuing flow of funds necessary to meet financial commitments on a timely basis. These commitments include withdrawals by depositors, funding credit commitments to borrowers, timely debt repayment, paying shareholder dividends and paying operational expenses.

Liquidity sources are provided from both the asset and liability side of the statement of condition and are available from cash flows received in the ordinary course of business from interest and fee income payments. Asset side liquidity is generated from maturing loans and investments plus marketable assets disposable at or near book value. The ability to attract and retain deposits represents the bank’s primary source of liquidity on the liability side. The bank has a large base of core deposits and has the ability to obtain other funds in order to maintain a deposit level adequate to meet its liquidity needs.

The maintenance of an adequate level of capital to support business growth is an important element in the bank’s ability to add to future earnings. **Equity** increased \$8.8 million (2.1%) to \$431.3 million at **June 30, 2011** compared to \$422.4 million at December 31, 2010. The equity-to-asset ratio increased to 15.8% at the end of the second quarter 2011 compared to a ratio of 15.5% as of December 31, 2010. The increase during the second quarter was the result of net income exceeding dividends declared on common stock and increases in accumulated other comprehensive income as a result of increases in unrealized gains on the available for sale securities portfolio.

On January 27, 2011, the Board of Directors of the bank approved a stock repurchase program in which the bank would repurchase shares of its outstanding common stock from time to time on the open market as well as through privately negotiated transactions. The repurchase program will expire when the bank has repurchased stock representing an aggregate purchase price of \$100 million, upon termination of the program by the Board of Directors, or upon regulatory expiration on March 23, 2012, whichever occurs first. All repurchased shares will be retired and available to reissue in the future for general corporate purposes.

The program was approved at the annual shareholders’ meeting on April 26, 2011. As of **June 30, 2011**, 85 shares have been repurchased under the program.

Credit Facilities

The bank’s committed line of credit of \$105.1 million from the Federal Reserve Bank held a rate of 0.75% as of **June 30, 2011**. Additionally, the bank has a federal fund arrangement of \$20.0 million with an unaffiliated bank carrying an estimated rate of 0.00% to 0.25%. There were no outstanding balances against any of these available credit resources as of **June 30, 2011**.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

LIQUIDITY AND CAPITAL RESOURCES, *continued*

Cash Flows Overview Analysis

For the three months ended June 30, 2011, cash and cash equivalents decreased \$69 million and essentially even when compared to the same period in 2010. Cash was provided by **operating activities** of \$12.6 million during the second quarter 2011 as compared to \$0.3 million provided during the second quarter 2010. The primary driver affecting the increase in cash provided by operating activities was an increase in net shipments of real estate loans to be sold during the second quarter of 2011. Cash of \$39 million was used by **investing activities** for the three months ended June 30, 2011 was primarily a result of purchases of securities outpacing sales and maturities of securities, whereas \$32 million was provided during the comparable quarter 2010 as sales and maturities of securities outpaced purchases of securities. Cash of \$42.5 million was used in **financing activities** during second quarter 2011 compared to \$98.7 million of cash used in second quarter 2010 due to increases in total deposits in 2011.

For the six months ended June 30, 2011, cash and cash equivalents increased \$106.6 million as compared to a \$31.9 million increase for the comparative period in 2010. Net cash provided by **operating activities** increased to \$29.4 million from \$21.0 million in 2010 due primarily to an increase in net shipments of real estate loans to be sold. Net cash provided by **investing activities** for the six months ended June 30, 2011 was \$104.0 million compared to \$30.6 million provided by investing activities for the comparable period 2011 as sales and maturities of securities during both periods outpaced purchases of securities. Net loans decreased \$25.5 million for the six months ended June 30, 2011 whereas net loans increased \$22.4 million for the comparable period of 2010. Cash used in **financing activities** of \$26.8 million during 2011 as compared to \$19.7 million for the comparable period in 2010 was led primarily by decreases in total deposits and federal funds purchased, offset slightly by an increase in repurchase agreements.

Commitments and Contingencies

The bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments include standby letters of credit, loan commitments, subscriptions for the purchase of stock in the Federal Reserve Bank, and commitments to purchase and sell securities. The credit and market risks involved in issuing letters of credit and loan commitments are essentially the same as those involved in extending loans to customers. Such transactions are made under the same terms, including interest rates and collateral, as those prevailing at the same time for comparable on-balance-sheet transactions. To reduce credit risk related to the use of credit-related financial instruments, the bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the bank’s credit evaluation of the customer and may include cash, securities, accounts receivable, inventory, premises and equipment, and real estate.

The bank was party to the following off-balance-sheet commitments as of:

	JUNE 30, 2011	DECEMBER 31, 2010
Loan commitments	\$383,304	\$322,934
Bankcard commitments	78,395	76,111
Commitments to fund mortgage loans to be sold	36,436	46,601
Total Loan Commitments	\$498,135	\$445,646
Standby and commercial letters of credit	\$20,998	\$20,488
Subscriptions to purchase Federal Reserve Bank stock	\$2,196	\$2,196

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

LIQUIDITY AND CAPITAL RESOURCES, *continued*

Payments under known contractual obligations as of **June 30, 2011** are as follows:

<i>Dollars in thousands</i>	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Time deposits	\$148,588	\$136,303	\$7,914	\$4,014	\$357
Securities sold under agreements to repurchase	499,014	499,014	—	—	—
Notes payable	36	36	—	—	—
Capital lease obligations	1,688	555	1,062	71	—
Operating leases	257	106	111	40	—
Contractual Obligations By Period	\$649,583	\$636,014	\$9,087	\$4,125	\$357

Regulatory Capital

Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the bank must meet specific capital guidelines that involve quantitative measures of the bank’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The bank’s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the bank to maintain minimum risk-based capital and leverage ratios (Tier 1 capital to average assets). To be categorized as “well capitalized”, the bank is required to maintain minimum total risk-based capital, Tier 1 risk-based capital, and Tier 1 leverage ratios as set forth in the table below. The bank’s actual ratios are as follows:

DOLLARS IN THOUSANDS	ACTUAL		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO
As of June 30, 2011:				
Total Capital Ratio <i>(to Risk-weighted Assets)</i>	\$438,128	25.50%	\$171,825	10.00%
Tier I Capital Ratio <i>(to Risk-weighted Assets)</i>	\$422,028	24.56%	\$103,095	6.00%
Tier I Leverage Ratio <i>(to Average Assets)</i>	\$422,028	15.60%	\$135,232	5.00%
As of December 31, 2010:				
Total Capital Ratio <i>(to Risk-weighted Assets)</i>	\$428,939	23.67%	\$181,200	10.00%
Tier I Capital Ratio <i>(to Risk-weighted Assets)</i>	\$413,439	22.82%	\$108,720	6.00%
Tier I Leverage Ratio <i>(to Average Assets)</i>	\$413,439	14.78%	\$139,826	5.00%

PART I – I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION

The following table provides quarterly summary of operations data for the five consecutive quarters ended June 30, 2011:

QUARTERLY FINANCIAL SUMMARY *(dollars in thousands, except per share amounts)*

Quarterly Summary Of Operations	2011			2010	
	SECOND	FIRST	FOURTH	THIRD	SECOND
Interest and Loan Fee Income	\$26,410	\$26,980	\$28,825	\$29,015	\$28,543
Interest Expense	818	879	886	972	1,049
Net Interest and Fee Income	25,592	26,101	27,939	28,043	27,494
Provision for Loan Losses	760	816	(1,001)	(45)	(226)
Net Interest and Fee Income After Provision for Loan Losses	24,832	25,285	28,940	28,088	27,720
Noninterest Income	9,270	8,150	9,347	9,861	8,761
Salaries and Employee Benefits	11,592	11,349	11,317	11,070	11,223
Noninterest Expense	9,905	9,616	10,736	10,665	10,615
Income Before Taxes	12,605	12,470	16,234	16,214	14,643
Provision for Income Taxes	4,145	3,895	5,594	5,640	4,879
Net Income	\$8,460	\$8,575	\$10,640	\$10,574	\$9,764
Earnings Per Common Share	\$25.48	\$25.82	\$32.04	\$31.84	\$29.41
Dividends Paid Per Common Share	\$12.50	\$12.50	\$125.00	\$25.00	\$25.00
Average Assets	\$2,704,968	\$2,730,533	\$2,796,850	\$2,722,847	\$2,668,043
Average Total Equity	\$419,755	\$415,629	\$408,554	\$435,103	\$440,143
Ratio of Net Income to Average Assets	1.25%	1.27%	1.51%	1.55%	1.46%
Return on Average Equity	8.08%	8.37%	10.33%	9.64%	8.90%

Management Overview of Material changes in Quarterly Results of Operations

Net income for the quarter ended June 30, 2011 of \$8.5 million decreased \$1.3 million compared to the same quarter 2010. Second quarter **net interest and fee income** of \$25.6 decreased \$1.9 million from the comparative quarter of 2010. The **provision for loan losses** for the quarter ended June 30, 2011 increased \$1.0 million from the comparative quarter in 2010. Second quarter **noninterest income** of \$9.3 million increased modestly by \$0.5 million over the second quarter of 2010. **Salaries and employee benefits** increased \$0.4 million to \$11.6 million for the comparative quarter of 2010. **Noninterest expense** decreased \$0.7 million to \$9.9 million from the second quarter of 2010.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

Analysis of Interest Earning Assets and Interest Bearing Liabilities

The following table provides comparative average balances of interest earning assets, respective yields on a tax equivalent basis, and change analysis for the quarters ended **June 30, 2011** and 2010:

<i>Dollars in thousands</i> EARNING ASSETS	AVERAGE SECOND QUARTER BALANCES		AVERAGE YIELD		CHANGE DUE TO		
	2011	2010	2011	2010	RATE	VOLUME	TIME
Loans-Taxable	\$1,149,161	\$1,137,865	6.28%	6.50%			
Loans-Nontaxable	31,008	17,727	9.70%	10.79%			
Investment Securities-Taxable	1,137,532	1,085,509	2.06%	2.88%			
Investment Securities-Nontaxable	57,165	64,480	5.68%	5.83%			
Federal Funds Sold and Certificates of Deposit	17	16	0.00%	0.00%			
Interest Bearing Cash Balances	152,553	181,594	0.25%	0.25%			
Total Earning Assets	\$2,527,436	\$2,487,191	4.04%	4.48%	-0.53%	0.09%	0.00%

Interest and loan fee income for the quarters ended June 30, 2011 and 2010 was \$26.4 million and \$28.5 million, respectively, for a decrease of \$2.1 million or 7.4%. The tax equivalent yield on average earning assets decreased 44 basis points, from 4.48% in 2010 to 4.04% in 2011. Total average earning assets increased \$40.2 million, from \$2.487 billion at June 30, 2010 to \$2.527 billion as of June 30, 2011. Average loans, taxable investment securities, and federal funds sold balances increased quarter over quarter, while nontaxable investment securities and interest bearing cash balances decreased.

The net interest margin for the second quarter 2011 of 3.91% was 40 basis points lower than the net margin for the second quarter 2010 of 4.31%. Lower interest rates continue to have an overall downward impact on interest and loan fee income offset in part by upward impact of higher loan and security volumes. Non-accrual loans continue to have an overall negative impact on yields although the decline in non-accrual loans quarter over quarter had less of a negative impact for the quarter.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

Analysis of Interest Earning Assets and Interest Bearing Liabilities, *continued*

The following table provides comparative average balances of interest bearing liabilities, respective yields, and change analysis for the quarters ended **June 30, 2011** and 2010:

<i>Dollars in Thousands</i>	AVERAGE SECOND QUARTER BALANCES		AVERAGE YIELD		CHANGE DUE TO		
	2011	2010	2011	2010	RATE	VOLUME	TIME
INTEREST BEARING LIABILITIES							
Savings	\$494,952	\$428,555	0.29%	0.33%			
First Rate	171,289	164,680	0.03%	0.07%			
First Investment	189,049	221,713	0.07%	0.10%			
Time	138,680	157,239	0.67%	1.02%			
Federal Funds Purchased	12,187	24,174	0.13%	0.13%			
Repurchase Agreements	495,476	522,547	0.12%	0.13%			
Other Debt	1,556	2,057	6.44%	6.43%			
Total Interest Bearing Liabilities	\$1,503,189	\$1,520,965	0.22%	0.28%	-0.06%	0.00%	0.00%

Interest expense for the quarters ended **June 30, 2011** and 2010 was **\$0.8 million** and \$1.0 million, respectively, for a decrease of \$0.2 million or 22.0%. Interest expense decreased as interest rates paid for the total average aggregate interest bearing liabilities decreased 6 basis points, from 0.28% in 2010 to 0.22% in 2011. Average yields decreased primarily due to declining interest rates, resulting in lower interest expense for the current quarter as compared to the same period in 2010.

Total average aggregate outstanding interest bearing liabilities decreased \$18.0 million from \$1.521 billion at June 30, 2010 to \$1.503 billion at June 30, 2011. Savings and First Rate accounts increased quarter over quarter as customers and a national bank continue to place their confidence in our bank as a sound option. Repurchase accounts fluctuate with normal periodic activity within a normal range from period to period.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

Analysis of Interest Earning Assets and Interest Bearing Liabilities, *continued*

The following table provides comparative average balances of interest earnings assets, respective yields on a tax equivalent basis, and change analysis for the six months ended June 30, 2011 and 2010:

<i>Dollars in thousands</i>	AVERAGE SIX MONTH BALANCES		AVERAGE YIELD		CHANGE DUE TO		
	2011	2010	2011	2010	RATE	VOLUME	TIME
EARNING ASSETS							
Loans-Taxable	\$1,151,805	\$1,128,426	6.30%	6.53%			
Loans-Nontaxable	30,775	17,766	9.69%	10.42%			
Investment Securities-Taxable	1,162,551	1,091,351	2.16%	2.99%			
Investment Securities-Nontaxable	58,636	63,646	5.73%	5.89%			
Federal Funds Sold and Certificates of Deposit	825	34	0.24%	0.00%			
Interest Bearing Cash Balances	137,832	160,221	0.25%	0.25%			
Total Earning Assets	\$2,542,424	\$2,461,444	4.10%	4.56%	-0.67%	0.21%	0.00%

Interest and loan fee income for the six months ended June 30, 2011 and 2010 was \$53.4 million and \$57.1 million, respectively, for a decrease of \$3.7 million or 6.5%. The tax equivalent yield on average earning assets decreased 46 basis points, from 4.56% in 2010 to 4.10% in 2011. Total average earning assets increased \$81.0 million from \$2.461 billion at June 30, 2010 to \$2.542 billion as of June 30, 2011. Average loan levels and investment securities increased \$36.4 million and \$66.2 million, respectively, period over period while interest bearing cash balances decreased \$22.4 million.

The net interest margin for the six months ended June 30, 2011 of 3.97% was 42 basis points lower than the net interest margin for the comparable period of 2010 of 4.39%. Declining yields in average loan levels and investment securities drove the overall decline in interest and loan fee income offset slightly by increases in yield of federal funds sold.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

Analysis of Interest Earning Assets and Interest Bearing Liabilities, *continued*

The following table provides comparative average balances of interest earnings liabilities, respective yields, and change analysis for the six months ended June 30, 2011 and 2010:

<i>Dollars in thousands</i>	AVERAGE SIX MONTH BALANCES		AVERAGE YIELD		CHANGE DUE TO		
	2011	2010	2011	2010	RATE	VOLUME	TIME
INTEREST BEARING LIABILITIES							
Savings	\$492,622	\$427,785	0.29%	0.33%			
First Rate	172,849	164,417	0.04%	0.05%			
First Investment	192,712	202,125	0.08%	0.09%			
Time	140,886	159,482	0.71%	1.06%			
Federal Funds Purchased	18,713	22,181	0.13%	0.13%			
Repurchase Agreements	499,145	528,223	0.13%	0.13%			
Other Debt	1,550	2,047	6.64%	6.60%			
Total Interest Bearing Liabilities	\$1,518,477	\$1,506,260	0.23%	0.28%	-0.05%	0.00%	0.00%

Interest expense for the six months ended June 30, 2011 and 2010 was \$1.7 million and \$2.1 million, respectively. Interest expense decreased as interest rates paid for the total average aggregate interest bearing liabilities decreased 5 basis points from 0.28% in 2010 to 0.23% in 2011. Total average aggregate outstanding interest bearing liabilities increased \$12.2 million from \$1.506 billion at June 30, 2010 to \$1.518 billion in 2011 slightly offsetting the decline in yields due to falling interest rates.

The federal funds purchased resulted from an arrangement with another financial institution seeking to spread their cash position across other credit worthy institutions, which are offset by a deposit at the Federal Reserve Bank and currently yields 0.25%.

PART I – ITEM 2.

**ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS,** *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

Provision for Loan Losses

The following is an analysis of the changes in the allowance for loan losses for the quarters ended June 30, 2011 and 2010:

<i>Dollars in Thousands</i>	2011	2010
Beginning Balance, April 1,	\$15,000	\$18,000
Total Charge Offs	268	204
Total Recoveries	(108)	(430)
Net Charge Offs	\$160	(\$226)
Provision for Loan Losses	760	(226)
Balance, June 30,	\$15,600	\$18,000

The following is an analysis of the changes in the allowance for loan losses for the six months ended June 30, 2011 and 2010:

<i>Dollars in Thousands</i>	2011	2010
Beginning Balance, January 1,	\$15,000	\$18,000
Total Charge Offs	1,299	1,302
Total Recoveries	(323)	(777)
Net Charge Offs	\$976	\$525
Provision for Loan Losses	1,576	525
Balance, June 30,	\$15,600	\$18,000

Normal charge offs and recoveries occur as loans are deemed uncollectible or cash is received on previously charged off debts. During the current quarter, a higher additional provision for loan losses was recorded on impaired real estate and commercial loans based on a specific evaluation performed by management as detailed in footnote 3.

The provision for loan losses for the six months ended June 30, 2011 included provision of commercial loans of \$1.8 million, related to impaired floor financing credits and other commercial loans. This provision was recorded based on management’s estimates on collateral and overall collectability which is subject to continuing evaluation as further information becomes known.

As to the floor plan financing credits discussed in the prior Form 10-Q, the bank took possession of existing dealership inventory during April 2011 and completed the first phase of liquidation activities by June 30, 2011. The bank will complete the remaining liquidation activity prior to September 30, 2011. For the quarter ended June 30, 2011, management increased its total reserve for losses on these credits by \$0.1 million over loss levels estimated at March 31, 2011.

The provision for loan losses for the six months ended June 30, 2011 included a net decrease in provision for real estate loans of \$0.1 million. This net decrease resulted from the release of impaired loan reserves as specific loans were resolved and charged off during the period.

PART I

ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

Noninterest Income

Total noninterest income for the quarter and six months ended June 30, 2011 was \$9.3 million and \$17.4 million, respectively, as compared to \$8.8 million and \$16.7 million for the same periods of 2010, respectively. Bankcard fees increased \$0.4 million for the second quarter and \$0.7 million for the six months ended June 30, 2011 as a result of overall increases in the volume and rates. Service charges on deposit accounts continue to decrease modestly due to lower nonsufficient funds and other service charges. Gains on sale of mortgage loans increased slightly with strong refinancing activity continuing throughout 2011. Net gains on investments increased \$0.4 million and \$0.6 million for the quarter and six months ended June 30, 2011 as a result of normal periodic selling of securities held for sale used to generate cash for liquidity when needed and the sale of the Mastercard stock. Other noninterest income decreased \$0.4 million and \$0.6 million for the quarter and six months ended June 30, 2011 as the result of the elimination of ATM fees during mid 2010.

Noninterest Expense

Total noninterest expense for the quarter and six months ended June 30, 2011 was \$21.5 million and \$42.5 million, respectively, as compared to \$21.8 million and \$42.6 million for the same periods of 2010, respectively. Salary and employee benefits increased \$0.4 million and \$0.5 million for the quarter and six months ended June 30, 2011 to \$11.6 million and \$22.9 million, respectively, from \$11.2 million and \$22.4 million for the comparative periods of 2010 primarily as a result of growing medical benefits expense. The bank is self-insured subject to maximum claim limits above which insurance policies apply. The bank has been successful in controlling medical benefit costs but is subject to periodic specific claim expenses above average levels. Second quarter and year-to-date 2011 occupancy expenses increased \$0.1 million and \$0.3 million from the comparative periods of 2010 as a result of increasing fuel and electricity costs with periodic repair and maintenance expenses of our statewide branch network. Furniture and equipment expenses decreased \$0.2 million and \$0.4 million for the quarter and six months ended June 30, 2011 with replacement of equipment rental with professional services contracts.

Other noninterest expense decreased \$0.6 million and \$0.5 million for the quarter and six months ended June 30, 2011, respectively. Within the line item, the bank recorded higher FDIC insurance premiums of \$0.2 million, software licensing fees of \$0.1 million and professional services of \$0.2 million. Offsetting these increases, the bank recorded lower losses on equity investments (\$0.9 million) and reductions in postage, freight, stationary and supplies (\$0.3 million).

PART I

**ITEM 2. – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS,** *continued*

MATERIAL CHANGES IN QUARTERLY RESULTS OF OPERATION, *continued*

The following table provides a summary of the provision for income taxes and the effective combined tax rate for relevant comparative periods:

Dollars in thousands

PROVISION FOR INCOME TAXES	SIX MONTHS ENDED JUNE 30, 2011	YEAR ENDED DECEMBER 31, 2010	SIX MONTHS ENDED JUNE 30, 2010
Income before taxes	\$25,075	\$61,146	\$28,698
Provision for income taxes	8,040	20,764	9,530
Net income	\$17,035	\$40,382	\$19,168
Effective combined tax rate	32.1%	34.0%	33.2%

The effective tax rate reflected in the provision for income taxes for the six months ended June 30, 2011 is lower than the effective rate for the twelve months ended December 31, 2010 and the six months ended June 30, 2010. The decrease in the effective rate as of June 30, 2011 is a result of increased benefits derived from tax exempt securities at the state and federal levels and the use of Alaska film tax credits applied in the current year.

PART I

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The bank believes there have not been any material changes in quantitative and qualitative information about market risk as disclosed at December 31, 2010. It should be noted the bank conducts nearly all its activities within the state of Alaska. The Alaskan economy is directly impacted by federal and state appropriations as well as commodity prices in conjunction with natural resource extraction and development. The bank is subject to market risk if either the federal and/or state spending within the state declines or commodity prices decline resulting in decreasing resource activities.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

The bank's Principal Executive Officer and Principal Accounting Officer have reviewed and evaluated the effectiveness of the bank's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2011. Based on that evaluation, the Principal Executive Officer and Principal Accounting Officer have concluded that the bank's current disclosure controls and procedures are effective, providing them with material information relating to the bank as required to be disclosed in the reports the bank files or submits under the Exchange Act on a timely basis.

Internal Controls over financial reporting

There were no material changes in the bank's internal controls over financial reporting during the last fiscal quarter that have materially affected, or are reasonable likely to materially affect, internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of the other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II

ITEM 1. LEGAL PROCEEDINGS

From time to time in the normal course of business, various claims are asserted against the bank. Management is of the opinion that ultimate resolution of matters presently known to exist will have no material effect on the bank's financial statements.

ITEM 1A. RISK FACTORS

The bank believes that there have not been any material changes in risk factors since the year ended December 31, 2010.

ITEMS 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

First National Bank Alaska Repurchase Activity required in 10K (item 5) Regulation S-K (229.703) As of June 30, 2011

The following table provides information about repurchases of common stock by the bank during the quarter ended June 30, 2011:

MONTH ENDING	(A) TOTAL NUMBER OF SHARES PURCHASED	(B) AVERAGE PRICE PAID PER SHARE	(C) TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PROGRAM	(D) MAXIMUM NUMBER OF SHARES OR APPROXIMATE DOLLAR VALUE OF SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
April 2011	—	\$—	—	\$100,000,000
May 2011	—	\$—	—	\$100,000,000
June 2011	85	\$1,700.88	85	\$99,855,425
Total	85	\$1,700.88	85	\$99,855,425

PART II

ITEM 6. EXHIBITS

EXHIBIT NUMBER	EXHIBIT
(31.1)	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
(31.2)	Certification of the Principal Accounting Officer pursuant to Section 302 or the Sarbanes-Oxley Act of 2002
(32)	Certification of the Chief Executive Officer and Principal Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Page number references are to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

EXHIBIT NUMBER	EXHIBIT	PAGE(S)
(3) (I)	Articles of Association, as amended	17-18
(3) (ii)	Amended and Restated Bylaws	19-24
(3) (iii)	Special Shareholders' Meeting.	25

PART II

ITEM 6. SIGNATURES

Pursuant to the requirements of Section 13, or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 8, 2011

DATE



D. H. Cuddy
Chairman and President, (Principal Executive Officer)

August 8, 2011

DATE



Michele M. Schuh
Comptroller, (Principal Accounting Officer)

PART II

ITEM 6. EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, D.H. Cuddy, Chairman and President, certify that:

1. I have reviewed this report on Form 10-Q of First National Bank Alaska;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2011
Date:


D. H. Cuddy
Chairman and President, (Principal Executive Officer)

PART II

ITEM 6. EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michele M. Schuh, Comptroller, certify that:

1. I have reviewed this report on Form 10-Q of First National Bank Alaska;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within these entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 8, 2011

Date:

Michele M. Schuh

Michele M. Schuh
Comptroller, (Principal Accounting Officer)

PART II

ITEM 6. EXHIBIT 32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND PRINCIPAL ACCOUNTING OFFICER
UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the First National Bank Alaska's ("bank") Annual Report on Form 10-Q ("Report") for the period ending June 30, 2011, each of the undersigned hereby certifies, that:

- (1) To the best of my knowledge, the Report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act of 1934; and
- (2) To the best of my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the bank.

August 8, 2011

Date:



D.H. Cuddy

Chairman and President, (Principal Executive Officer)

August 8, 2011

Date:



Michele Schuh

Comptroller, (Principal Accounting Officer)

