

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

FIRST NATIONAL BANK ALASKA

ALASKA 92-0006595

101 West 36th Avenue
Post Office Box 100720
Anchorage, Alaska 99510-0720

(907) 777-4362

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

TITLE OF CLASS

Common Stock, \$100.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

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 [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

[X]

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

Large accelerated filer [] Accelerated filer [X] Non-accelerated filer []

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

Yes [] No [X]

The approximate aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common equity, as of June 30, 2008, was approximately \$241,699,000.

There were 333,103 shares of common stock outstanding as of March 6, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the First National Bank Alaska's 2009 Proxy Statement for the Annual Meeting of Shareholders to be held on April 28, 2009.

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Part I

ITEM 1. BUSINESS

First National Bank Alaska (bank) was organized as a National Association on September 21, 1921, and is a full service commercial bank providing general banking and trust services for business, industry, and individuals primarily within the State of Alaska. The bank is the largest bank headquartered in Alaska based upon asset and deposit size as of December 31, 2008. Banking services are provided from 30 branches in 17 Alaska communities, including 9 branches in Anchorage, 3 branches in Juneau and 3 branches in Fairbanks.

General Banking Services

This bank provides a complete range of depository and lending services, which include checking accounts, savings accounts, money market accounts, time certificates of deposit, traditional/Roth IRA accounts, securities sold under agreements to repurchase, commercial loans, consumer loans, construction and mortgage loans, safe deposit box services, night depositories, MasterCard credit cards, walk-up and drive-in banking, and an automated teller machine network. Other business services include issuance of letters of credit, collection and escrow services, mortgage loan servicing and trust services.

Competition

This bank competes with national and state banks, savings and loan associations, insurance companies, investment brokerage firms, Internet banks, money market funds and credit unions. Alaska allows out-of-state bank holding companies to acquire banks and domestic bank holding companies in Alaska. The law does not require reciprocal provisions by the home state of the out-of-state bank holding companies. To the extent that out-of-state bank holding companies enter the Alaskan market, the bank may encounter intensified competition.

Loans and Deposit Concentration

No material portion of the bank's deposit base has been obtained from a single source; therefore, the loss of any one or more single deposits would not have a materially adverse effect upon the bank. While the bank generally invests a large proportion of its assets in loans secured by commercial and residential real estate properties there is no material concentration of the bank's loans or commitments to lend to or within a single industry or group of related industries.

Certain customers, both depositors and borrowers, are included in seasonal activities, such as fisheries, summer tourism, or construction. However, taken as a whole, the broad mix of the bank's customer base lessens the impact of seasonality upon the bank.

Foreign Sources and Application of Funds

The bank has no material risks attendant to foreign sources and applications of funds.

Environmental Protection

There are no known material effects upon the bank's capital expenditures, earnings and competitive position due to compliance with Federal, State and local provisions relating to the protection of the environment.

Employees

The bank employed 688 full-time equivalent employees on December 31, 2008.

Available Information

The bank provides access to its filings on Forms 10-K, 10-Q and 8-K on its web site **FNBAAlaska.com**, free of charge, as soon as reasonably practicable after these reports are furnished to the Comptroller of the Currency. To locate, click on the **About FNBA** tab and select the **Financial Reports** caption. Otherwise a paper copy of these reports will be made available, free of charge, upon written request directed to:

Jason L. Roth, Senior Vice President
First National Bank Alaska
P.O. Box 100720
Anchorage, Alaska 99510-0720
(907) 777-3546
email: jroth@FNBAAlaska.com

ITEM 1A. RISK FACTORS

Competition

The bank's market area is highly competitive and competition in lending activities comes principally from other commercial banks and credit unions. The primary factors in competing for loans are interest rates and overall lending services. There are branches of local, regional, national banks, as well as a variety of credit unions of all sizes, located in its primary market area. In addition the bank faces competition from insurance companies, investment brokerage firms, Internet banks and savings associations. Competition for deposits among the banks is strong, and as a result, the bank monitors its competitive position and makes adjustments in pricing that management deems necessary to attract new depositors and maintain current deposit relationships. The primary factors in competing for deposits are location and overall financial condition.

Credit Risk: Concentration of Loan Portfolio

The bank generally invests a large proportion of its assets in loans secured by commercial and residential real estate properties. While management does not expect a substantial decline in real estate values and economic conditions in Alaska, a decline in these values or economic activities could have an impact on the value of collateral securing the loans as well as the ability for the repayment of loans.

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation have observed that commercial real estate is an area in which some banks have become increasingly concentrated. These agencies support banks serving a vital role in their communities by supplying credit for business and real estate development. However, the agencies are concerned that rising commercial real estate loan concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in commercial real estate markets. Accordingly, the agencies issued Commercial Real Estate Guidance in December 2006 to ensure that institutions with such concentrations maintain strong risk management practices and appropriate levels of capital. This guidance does not impose any limits on the level of commercial real estate lending made by banks. The bank has credit risk management processes, including the preparation of concentration reports, subject to review and evaluation by management to monitor and address possible concentration issues.

Interest Rate Risk

Aside from credit risk, the most significant risk resulting from the bank's normal course of business, extending loans and accepting deposits, is interest rate risk. If market interest rate fluctuations cause the bank's cost of funds to increase faster than the yield of its interest-earning assets, then its net interest income will be reduced. Bank results of operation depend, to a large extent, on the level of net interest income which is the difference between income from interest-earning assets and interest expense on interest bearing liabilities. Interest rates are highly sensitive to many factors that are beyond the bank's control, including general economic conditions and the policies of various governmental and regulatory authorities. To provide guidance to management, the bank's board of directors have established a policy related thereto which includes interest rate risk parameters within which to operate.

Effect of Environmental Regulation

The bank's primary exposure to environmental risk is through its lending activities. In cases when management believes environmental risk potentially exists, the bank mitigates its environment risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. Environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral. With regard to residential real estate lending, management reviews those loans with inherent environmental risk on an individual basis and makes decisions based on the dollar amount of the loan and the materiality of the specific credit.

Capital Standards

The Federal Deposit Insurance Corporation and other federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. As of December 31, 2008, the bank's capital significantly exceeds regulatory requirements. A schedule of capital amounts and ratios is included in Note 21 to the financial statements presented in Item 8 on page 51.

Highly Regulated Environment

The bank is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. Such regulation and supervision govern the activities in which a financial institution may engage and are intended primarily for the protection of the consumer. Recently regulators have intensified their focus on the USA PATRIOT Act's anti-money laundering and Bank Secrecy Act compliance requirements. In order to comply with regulations, guidelines and examination procedures in this area as well as other areas, the bank has been required to adopt new policies and procedures and to install new systems. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of the institution. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, or legislation, may have a material impact on operations.

Liquidity Risk

Liquidity sources are provided from both the asset and liability side of the balance sheet. Asset side liquidity is generated from maturing loans and investments plus marketable assets disposable at or near book values. 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 meet its liquidity needs. At December 31, 2008 the bank had committed lines of credit from the Federal Reserve Bank and Federal Home Loan Bank Seattle in the amounts of \$76,810 and \$80,722, respectively. The bank does not consider access to the Federal Home Loan Bank Seattle line to be material to its liquidity management.

ITEM 2. PROPERTIES

The executive administrative offices of First National Bank Alaska are located at West 36th Avenue and A Street in Anchorage, Alaska. Additional Anchorage administrative and operational facilities include a service center, an operations center, and a warehouse facility. Also in Anchorage, the bank owns one two-story building and one nine-story building which are sublet and two unimproved lots intended for a future branch location.

The bank owns 27 of its statewide branch offices (including one which is subject to a ground lease) and leases three other branches under operating lease agreements. The bank owns residential properties in rural areas for use by the associated branch personnel.

ITEM 3. LEGAL PROCEEDINGS

The information required by Item 3 is included in Note 13 to the financial statements presented in Item 8 on page 43.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 26, 2008, 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 expires when the bank has repurchased stock representing an aggregate purchase price of \$100 million, or upon termination of the program by the Board of Directors, whichever occurs first. All repurchased shares are retired and available to reissue for general corporate purposes.

The program was approved at a Special Shareholders' Meeting on November 19, 2008 held for the sole purpose of considering and voting upon the stock repurchase program.

Repurchase of shares commenced late November 2008. Details of the repurchase activity are reported in the Statement of Changes in Shareholders' Equity and Comprehensive Income and Note 12 to the financial statements presented in Item 8 on pages 30 and 42, respectively.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

SECURITIES MARKET

Common stock of First National Bank Alaska is traded primarily over-the-counter under the ticker symbol FBAK. The following table reflects the high and low bid prices of the bank's common stock during each of the calendar quarters indicated. These prices were obtained from sources considered to be reliable; although they do not necessarily represent actual transactions, they are believed to be reasonable approximations of price ranges for the periods indicated.

2008	CALENDAR QUARTER			
	FIRST	SECOND	THIRD	FOURTH
High	\$2,005	\$1,970	\$1,910	\$1,790
Low	\$1,750	\$1,832	\$1,660	\$1,510
2007				
High	\$2,160	\$2,249	\$2,225	\$2,050
Low	\$2,050	\$2,151	\$2,010	\$1,990
Cash Dividends Paid Per Share				
2008	\$25.00	\$25.00	\$25.00	\$25.00
2007	\$25.00	\$25.00	\$25.00	\$25.00

As of **December 31, 2008** and 2007, there were **566** and 592 shareholders of record, respectively, according to the bank's shareholder record system. These records do not include beneficial owners whose stock is held in street name.

The following table provides information about repurchases of common stock by the bank during the quarter ended December 31, 2008:

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 SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
October 2008	—	—	—	\$100,000,000
November 2008	—	—	—	\$100,000,000
December 2008	5,999	\$1,661.49	5,999	\$90,032,736
Total	5,999	\$1,661.49	5,999	\$90,032,736

ITEM 6. SELECTED FINANCIAL DATA

FIVE YEAR FINANCIAL SUMMARY *(dollars in thousands, except per common share data)*

Summary Of Operations	2008	2007	2006	2005	2004
Interest And Loan Fee Income	\$129,302	\$152,694	\$146,498	\$124,796	\$109,249
Interest Expense	15,709	37,299	34,444	20,468	8,655
Net Interest And Loan Fee Income	113,593	115,395	112,054	104,328	100,594
Provision For Loan Losses	3,475	8,063	1,420	2,535	1,793
Net Interest And Loan Fee Income After Provision For Loan Losses	110,118	107,332	110,634	101,793	98,801
Noninterest Income	41,366	36,099	33,963	34,036	33,696
Noninterest Expense	85,669	83,310	79,081	77,869	74,854
Income Before Taxes	65,815	60,121	65,516	57,960	57,643
Provision For Income Taxes	22,913	22,089	23,344	22,506	20,467
Net Income	\$42,902	\$38,032	\$42,172	\$35,454	\$37,176
Cash Dividends Paid	\$34,476	\$34,476	\$34,476	\$34,476	\$34,476
Selected Year-End Balances	2008	2007	2006	2005	2004
Investment Securities	\$1,023,629	\$955,094	\$872,383	\$868,359	\$908,153
Loans, Gross	\$1,205,826	\$1,172,286	\$1,216,134	\$1,149,674	\$1,090,754
Total Assets	\$2,436,989	\$2,308,664	\$2,272,643	\$2,183,790	\$2,145,916
Deposits	\$1,460,709	\$1,341,720	\$1,353,995	\$1,423,619	\$1,415,749
Shareholders' Equity	\$469,361	\$458,474	\$434,461	\$430,860	\$435,788
Per Common Share Data	2008	2007	2006	2005	2004
Net Income	\$124.59	\$110.32	\$122.32	\$102.84	\$107.83
Cash Dividends Paid	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00
Book Value at December 31,	\$1,385.53	\$1,329.84	\$1,260.19	\$1,249.74	\$1,264.03

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AVERAGE BALANCES AND ANALYSIS OF RELATED INCOME AND EXPENSE (dollars in thousands)

ASSETS	AVERAGE BALANCE		
	2008	2007	2006
Interest bearing cash balances	\$20,350	\$ —	\$ —
Federal funds sold	66,393	93,101	73,346
Investment securities:			
U.S. Treasury securities	53,389	78,580	95,995
U.S. Government-sponsored enterprises	784,575	704,045	551,547
U.S. Government-sponsored enterprises - state taxable	3,106	46,315	193,264
States and political subdivisions*	71,903	48,622	27,520
Other securities	7,823	4,373	4,373
Total investment securities	920,796	881,935	872,699
Loans:			
Commercial and industrial	231,479	237,724	247,999
Real estate	824,279	841,261	848,559
Real estate loans to be sold	10,001	13,318	13,105
Consumer and other	30,852	31,365	31,833
Nontaxable states and political subdivision obligations*	20,224	17,672	13,808
Total loans	1,116,835	1,141,340	1,155,304
Total Earning Assets	2,124,374	2,116,376	2,101,349
Nonaccrual loans	69,555	41,750	14,707
Other non-earning assets	147,888	139,817	141,112
Total Assets	\$2,341,817	\$2,297,943	\$2,257,168
LIABILITIES AND SHAREHOLDERS' EQUITY			
Savings	\$330,124	\$318,421	\$350,553
NOW	137,834	130,270	134,709
Money market	182,408	178,238	178,798
Time	144,368	135,260	129,806
Federal funds purchased and securities sold under agreements to repurchase	515,288	512,802	429,207
Notes payable, capital lease obligations and other	3,147	4,865	3,998
Total Interest Bearing Liabilities	1,313,169	1,279,856	1,227,071
Noninterest bearing demand	561,182	553,771	568,046
Other noninterest bearing liabilities	15,353	19,440	23,206
Shareholders' equity	452,113	444,876	438,845
Total Noninterest Bearing			
Liabilities And Shareholders' Equity	1,028,648	1,018,087	1,030,097
Total Liabilities And Shareholders' Equity	\$2,341,817	\$2,297,943	\$2,257,168
NET INTEREST INCOME* AND RATIO TO EARNING ASSETS			
Loan origination fees			
Less taxable equivalent adjustment*			
Net Interest And Loan Fee Income (Financial Reporting Basis)			
Provision for loan losses			
Noninterest income			
Noninterest expense			
Provision for income taxes			
Net Income And Ratio To Total Assets			

NET INTEREST INCOME* AND RATIO TO EARNING ASSETS

Loan origination fees			
Less taxable equivalent adjustment*			
Net Interest And Loan Fee Income (Financial Reporting Basis)			
Provision for loan losses			
Noninterest income			
Noninterest expense			
Provision for income taxes			
Net Income And Ratio To Total Assets			

* Nontaxable income is presented on a tax equivalent basis using a combined Federal and State marginal tax rate of **41.11%** for **2008**, 2007 and 2006, and adjusted for the disallowance of interest expense associated with tax-exempt assets.

INCOME AND EXPENSE			AVERAGE RATE		
2008	2007	2006	2008	2007	2006
\$132	\$ —	\$ —	.65%	—	—
1,438	4,743	3,719	2.17%	5.09%	5.07%
2,302	3,519	3,593	4.31%	4.48%	3.74%
35,155	34,033	23,445	4.48%	4.83%	4.25%
105	1,581	6,015	3.38%	3.41%	3.11%
4,047	2,729	1,550	5.63%	5.61%	5.63%
508	165	148	6.49%	3.77%	3.38%
42,117	42,027	34,751	4.57%	4.77%	3.98%
16,536	20,960	21,797	7.14%	8.82%	8.79%
60,834	74,764	75,189	7.38%	8.89%	8.86%
741	1,018	1,107	7.41%	7.64%	8.45%
2,281	2,273	2,449	7.39%	7.25%	7.69%
1,979	1,475	1,199	9.79%	8.35%	8.68%
82,371	100,490	101,741	7.38%	8.80%	8.81%
126,058	147,260	140,211	5.93%	6.96%	6.67%

2,958	4,696	4,950	.90%	1.47%	1.41%
785	1,984	2,100	.57%	1.52%	1.56%
1,800	4,493	4,533	.99%	2.52%	2.54%
4,349	5,262	3,971	3.01%	3.89%	3.06%
5,613	20,540	18,631	1.09%	4.01%	4.34%
204	324	259	6.48%	6.66%	6.48%
15,709	37,299	34,444	1.20%	2.91%	2.81%

110,349	109,961	105,767	5.19%	5.20%	5.03%
5,457	6,600	7,025			
2,213	1,166	738			
113,593	115,395	112,054			
3,475	8,063	1,420			
41,366	36,099	33,963			
85,669	83,310	79,081			
22,913	22,089	23,344			
\$42,902	\$38,032	\$42,172	1.83%	1.66%	1.87%

ANALYSIS OF INTEREST CHANGE (dollars in thousands)

ASSETS	COMPONENTS OF INTEREST CHANGE - 2008 VS. 2007		
	RATE	CHANGE DUE TO, VOLUME	TOTAL CHANGE
Interest bearing cash balances	\$132	\$ —	\$132
Federal funds sold	(1,944)	(1,361)	(3,305)
Investment securities:			
U.S. Treasury securities	(89)	(1,128)	(1,217)
U.S. Government-sponsored enterprises	(2,771)	3,893	1,122
U.S. Government-sponsored enterprises - state taxable	(1)	(1,475)	(1,476)
States and political subdivisions	11	1307	1,318
Other securities	213	130	343
Total investment securities	(1,762)	1,852	90
Loans:			
Commercial and industrial	(3,873)	(551)	(4,424)
Real estate	(12,421)	(1,509)	(13,930)
Real estate loans to be sold	(23)	(254)	(277)
Consumer and other	45	(37)	8
Nontaxable states and political subdivision obligations	291	213	504
Total loans	(15,961)	(2,158)	(18,119)
Total Earning Assets	(21,759)	557	(21,202)
LIABILITIES			
Savings	(1,911)	173	(1,738)
NOW	(1,314)	115	(1,199)
Money market	(2,798)	105	(2,693)
Time	(1,267)	354	(913)
Federal funds purchased and securities sold under agreements to repurchase	(15,027)	100	(14,927)
Notes payable, capital lease obligations and other	(6)	(114)	(120)
Total Interest Bearing Liabilities	\$(22,561)	\$971	(21,590)
Net Interest Income			388
Loan origination fees			(1,143)
Less taxable equivalent adjustment			1,047
Net Interest And Fee Income (Financial Reporting Basis)			(1,802)
Provision for loan losses			(4,588)
Noninterest income			5,267
Noninterest expense			2,359
Provision for income taxes			824
Net Income			\$4,870

ANALYSIS OF INTEREST CHANGE (dollars in thousands)

ASSETS	COMPONENTS OF INTEREST CHANGE - 2007 VS. 2006		
	CHANGE DUE TO,		TOTAL CHANGE
	RATE	VOLUME	
Interest bearing cash balances	\$ —	\$ —	\$ —
Federal funds sold	22	1,002	1,024
Investment securities:			
U.S. Treasury securities	578	(652)	(74)
U.S. Government-sponsored enterprises	4,106	6,482	10,588
U.S. Government-sponsored enterprises - state taxable	140	(4,574)	(4,434)
States and political subdivisions	(10)	1,189	1,179
Other securities	17	—	17
Total investment securities	6,908	368	7,276
Loans:			
Commercial and industrial	66	(903)	(837)
Real estate	222	(647)	(425)
Real estate loans to be sold	(107)	18	(89)
Consumer and other	(140)	(36)	(176)
Nontaxable states and political subdivision obligations	(60)	336	276
Total loans	(21)	(1,230)	(1,251)
Total Earning Assets	6,046	1,003	7,049
LIABILITIES			
Savings	200	(454)	(254)
NOW	(47)	(69)	(116)
Money market	(26)	(14)	(40)
Time	1,124	167	1,291
Federal funds purchased and securities sold under agreements to repurchase	(1,720)	3,629	1,909
Notes payable, capital lease obligations and other	9	56	65
Total Interest Bearing Liabilities	\$1,373	\$1,482	2,855
Net Interest Income			4,194
Loan origination fees			(425)
Less taxable equivalent adjustment			428
Net Interest And Fee Income (Financial Reporting Basis)			3,341
Provision for loan losses			6,643
Noninterest income			2,136
Noninterest expense			4,229
Provision for income taxes			(1,255)
Net Income			\$(4,140)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ANALYSIS OF FINANCIAL CONDITION *(dollars in thousands)*

The following tables provide an overview of the condensed statements of condition and changes for the year and quarter ended December 31, 2008 and provide the foundation for the management summary that follows.

Table 1 provides the percentage change by major caption for the year ended December 31, 2008 and major caption comparative data for the years ended 2007 and 2006.

Table 1A provides condensed, comparative statements of condition as of the quarterly period-end dates with percentage changes for the fourth quarter period ended December 31, 2008.

Table 1B provides condensed, comparative statements of condition as of the quarterly period-end dates with balances shown as a percentage of total assets to highlight composition consistency.

TABLE 1 - CONDENSED COMPARATIVE STATEMENTS OF CONDITION AS OF DECEMBER 31 *(dollars in thousands)*

	2008	INCREASE (DECREASE) %	2007	2006
Total cash and equivalents	\$138,088	40.6 %	\$98,246	\$110,229
Total securities	1,023,629	7.2 %	955,094	872,383
Total loans, net ⁽¹⁾	1,186,826	3.0 %	1,152,786	1,203,134
Premises and equipment, net	43,684	(6.1)%	46,543	45,030
Other assets	44,762	(20.1)%	55,995	41,867
Total Assets	\$2,436,989	5.6 %	\$2,308,664	\$2,272,643
Total deposits	\$1,460,709	8.9 %	\$1,341,720	\$1,353,995
Other liabilities	506,919	(0.3)%	508,470	484,187
Total shareholders' equity	469,361	2.4 %	458,474	434,461
Total Liabilities and Shareholders' Equity	\$2,436,989	5.6 %	\$2,308,664	\$2,272,643

TABLE 1A - CONDENSED, COMPARATIVE STATEMENTS OF CONDITION AS OF DECEMBER 31, 2008 *(dollars in thousands)*

	DECEMBER 31, 2008	% CHANGE	SEPTEMBER 30, 2008	JUNE 30, 2008	MARCH 31, 2008
Total cash and equivalents	\$138,088	(47.1)%	\$261,240	\$140,065	\$213,888
Total securities	1,023,629	7.6 %	951,010	915,841	897,316
Total loans, net ⁽¹⁾	1,186,826	0.0 %	1,186,996	1,166,824	1,133,053
Premises and equipment, net	43,684	(0.8)%	44,034	45,402	45,810
Other assets	44,762	(13.5)%	51,740	51,641	49,078
Total Assets	\$2,436,989	(2.3)%	\$2,495,020	\$2,319,773	\$2,339,145
Noninterest bearing deposits	\$593,499	(5.6)%	\$628,767	\$566,053	\$533,577
Interest bearing deposits	867,210	1.6 %	853,836	775,808	780,711
Securities sold under agreements to repurchase	487,138	(8.4)%	531,672	496,818	530,222
Other liabilities	19,781	18.1 %	16,748	16,916	24,092
Total shareholders' equity	469,361	1.2 %	463,997	464,178	470,543
Total Liabilities and Shareholders' Equity	\$2,436,989	(2.3)%	\$2,495,020	\$2,319,773	\$2,339,145

TABLE 1B - CONDENSED, COMPARATIVE COMPOSITION PERCENTAGES FOR THE STATEMENTS OF CONDITION (dollars in thousands)

	DECEMBER 31, 2008	SEPTEMBER 30, 2008	JUNE 30, 2008	MARCH 31, 2008	DECEMBER 31, 2007
Total cash and equivalents	6%	10%	6%	9%	4%
Total securities	42%	38%	40%	39%	41%
Total loans, net ⁽¹⁾	48%	48%	50%	48%	50%
Premises and equipment, net	2%	2%	2%	2%	2%
Other assets	2%	2%	2%	2%	3%
Total Assets	100%	100%	100%	100%	100%
Noninterest bearing deposits	24%	25%	25%	23%	24%
Interest bearing deposits	36%	34%	33%	33%	34%
Securities sold under agreements to repurchase	20%	21%	21%	23%	21%
Other liabilities	1%	1%	1%	1%	1%
Total shareholders' equity	19%	19%	20%	20%	20%
Total Liabilities and Shareholders' Equity	100%	100%	100%	100%	100%

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

MANAGEMENT SUMMARY

ASSETS

Total assets increased to **\$2.437 billion** as of **December 31, 2008** for an increase of \$128.3 million (5.6%) over December 31, 2007. **Total cash and equivalents** increased by \$39.8 million (40.6%) to **\$138.1 million** as of **December 31, 2008** as the bank increased its liquidity to support the common stock repurchase program approved by shareholders in November 2008. This program is further discussed in Item 4 and Item 8, Note 12.

The **securities** portfolio increased \$68.5 million (7.2%) to **\$1.024 billion** as of **December 31, 2008** driven by continued strong cash flow from operations and deposit growth, and continued benefit of rising unrealized gains in market value. The portfolio composition continues to be conservative in risk profile with the majority of investments in U.S. Treasury securities, U.S. Government-sponsored enterprises and state and political subdivisions. The average duration of the portfolio is 17 months as of December 31, 2008 and the portfolio is in a net unrealized gain position of **\$38.9 million, net of \$48 thousand** unrealized losses.

The bank has never been invested in collateralized debt obligations or high risk asset-backed securities that now plague the balance sheets of other financial institutions and have brought havoc to the financial services industry.

Total loan assets increased \$34.0 million (3.0%) to **\$1.187 billion** as of **December 31, 2008**. Modest loan growth occurred in commercial and industrial loans along with real estate mortgage and commercial lending. Nontaxable state and political subdivision loans also increased in 2008. Changes in the loan portfolio are detailed in Note 4 to the financial statements presented in Item 8 on page 37. All of the loan growth in 2008 occurred in geographic areas around the state outside of the Anchorage region. Anchorage and the adjacent Mat-Su Valley continued to contract with weakening economic forecasts.

The loan portfolio interest rate composition shifted during 2008 from the predominantly variable rate position (65.2% of total) in 2007 to predominantly fixed rate position at December 31, 2008 (58.7%) This shift provided more fixed rate support to strengthen the bank's management of interest rate risk in a declining rate environment.

A substantial portion of the loan portfolio is represented by mortgage and other real estate loans throughout Alaska. The bank monitors the portfolio by loan type and geographic dispersion for concentration evaluation. The ability of the bank's debtors to honor their contracts is dependent upon real estate and general economic conditions within the state of Alaska.

Continued challenges to the quality of the construction and land development portfolios, along with continued rising levels of delinquent and nonaccrual loans, supported an **allowance for loan losses** of **\$19.0 million** as of **December 31, 2008**. The allowance did not see the substantial increase recorded in 2007, but is maintained at a level that provides for continued existent weakness in the portfolio. Additional information on the allowance for loan losses is contained in the provision for loan losses section that follows.

Premises and equipment, net decreased \$2.9 million to **\$43.7 million** as of **December 31, 2008**. The decrease is attributed to raw land that was transferred to other real estate owned for resale during 2008 when it was determined to be excess property for future branch construction and to normal depreciation of other bank equipment.

Other assets decreased \$11.2 million to **\$44.8 million** as of **December 31, 2008**. Decreases were driven by net sales of other real estate owned assets, normal depreciation of investments in servicing rights and community development projects, decreases in deferred taxes and other changes consistent with normal business activity during the year.

LIABILITIES AND SHAREHOLDERS' EQUITY

Total deposits increased \$119.0 million (8.9%) to **\$1.461 billion** as of **December 31, 2008**. Overall during 2008, deposit accounts increased across every segment of noninterest and interest bearing accounts. The diminishing interest rate environment for other short-term investment opportunity and the security of deposit accounts insured to higher levels in 2008 contributed to these higher balances.

While deposit levels increased when measured year over year, during the fourth quarter of 2008 total deposits decreased \$21.9 million, primarily in noninterest bearing accounts as the bank experienced the seasonal run off of demand account holdings as customers spent the directly deposited checks from the State of Alaska Permanent Dividend Fund program. Those citizen checks were unusually high in 2008 as they were supplemented by an additional energy rebate to offset rising fuel costs experienced across the state.

In October the bank elected not to participate in the Federal Deposit Insurance Corporation (FDIC) Temporary Liquidity Guarantee Program and issue debt. However, to demonstrate our commitment to our customers, we are participating in the portion of the program that provides that our customers' deposits are insured without limit when held in noninterest-bearing transaction accounts. That insurance will remain effective for the year 2009.

Securities sold under agreements to repurchase decreased a slight \$1.5 million (0.3%) during 2008 when measured annually and decreased \$44.5 million during the fourth quarter to **\$487.1 million** as of **December 31, 2008**. These balances are highly subject to seasonal commercial and government customer revenues and to the short-term investment market rates with which these accounts compete. The majority of these accounts are tied to federal fund rates which dropped to near zero percent base rates during the fourth quarter of 2008. Accordingly, customers shifted balances to more competitive rate short-term investment products both inside and outside the bank.

Shareholders' equity increased \$10.9 million (2.4%) to **\$469.4 million** as of **December 31, 2008**. Net income of \$42.9 million over dividend declarations of \$34.5 million increased retained earnings by \$8.4 million. Accumulated other comprehensive income increased \$12.4 million, net of tax, as the securities, available-for-sale portfolio gained market value when measured against current investment yields. Offsetting these increases in shareholders' equity were the repurchase of approximately \$10.0 million of common shares outstanding pursuant to the stock repurchase program approved by the board of directors and shareholders during 2008.

TABLE 2 - COMMITMENTS AND CONTINGENCIES (dollars in thousands)

Payments under known contractual obligations as of December 31, 2008 are as follows:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Time deposits	\$169,028	\$155,781	\$9,939	\$2,990	\$318
Securities sold under agreements to repurchase	487,138	487,138	—	—	—
Notes payable	5,073	—	3,387	1,094	592
Capital lease obligations	244	125	110	9	—
Operating leases	457	397	53	7	—
Contractual obligations by period	\$661,940	\$643,441	\$13,489	\$4,100	\$910

EARNING SUMMARY *(dollars in thousands)***TABLE 3 - EARNING SUMMARY**

	2008	2007	2006
Total Interest And Loan Fee Income	\$129,302	\$152,694	\$146,498
Total Interest Expense	(15,709)	(37,299)	(34,444)
Net Interest And Loan Fee Income	113,593	115,395	112,054
Provision for Loan Losses	(3,475)	(8,063)	(1,420)
Noninterest Income	41,366	36,099	33,963
Noninterest Expense	(85,669)	(83,310)	(79,081)
Provision for Income Taxes	(22,913)	(22,089)	(23,344)
Net Income	\$42,902	\$38,032	\$42,172
Return on Average Assets	1.83%	1.66%	1.87%
Return on Average Equity	9.49%	8.55%	9.61%

NET INTEREST AND LOAN FEE INCOME *(dollars in thousands)***TABLE 4 - ANALYSIS OF NET INTEREST AND LOAN FEE INCOME**

	2008	2007	2006
Total Interest And Loan Fee Income	\$129,302	\$152,694	\$146,498
Total Interest Expense	\$15,709	\$37,299	\$34,444
Net Interest And Loan Fee Income	\$113,593	\$115,395	\$112,054
Tax Equivalent Adjustment	\$2,213	\$1,166	\$738
Net Interest And Loan Fee Income (Taxable Equivalent)	\$115,806	\$116,561	\$112,792
Average Earning Assets	\$2,124,374	\$2,116,376	\$2,101,349
Ratio To Earning Assets	5.45%	5.51%	5.37%

Net interest and loan fee income, the most significant component of net income, is the amount by which the interest and fees generated from earning assets exceeds the expense associated with funding those assets. The interest earned on tax-exempt assets is adjusted, for analytical purposes, to a taxable equivalent basis to recognize the income tax savings which facilitates comparisons between taxable and tax-exempt assets.

The tax equivalent adjustment is based on the combined Federal and State marginal tax rate of **41.11%** for **2008**, 2007 and 2006, and is adjusted for the disallowed interest expense associated with tax-exempt assets.

The following table provides comparative average balances of interest earning assets, respective yields on a tax equivalent basis, and change analysis for the twelve month periods ended December 31, 2008 and 2007:

TABLE 5 - ANALYSIS OF COMPARATIVE YIELD ON EARNING ASSETS (dollars in thousands)

EARNING ASSETS	AVERAGE BALANCES		AVERAGE YIELD		CHANGE DUE TO	
	2008	2007	2008	2007	RATE	VOLUME
Loans-Taxable	\$1,096,611	\$1,123,668	7.32%	8.80%		
Loans-Nontaxable	20,224	17,672	9.79%	8.35%		
Investment Securities-Taxable	848,893	833,313	4.48%	4.72%		
Investment Securities-Nontaxable	71,903	48,622	5.92%	5.61%		
Federal Funds Sold	66,393	93,101	2.17%	5.09%		
Interest bearing cash balances	20,350	—	.65%	—		
Total Earning Assets	\$2,124,374	\$2,116,376	5.94%	6.96%	(1.05)%	.03%

Interest and loan fee income for the twelve months ended **December 31, 2008** and 2007 was **\$129.3 million** and \$152.7 million, respectively, for a decrease of \$23.4 million or 15.3%. The tax equivalent yield on the average earning assets decreased 102 basis points, from 6.96% in 2007 to 5.94% in 2008. **Total average earning assets** increased \$8.0 million, from \$2.116 billion at December 31, 2007 to **\$2.124 billion** as of **December 31, 2008**. Average loan levels decreased \$24.5 million year over year, while average investment securities increased \$38.9 million for the same period.

Decreases in yields in both investments and lending assets drove the overall decline in interest and loan fee income. Interest income was also negatively impacted by falling rates on overnight federal fund sales that are held for liquidity purposes and due to a mix change from loans into lower yielding investment securities. The increased volume of investment securities partially offset decreasing yields in all earning asset categories except for nontaxable loans.

The following table provides comparative average balances of interest bearing liabilities, respective yields, and change analysis for the twelve months ended December 31, 2008 and 2007:

TABLE 6 - ANALYSIS OF COMPARATIVE COST OF INTEREST BEARING LIABILITIES (dollars in thousands)

INTEREST BEARING LIABILITIES	AVERAGE BALANCES		AVERAGE YIELD		CHANGE DUE TO	
	2008	2007	2008	2007	RATE	VOLUME
Savings	\$330,124	\$318,421	.90%	1.47%		
First Rate	137,834	130,270	.57%	1.52%		
First Investment	182,408	178,238	.99%	2.52%		
Time	144,368	135,260	3.01%	3.89%		
Federal Funds Purchased	521	110	3.45%	5.45%		
Repurchase Agreements	514,767	512,692	1.09%	4.01%		
Other Debt	3,147	4,865	6.45%	6.66%		
Total Interest Bearing Liabilities	\$1,313,169	\$1,279,856	1.20%	2.91%	(1.79)%	.08%

Interest expense for the twelve months ended **December 31, 2008** and 2007 was **\$15.7 million** and \$37.3 million, respectively, for a decrease of \$21.6 million or 57.9%. Interest expense decreased significantly as interest rates paid for the total average aggregate interest bearing liabilities decreased 171 basis points, from 2.91% in 2007 to 1.20% in 2008. **Total average aggregate outstanding interest bearing liabilities** increased \$33.3 million from \$1.280 billion at 2007 to **\$1.313 billion** in 2008.

PROVISION FOR LOAN LOSSES (dollars in thousands)

The following table shows delinquent and nonaccrual loans as a percentage of total loans as of **December 31**:

TABLE 7 - DELINQUENT AND NONACCRUAL LOANS

	2008	2007	2006
Delinquent 30-89 days	1.42%	1.55%	1.33%
Delinquent 90 days or more	—	0.01%	0.02%
Total Delinquent Loans	1.42%	1.56%	1.35%
Nonaccrual Loans	5.74%	4.70%	2.49%
Total Loans	\$1,198,092	\$1,157,679	\$1,192,326

TABLE 8 - ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

The table below presents an estimate of the allowance for loan losses allocated by loan type, and the percentage of loans, in each category to total loans:

	DECEMBER 31, 2008		DECEMBER 31, 2007		DECEMBER 31, 2006	
	AMOUNT (\$ THOUSANDS)	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT (\$ THOUSANDS)	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT (\$ THOUSANDS)	PERCENT OF LOANS TO TOTAL LOANS
Commercial and Industrial	\$8,129	21.10%	\$6,768	21.22%	\$6,677	21.91%
Real Estate	9,585	74.88%	11,634	75.11%	5,383	74.61%
Consumer and Other	1,286	4.02%	1,098	3.67%	940	3.48%
Total Allowance For Loan Losses	\$19,000	100.00%	\$19,500	100.00%	\$13,000	100.00%

As stated in Note 1 to the financial statements, use of accounting estimates in the preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management's estimate of the allowance for loan losses is a critical accounting estimate based on a periodic review of the loan portfolio in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The bank follows a policy of writing off loans where it is confirmed they are uncollectible, while aggressively pursuing collection efforts to recover charged off loans. The **loan loss provision** was **\$3,475** for **2008**, compared to \$8,063 and \$1,420 for 2007 and 2006, respectively. The provision for loan losses represented 0.31%, 0.71% and 0.12% of average loans for each of those years. The allowance for loan losses represented 1.59% and 1.68% of total loans for **2008** and 2007, respectively.

Delinquent loans totaled **\$17.1 million**, \$18.1 million and, \$16.1 million for the years ended **December 31, 2008**, 2007 and 2006, respectively. **Nonaccrual loans**, net of deferred fees and nonaccrual interest paid, totaled **\$68.7 million**, \$54.4 million and \$29.7 million for the years ended **2008**, 2007 and 2006, respectively. Management analysis of the 2008 increase in nonaccrual loans indicated the increase is directly related to commercial construction and land development loans for activities related to apartment and condominium construction, speculative residential housing, neighborhood development projects and commercial use properties throughout south central Alaska. It will take time to resolve these credits, the outcomes of which are closely tied to the real estate market conditions which have softened during 2008 and are not expected to change quickly. While nonaccrual loans increased substantively over prior year levels, the bank considers associated collateral to be at sufficient levels to reduce the risk of loss and believes it maintains an allowance for loan losses adequate to cover the current estimate of probable losses.

NONINTEREST INCOME *(dollars in thousands)*

TABLE 9 - ANALYSIS OF NONINTEREST INCOME

	2008	INCREASE (DECREASE) %	2007	INCREASE (DECREASE) %	2006
Bankcard fees	\$18,095	(6.0)%	\$19,241	8.9 %	\$17,664
Service charges on deposit accounts	5,540	(4.6)%	5,806	(10.0)%	6,451
Gain on sale of mortgage loans	1,492	6.1 %	1,406	.4 %	1,401
Mortgage loan servicing income	2,340	17.6 %	1,990	36.0 %	1,463
Net gains (losses) on investment securities	118	NM	(7)	(97.2)%	(253)
Trust income	1,119	1.0 %	1,108	21.8 %	910
Net gain on the liquidation of loans of acquired bank	284	(46.4)%	530	863.6 %	55
Other noninterest income	12,378	105.4 %	6,025	(3.9)%	6,272
Total Noninterest Income	\$41,366	14.6 %	\$36,099	6.3 %	\$33,963

For the year ended **December 31, 2008 noninterest income** was **\$41.4 million**, an increase of \$5.3 million over 2007. As a percentage of average assets, noninterest income was 1.77%, 1.57%, and 1.50% in 2008, 2007, and 2006, respectively. Noninterest income as a percentage of total interest and loan fee income was 32.0%, 23.6%, and 23.2% as of 2008, 2007 and 2006.

The primary sources of recurring noninterest income continued to be bankcard fees, which comprised 44%, 53%, and 52% of noninterest income, and service charges on deposit accounts providing 13%, 16%, and 19% in 2008, 2007, and 2006, respectively. Revenues lost from declining service charges have been offset by volume driven increases in mortgage loan servicing income, along with improvements in mortgage loan servicing income. As disclosed in Note 14 to the financial statements, impairment expenses on servicing rights have decreased from higher levels experienced when mortgage loan refinancing activity was at a peak with low mortgage rates.

The bank continued to receive periodic payoffs on acquired loans from First Federal Bank of Alaska which resulted in gains of \$284, \$530, and \$55 for the years ended December 31, 2008, 2007 and 2006, respectively.

Other noninterest income increased \$6.4 million to **\$12.4 million** as of **December 31, 2008**. The bank recorded a first quarter \$2.2 million gain on sale related to the redemption of Visa class B stock by Visa, the proceeds for which were received by the bank in March. The bank also recorded a receivable from others and an additional gain of \$1.1 million for its proportionate share of funds placed in escrow by Visa for the purpose of settling certain specific litigation for which the bank is a guarantor pursuant to the Visa bylaws. MasterCard stock sale proceeds were recorded in the amount of \$2.7 million during the second quarter. Visa stock IPO proceeds were recorded in the amount of \$.4 million during the fourth quarter. Combined these transactions increased other noninterest income for the year ended 2008 by \$6.4 million from nonrecurring items. The remainder of recurring other noninterest income included escrow fees, wire transfer fees, ATM fees, ACH fees, safe deposit box rentals, merchant equipment rentals, and other miscellaneous income accounts.

NONINTEREST EXPENSE *(dollars in thousands)*

TABLE 10 - ANALYSIS OF NONINTEREST EXPENSE

	2008	INCREASE (DECREASE) %	2007	INCREASE (DECREASE) %	2006
Salaries and employee benefits	\$42,771	3.0 %	\$41,541	4.1 %	\$39,913
Occupancy expense, net	7,153	0.5 %	7,119	3.8 %	6,861
Furniture and equipment expense	3,329	(6.4)%	3,556	(12.9)%	4,082
Bankcard expenses	14,505	(2.5)%	14,878	3.0 %	14,448
Professional services	2,254	(3.1)%	2,326	6.2 %	2,190
Printing, stationery and supply expense	1,310	(10.0)%	1,455	10.6 %	1,315
Postage expense	1,392	(1.4)%	1,412	(0.5)%	1,419
Other operating expense	12,955	17.5 %	11,023	24.5 %	8,853
Total Noninterest Expense	\$85,669	2.8 %	\$83,310	5.3 %	\$79,081

For the year ended **December 31, 2008 noninterest expense** was **\$85.7 million**, an increase by \$2.4 million over 2007. As a percentage of average assets, noninterest expense was 3.66%, 3.63%, and 3.50% in 2008, 2007, and 2006, respectively. Noninterest expense as a percentage of total interest and loan fee income was 66.3%, 54.6%, and 54.0% as of 2008, 2007, and 2006, respectively.

The primary element of noninterest expense are **salaries and employee benefits** of **\$42.8 million**, which comprised 49.9%, 49.9%, and 50.5% of noninterest expense in 2008, 2007, and 2006, respectively. The 3.0% increase reflects an average of salary and benefit inflation, as employment levels remained consistent. The bank is self insured for benefits, with caps provided through insurance policies, and has effectively managed to control expense increases through benefit plan management and programs such as high deductible program offerings.

Included in **other noninterest expense** of **\$13.0 million** are advertising costs, donations and community development expenditures, software licensing fees, data communication expenses, bank clearing house expenses, and other miscellaneous expense accounts.

Also, included in other noninterest expense in 2008 is a charge of \$1.5 million related to Visa litigation as discussed in Note 13 to the financial statements presented in Item 8 on page 43. Maintenance and expenses related to other real estate owned (OREO) increased by \$.1 million during 2008 and losses on disposal of OREO decreased by \$0.2 million as foreclosure and sales activity rose in 2008 over prior year nominal levels. Included in other assets at December 31, 2008 is OREO property of \$4.5 million recorded at fair value, a decrease of \$1.1 million over December 31, 2007 levels.

LIQUIDITY AND CAPITAL RESOURCES *(dollars in thousands)*

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, repaying debt when due, shareholder dividends and paying the expenses of operation.

Liquidity sources are provided from both the asset and liability side of the balance sheet 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 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 to **\$469,361** at **December 31, 2008** compared to \$458,474 at December 31, 2007 and \$434,461 at December 31, 2006. The equity-to-asset ratio was 19.3% at year-end 2008. This compares to a ratio of 19.9% and 19.1% at December 31, 2007 and 2006, respectively.

INFLATION AND CHANGING PRICES

The primary effect of inflation on the bank is its impact on interest rates. Virtually all of the bank's assets and liabilities are monetary in nature, therefore changes in interest rates may significantly affect the bank's earnings. Since the bank's main component of earnings is its net interest income, prudent asset/liability management must be exercised to maintain profitable spreads.

The increased cost associated with inflation on premises, equipment and other expenses is difficult to quantify; however, it does not have a significant financial impact.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts and other financial instruments with similar characteristics. The bank currently does not enter into futures, forwards, swaps or options. However, 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 financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of condition. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the bank. Standby letters of credit are conditional commitments issued by the bank to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions.

Commitments to extend credit and standby letters of credit are not recorded as an asset or liability by the bank until the instrument is exercised.

The bank's exposure to interest rate risk is reviewed on a regular basis by members of Senior Management (see "Asset/Liability Management"). Interest rate risk is the potential for economic losses due to future interest rate changes. These economic losses can be reflected as a loss of future net interest income and/or a loss of current fair market values. The objective is to measure the effect on net interest income and to adjust the balance sheet to minimize the inherent risk, while at the same time maximize income. Management realizes certain risks are inherent and the goal is to identify and minimize the risks.

Tools used by management include GAP analysis and interest rate shock modeling. The bank has no market risk sensitive instruments held for trading purposes. The condensed GAP analysis summarizing the bank's interest rate sensitivity is presented under "Asset/Liability Management."

ASSET/LIABILITY MANAGEMENT

The operating results of the bank are dependent, to a large extent, upon its net interest income, which is the difference between its interest income from earning assets, such as loans and investment securities and interest expense on interest bearing liabilities, such as deposits, securities sold under agreements to repurchase, and other borrowings.

The bank's current asset/liability management objective is to provide an acceptable balance between interest rate risk, credit risk and maintenance of yield. The principal operating strategy of the bank has been to manage the repricing of its interest-sensitive assets and liabilities and manage the sensitivity of the bank's earnings to changes in interest rates. The bank generally implemented this strategy by: (i) originating and retaining adjustable-rate mortgages; (ii) originating construction and consumer loans which typically have shorter terms to maturity or repricing than long-term, fixed-rate residential mortgages; (iii) maintaining liquidity levels adequate to allow flexibility in reacting to the interest rate environment; and (iv) selling upon origination certain long-term, fixed-rate, residential mortgages in the secondary mortgage market.

Tables 11 and 12 set forth the interest rate sensitivity of the bank's earning assets and interest bearing liabilities at December 31, 2008 and December 31, 2007. One indicator used to measure interest rate risk are the gaps between earning assets and interest bearing liabilities as classified by the timeframe in which the items mature or reprice. Various assumptions are used for presentation of data in the tables. Fixed-rate loans are shown on the basis of contractual amortization adjusted for prepayments at rates estimated by available industry sources. Adjustable-rate loans and investments are determined to reprice at the earlier of maturity, call date or the next contractual repricing date. The allocation of savings, NOW and money market account balances are based on repricing practices. The assumptions used may not be indicative of the actual prepayments and withdrawals which may be experienced by the bank. The data presented in the table represents a static measure of assets and liabilities maturing over various time periods. The tables do not necessarily indicate the impact of general interest rate movements on the bank's net yield, because the repricing of certain categories of assets and liabilities is subject to competitive and other pressures beyond the bank's control. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may, in fact, mature or reprice at different times or at different volumes.

TABLE 11 - MATURITY/RATE SENSITIVITY AT DECEMBER 31, 2008 (dollars in thousands)

ASSETS	2009	2010	2011-2013	THEREAFTER	TOTAL
Loans, net	\$307,263	\$50,661	\$321,093	\$463,826	\$1,142,843
Investment securities, at amortized cost	358,833	333,104	274,772	18,007	984,716
Federal reserve deposits	87,058	—	—	—	87,058
Total Earning Assets	753,154	383,765	595,865	481,833	2,214,617
Nonearning assets					222,372
Total Assets	\$753,154	\$383,765	\$595,865	\$481,833	\$2,436,989

LIABILITIES AND SHAREHOLDERS' EQUITY

Savings	\$363,531				\$363,531
NOW	154,549				154,549
Money market	180,102				180,102
Time	152,083	8,323	4,607	318	165,331
Securities sold under agreements to repurchase	487,138				487,138
Notes payable	—	865	923	551	2,339
Capital lease obligations	118	50	62	—	230
Total Interest Bearing Liabilities	1,337,521	9,238	5,592	869	1,353,220
Shareholders' equity and noninterest bearing liabilities					1,083,769
Total Liabilities And Shareholders' Equity	\$1,337,521	\$9,238	\$5,592	\$869	\$2,436,989

RATE SENSITIVITY GAP AND RATIOS

GAP for period (earning assets less interest bearing liabilities)	\$(584,367)	\$374,527	\$590,273	\$480,964	\$861,397
Cumulative GAP	\$(584,367)	\$(209,840)	\$380,433	\$861,397	
GAP as a percentage of earning assets	(26.39)%	16.91 %	26.65 %	21.72 %	38.90 %
Cumulative GAP as a percentage of earning assets	(26.39)%	(9.48)%	17.18 %	38.90 %	

TABLE 12 - MATURITY/RATE SENSITIVITY AT DECEMBER 31, 2007 (dollars in thousands)

ASSETS	2008	2009	2010-2012	THEREAFTER	TOTAL
Loans, net	\$597,404	\$38,108	\$219,069	\$270,071	\$1,124,652
Investment securities, at amortized cost	307,553	173,736	425,780	30,215	937,284
Federal funds sold	10,933				10,933
Total Earning Assets	915,890	211,844	644,849	300,286	2,072,869
Nonearning assets					235,795
Total Assets	\$915,890	\$211,844	\$644,849	\$300,286	\$2,308,664

LIABILITIES AND SHAREHOLDERS' EQUITY

Savings	\$322,315				\$322,315
NOW	136,133				136,133
Money market	178,777				178,777
Time	127,202	7,259	1,586	305	136,352
Securities sold under agreements to repurchase	488,633				488,633
Notes payable	627	839	891	1,020	3,377
Capital lease obligations	135	117	113	—	365
Total Interest Bearing Liabilities	1,253,822	8,215	2,590	1,325	1,265,952
Shareholders' equity and noninterest bearing liabilities					1,042,712
Total Liabilities And Shareholders' Equity	\$1,253,822	\$8,215	\$2,590	\$1,325	\$2,308,664

RATE SENSITIVITY GAP AND RATIOS

GAP for period (earning assets less interest bearing liabilities)	\$(337,932)	\$203,629	\$642,259	\$298,961	\$806,917
Cumulative GAP	\$(337,932)	\$(134,303)	\$507,956	\$806,917	
GAP as a percentage of earning assets	(16.30)%	9.82 %	30.98 %	14.42 %	38.93 %
Cumulative GAP as a percentage of earning assets	(16.30)%	(6.48)%	24.50 %	38.93 %	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

STATEMENTS OF CONDITION (dollars in thousands)

ASSETS	DECEMBER 31,	
	2008	2007
Cash and cash equivalents:		
Cash and due from banks	\$138,088	\$87,313
Federal funds sold	—	10,933
Total cash and cash equivalents	138,088	98,246
Securities:		
Available-for-sale (amortized cost: 2008 - \$961,716; 2007 - \$937,284)	1,000,629	955,094
Held-to-maturity (fair value: 2008 - \$23,216; 2007 - \$0)	23,000	—
Real estate loans to be sold	7,734	14,607
Loans:		
Commercial and industrial	252,796	245,594
Real estate	897,154	869,553
Consumer and other	22,758	22,232
Nontaxable states and political subdivision obligations	25,384	20,300
Total loans, gross	1,198,092	1,157,679
Less: Allowance for loan losses	19,000	19,500
Total loans, net	1,179,092	1,138,179
Premises and equipment, net	43,684	46,543
Other assets	44,762	55,995
Total Assets	\$2,436,989	\$2,308,664
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	\$593,499	\$565,945
Interest bearing:		
Savings	363,531	322,315
NOW	154,549	136,133
Money market	180,102	178,777
Time	169,028	138,550
Total interest bearing	867,210	775,775
Total deposits	1,460,709	1,341,720
Securities sold under agreements to repurchase	487,138	488,633
Capital lease obligations	230	365
Notes payable, net	4,568	11,080
Other liabilities	14,983	8,392
Total Liabilities	1,967,628	1,850,190
Shareholders' Equity:		
Common stock, \$100 par value (Authorized: 2008 and 2007 - 400,000 shares Issued: 2008 - 338,760 shares; 2007 - 344,759 shares)	33,876	34,476
Surplus	40,000	40,000
Retained earnings	372,569	373,510
Accumulated other comprehensive income	22,916	10,488
Total Shareholders' Equity	469,361	458,474
Total Liabilities and Shareholders' Equity	\$2,436,989	\$2,308,664

See accompanying notes to financial statements.

STATEMENTS OF INCOME *(dollars in thousands)*

INTEREST INCOME AND LOAN FEES	FOR YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Interest and fees on loans:			
Taxable	\$85,829	\$105,600	\$107,555
Nontaxable	1,312	1,168	921
Total interest and fees on loans	87,141	106,768	108,476
Interest and dividends on investment securities:			
Taxable	38,070	39,297	33,202
Nontaxable	2,521	1,886	1,101
Total interest and dividends on investment securities	40,591	41,183	34,303
Interest on cash and cash equivalents	1,570	4,743	3,719
Total Interest and Loan Fee Income	129,302	152,694	146,498
INTEREST EXPENSE			
Interest on deposits	9,892	16,435	15,554
Interest on federal funds purchased and securities sold under agreements to repurchase	5,613	20,540	18,631
Interest on notes payable, capital lease obligations and other	204	324	259
Total Interest Expense	15,709	37,299	34,444
Net Interest and Loan Fee Income	113,593	115,395	112,054
Provision for loan losses	3,475	8,063	1,420
Net Interest and Loan Fee Income After Provision for Loan Losses	110,118	107,332	110,634
NONINTEREST INCOME			
Bankcard fees	18,095	19,241	17,664
Service charges on deposit accounts	5,540	5,806	6,451
Gain on sale of mortgage loans	1,492	1,406	1,401
Mortgage loan servicing income	2,340	1,990	1,463
Net gains (losses) on investment securities	118	(7)	(253)
Other noninterest income	13,781	7,663	7,237
Total Noninterest Income	41,366	36,099	33,963
NONINTEREST EXPENSE			
Salaries and employee benefits	42,771	41,541	39,913
Occupancy expense, net	7,153	7,119	6,861
Furniture and equipment expense	3,329	3,556	4,082
Bankcard expenses	14,505	14,878	14,448
Other noninterest expense	17,911	16,216	13,777
Total Noninterest Expense	85,669	83,310	79,081
Income Before Taxes	65,815	60,121	65,516
Provision for income taxes	22,913	22,089	23,344
Net Income	\$42,902	\$38,032	\$42,172
EARNINGS PER COMMON SHARE <i>(not in thousands)</i>	\$124.59	\$110.32	\$122.32

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS *(dollars in thousands)*

OPERATING ACTIVITIES	FOR YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Net income	\$42,902	\$38,032	\$42,172
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premium (discount) on investment securities, net	2,566	(942)	(220)
Loss on mortgage servicing rights	173	202	272
Depreciation, accretion and amortization	6,241	6,260	6,872
Provision for loan losses	3,475	8,063	1,420
Deferred taxes	(1,309)	(3,172)	(681)
Gain on sale of mortgage loans	(1,492)	(1,406)	(1,401)
Net loss on the sale of other real estate owned	448	616	9
Net gain on the liquidation of loans of acquired bank	(284)	(530)	(55)
Net (gain) loss on the sale of premises and equipment	2	—	(11)
Net (gain) loss on disposition of investment securities	(118)	7	253
Real estate loans to be sold-originated	(167,743)	(173,514)	(169,102)
Real estate loans to be sold-shipped	174,616	182,715	164,216
Net (increase) decrease in other assets	4,060	(5,271)	(2,568)
Net increase (decrease) in other liabilities	4,132	(695)	2,388
Net Cash Provided By Operating Activities	67,669	50,365	43,564

INVESTING ACTIVITIES

Proceeds from sale/maturities of securities, available-for-sale	361,546	305,421	454,947
Purchase of securities, available-for-sale	(388,426)	(367,096)	(451,322)
Purchase of securities, held-to-maturity	(23,000)	—	—
Purchased mortgage servicing rights	(38)	(20)	(100)
Net increase (decrease) in loans, net of undisbursed portion	(46,083)	26,290	(63,022)
Proceeds from sales of premises and equipment	—	—	12
Purchase of land, premises and equipment	(1,995)	(4,913)	(3,240)
Improvements to other real estate owned	(406)	—	—
Proceeds from sales of other real estate owned	4,089	1,019	35
Proceeds from the liquidation of loans of acquired bank	284	530	55
Net Cash Used In Investing Activities	(94,029)	(38,769)	(62,635)

STATEMENT OF CASH FLOWS (CONTINUED)

FINANCING ACTIVITIES

	FOR YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Net increase (decrease) in total deposits	118,989	(12,275)	(69,624)
Net increase (decrease) in securities sold under agreements to repurchase	(1,495)	26,224	144,365
Payments on notes and capital leases	(6,849)	(3,052)	(754)
Dividends paid	(34,476)	(34,476)	(34,476)
Retirement of common stock	(9,967)	—	—
Net Cash Provided By (Used In) Financing Activities	66,202	(23,579)	39,511
Increase (decrease) in cash and cash equivalents	39,842	(11,983)	20,440
Cash And Cash Equivalents, January 1,	98,246	110,229	89,789
Cash And Cash Equivalents, December 31,	\$138,088	\$98,246	\$110,229

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	\$16,249	\$37,026	\$33,934
Cash paid during the year for income taxes	\$23,145	\$26,327	\$24,873

NONCASH INVESTING AND FINANCING ACTIVITIES

Transfer of land held for bank premises to other real estate owned	\$1,240	—	—
Net transfer of loans to other real estate owned	\$1,816	\$7,006	\$277
Purchase of mail equipment under capital lease obligation	—	\$196	—
Purchase of investment under notes payable	—	\$10,000	—
Unrealized holding gain on available-for-sale securities, net of deferred tax effect of \$8,675, \$8,264 and \$3,158, respectively	\$12,497	\$11,834	\$4,375

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(dollars in thousands, except per share amounts)

	COMMON STOCK (\$100 PAR VALUE)	SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balance, January 1, 2006	\$34,476	\$40,000	\$362,258	\$(5,874)	\$430,860
Net income - 2006	—	—	42,172	—	42,172
Other comprehensive gain, net of tax effect (\$3,158):					
Unrealized gain on securities, net of reclassification adjustment*	—	—	—	4,524	4,524
Comprehensive income					46,696
Dividends declared - \$125 per share	—	—	(43,095)	—	(43,095)
Balance, December 31, 2006	34,476	40,000	361,335	(1,350)	434,461
Net income - 2007	—	—	38,032	—	38,032
Other comprehensive gain, net of tax effect (\$8,264):					
Unrealized gain on securities, net of reclassification adjustment*	—	—	—	11,838	11,838
Comprehensive income					49,870
Dividends declared - \$75 per share	—	—	(25,857)	—	(25,857)
Balance, December 31, 2007	34,476	40,000	373,510	10,488	458,474
Net income - 2008	—	—	42,902	—	42,902
Other comprehensive gain, net of tax effect (\$8,675):					
Unrealized gain on securities, net of reclassification adjustment*	—	—	—	12,428	12,428
Comprehensive income					55,330
Dividends declared - \$100 per share	—	—	(34,476)	—	(34,476)
Retirement of common stock	(600)	—	(9,367)	—	(9,967)
Balance, December 31, 2008	\$33,876	\$40,000	\$372,569	\$22,916	\$469,361

*DISCLOSURE OF RECLASSIFICATION AMOUNT (dollars in thousands, net of tax)	FOR YEARS ENDED DECEMBER 31,		
	2008	2007	2006
Unrealized holding gains on securities arising during period	\$12,497	\$11,834	\$4,375
Reclassification adjustment for (gains) losses included in net income	(69)	4	149
Net Unrealized Gains On Securities	\$12,428	\$11,838	\$4,524

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 and 2006

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES *(dollars in thousands)*

First National Bank Alaska (the bank) is a full service commercial bank operated as a single segment, and as such, its principal activities include the receiving and lending of money. Additionally, the bank provides trust banking services, escrow and contract collection services, Bankcard services, and safe deposit box facilities. These services are for business, industry, and individuals primarily within the State of Alaska. Banking services are provided from 30 branches throughout Alaska. The accounting and reporting policies of the bank conform with U.S. generally accepted accounting principles and the prevailing practices within the banking industry. Significant accounting and reporting policies are summarized below.

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, expected future cash flows of mortgage servicing rights, the useful lives of premises and equipment and the related accumulated depreciation, and provision for income taxes.

Cash and cash equivalents, for purposes of the statements of cash flows are: cash and due from banks and overnight federal funds.

Securities, available-for-sale are classified at the time of acquisition. The available-for-sale classification includes debt and marketable equity securities which are carried at estimated fair value. Unrealized gains or losses on securities available-for-sale are included as a separate component of shareholders' equity. Amortization of premiums and accretion of discount are recognized using the level yield method. Realized gains and losses on sales of securities are computed using the specific identification method.

Securities, held-to-maturity are classified at the time of acquisition. Securities that the bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost. Amortization of premiums and accretion of discounts are recognized using the level yield method.

Real estate loans to be sold are carried at the lower of cost or fair value. The bank records and holds for sale one-to-four family and multifamily real estate loans which are originated pursuant to investor programs. Net unrealized losses, if any, are recognized through a valuation allowance by charges to other noninterest expense.

Loans, the bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage and other loans throughout Alaska. The ability of the bank's debtors to honor their contracts is dependent upon real estate and general economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is normally discontinued at the time a loan is 90 days delinquent. Credit card loans and other personal loans are typically charged off no later than 120 days and 90 days past due, respectively. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. Collected or accrued interest on nonaccrual loans is recognized only upon the return of these loans to accrual status, or in the event of loan payoff, whichever occurs first. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for loan losses, is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. While management does not expect a substantial decline in real estate values and economic conditions in Alaska, a decline in these values or economic activities could have an impact on the value of collateral securing the loans as well as the ability for the repayment of loans resulting in a higher allowance for loan losses in the future.

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

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the bank does not separately identify all individual consumer loans for impairment disclosures.

Premises and equipment, including leasehold improvements and software, are stated at cost less accumulated depreciation and amortization. Equipment under capital leases is stated at the present value of minimum lease payments. Depreciation on premises and equipment is calculated on a declining balance basis over the estimated useful lives of the assets. The estimated useful life of buildings is 39 years, with some external elements using 15 years. The estimated useful life of software is 3 years and furniture and equipment is 5 to 7 years. Equipment held under capital leases and leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset. Maintenance and repairs are expensed as incurred, while betterments and construction costs are capitalized.

Federal Reserve Bank stock is a required holding of capital stock of the Federal Reserve Bank and is carried in other assets in the accompanying statements of condition at cost (**\$2,234** for both **2008** and 2007). Calculation of the stock requirement is based solely on the capital structure of the bank.

Federal Home Loan Bank stock is a required stock holding of the Federal Home Loan Bank of Seattle (Seattle Bank) and is carried in other assets in the accompanying statements of condition at cost (**\$2,139** as of **2008** and 2007). The minimum stock requirement is calculated based on the bank's assets or qualifying loans, whichever applies.

Other real estate and equipment owned consists principally of properties and equipment acquired through foreclosure and is carried at the lower of fair value at acquisition date or current estimated fair value net of disposal costs. At the time the property or equipment 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 to foreclosure, costs associated with holding the property or equipment are charged to expense as incurred. Subsequent write-downs and gains and losses recognized on the sale of these properties are included in noninterest expense.

Purchased mortgage servicing rights (PMSRs) are capitalized at their initial purchase price, not to exceed net future servicing income at the time of acquisition. **Originated mortgage servicing rights** (OMSRs) are capitalized based on their fair value when the corresponding loans are sold. The purchased or originated rights to service loans are amortized in relation to the estimated period of net servicing revenues. The carrying value of mortgage servicing rights (MSRs) is evaluated on a disaggregated basis relative to loans originated in a given quarter for impairment if there are changes in market conditions, payoffs or loan delinquencies. Impairment of MSRs is recognized through a charge to noninterest income when the MSRs' carrying amount exceeds its current fair value. MSRs are included in other assets in the accompanying statements of condition and are amortized into mortgage loan servicing income.

Bankcard fees include income from interchange fees on both credit and debit cards, merchant fees earned on credit transactions, and miscellaneous set up and equipment rental fees. The bank recognizes fee revenue as it is earned and collectibility is reasonably assured. Expenses related to rebate reward programs are recorded when earned by cardholders.

Mortgage loan servicing fees are based on a percentage of the interest collected and are included in income as related loan payments from mortgagors are collected offset by the accretion of the MSR cost.

Income taxes are accounted for in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." A current income tax asset or liability is recognized for estimated taxes payable or refundable on current year income tax returns. A deferred tax asset or liability is recognized for future tax effects attributable to temporary differences arising between the tax bases of assets or liabilities and their reported amounts in the financial statements. The measurement of current and deferred tax assets and liabilities is based on provisions of enacted tax law. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. In the event the bank does not expect to realize future tax benefits, a valuation allowance would be established to reduce the amount of deferred tax assets.

Related parties (Directors and Officers of the bank and their family members) have had, and are expected to have in the future, transactions with the bank in the ordinary course of business. Such transactions are made on the same terms, including collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than the normal risk of collectibility or present other unfavorable features. Included in these are consumer lending transactions which may include loans at the bank's base rate.

Earnings per common share are computed on the basis of the weighted average number of shares outstanding. The weighted average number of shares outstanding were **344,361** as of **December 31, 2008**, and 344,759 for the years ended December 31, 2007 and 2006, respectively. The bank does not have any potentially dilutive securities.

Assets (except cash deposits) held for others by the bank in fiduciary or agency capacities are not included in the statements of condition since such items are not assets of the bank.

Reclassifications have been made to conform 2007 and 2006 financial statement data with the 2008 presentation.

NOTE 2 - CASH AND DUE FROM BANKS *(dollars in thousands)*

The bank is required to maintain an average daily reserve balance with the Federal Reserve Bank, or maintain such reserve balance in cash. The average daily reserve balance for the two-week maintenance period which encompassed **December 31, 2008**, 2007 and 2006, was **\$8,961**, \$7,801 and \$10,695, respectively.

NOTE 3 - SECURITIES (dollars in thousands)Amortized cost and fair values of securities, available-for-sale by maturity date, as of **December 31, 2008**:

SECURITIES, AVAILABLE-FOR-SALE	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. TREASURY SECURITIES:				
Maturity:				
within one year	\$40,001	\$277	\$ —	\$40,278
after 1 but within 5 years	20,896	1,882	—	22,778
Total U.S. Treasury Securities	60,897	2,159	—	63,056

U.S. GOVERNMENT-SPONSORED ENTERPRISES:

Maturity:				
within one year	307,471	4,800	—	312,271
after 1 but within 5 years	517,277	29,987	—	547,264
after 5 but within 10 years	—	—	—	—
Total U.S. Government-Sponsored Enterprises	824,748	34,787	—	859,535

STATES AND POLITICAL SUBDIVISIONS:

Maturity:				
within one year	11,663	125	—	11,788
after 1 but within 5 years	44,585	1,022	48	45,559
after 5 but within 10 years	19,823	868	—	20,691
Total States And Political Subdivisions	76,071	2,015	48	78,038
Total Securities, Available-For-Sale	\$961,716	\$38,961	\$48	\$1,000,629

Amortized cost and fair values of securities, held-to-maturity by maturity date, as of **December 31, 2008**:

SECURITIES, HELD-TO-MATURITY	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
CORPORATE BONDS:				
Maturity:				
after 1 but within 5 years	\$23,000	\$216	\$ —	\$23,216
Total Corporate Bonds Held-to-Maturity	23,000	216	—	23,216
Total Securities, Held-to-Maturity	\$23,000	\$216	\$ —	\$23,216

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at **December 31, 2008**, were as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE
Available-for-sale:						
States and Political Subdivisions	\$48	\$2,645	\$ —	\$ —	\$48	\$2,645
Total	\$48	\$2,645	\$ —	\$ —	\$48	\$2,645

The unrealized losses on investments are the result of increasing interest rates and reflect market dislocation in pricing some securities. The contractual terms of these investments do not permit the issuer to redeem the securities at a price less than par, or at a time in which the securities amortized cost would be less than par. Because the bank has the ability and intent to hold these investments until the market price exceeds the bank's amortized cost, or maturity, these investments are not considered other-than-temporarily impaired.

Amortized cost and fair values of securities, available-for-sale by maturity date, as of **December 31, 2007**:

SECURITIES, AVAILABLE-FOR-SALE	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. TREASURY SECURITIES:				
Maturity:				
within one year	\$9,987	\$13	\$ —	\$10,000
after 1 but within 5 years	50,573	1,408	—	51,981
Total U.S. Treasury Securities	60,560	1,421	—	61,981

U.S. GOVERNMENT-SPONSORED ENTERPRISES:

Maturity:				
within one year	314,633	808	153	315,287
after 1 but within 5 years	505,177	15,018	18	520,178
after 5 but within 10 years	—	—	—	—
Total U.S. Government-Sponsored Enterprises	819,810	15,826	171	835,465

STATES AND POLITICAL SUBDIVISIONS:

Maturity:				
within one year	4,549	14	3	4,559
after 1 but within 5 years	36,971	500	23	37,449
after 5 but within 10 years	15,394	246	—	15,640
Total States And Political Subdivisions	56,914	760	26	57,648
Total Securities, Available-For-Sale	\$937,284	\$18,007	\$197	\$955,094

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at **December 31, 2007**, were as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE
Available-for-sale:						
U.S. Government-Sponsored Enterprises	\$171	\$107,027	\$ —	\$ —	\$171	\$107,027
States and Political Subdivisions	3	397	23	3,100	26	3,497
Total	\$174	\$107,424	\$23	\$3,100	\$197	\$110,524

Investment securities with carrying amounts of **\$674,565** and \$629,873 at **December 31, 2008** and 2007, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

Gross realized gains on the disposition of investment securities totaled **\$118**, \$0, and \$0 in **2008**, 2007, and 2006, respectively. Realized losses on the disposition of investment securities were **\$0**, \$7 and \$253 for **2008**, 2007 and 2006, respectively.

NOTE 4 - LOANS (dollars in thousands)

Loan maturity and rate sensitivity of the loan portfolio as of **December 31, 2008**:

	MATURITY			LOANS, GROSS
	WITHIN 1 YEAR	AFTER 1 BUT WITHIN 5 YEARS	AFTER 5 YEARS	
Commercial and industrial	\$85,973	\$101,714	\$65,109	\$252,796
Real estate	105,319	91,848	699,987	897,154
Consumer and other	11,850	8,230	2,678	22,758
Nontaxable states and political subdivision obligations	2,496	1,420	21,468	25,384
Loans, Gross	\$205,638	\$203,212	\$789,242	\$1,198,092
Loans at fixed interest rates	\$113,943	\$124,515	\$464,478	\$702,936
Loans at variable interest rates	91,695	78,697	324,764	495,156
Loans, Gross	\$205,638	\$203,212	\$789,242	\$1,198,092

There were unearned discounts as of **December 31, 2008** and 2007 of **\$332** and \$736, respectively.

Net loan origination fees for which recognition has been deferred to future periods as of **December 31, 2008** and 2007, were **\$6,501** and \$6,194, respectively.

Other real estate, acquired through foreclosure, resulted in a reduction to loans of **\$4,410**, \$7,951 and \$277 in **2008**, 2007 and 2006, respectively. Loans made to facilitate the sales of other real estate were **\$2,594**, \$946 and \$0 in **2008**, 2007 and 2006, respectively.

Real estate loans serviced for others as of **December 31, 2008** and 2007, were **\$1,334,371** and \$1,360,873, respectively. Reserve balances, associated with these loans and held in noninterest bearing demand accounts, amounted to **\$10,151** and \$10,836 as of **December 31, 2008** and 2007, respectively.

Nonaccrual loans totaled **\$68,715** and \$54,390 at **December 31, 2008** and 2007, respectively, net of deferred fees and interest collected of **\$6,156** and \$4,058, respectively. The bank has commitments to lend additional funds to debtors whose loans are nonperforming in the amount of **\$854** at **December 31, 2008**.

At **December 31, 2008** and 2007, the net recorded investment in loans that are considered to be impaired was **\$87,521** and \$47,643, respectively, (of which \$68,714 and \$28,284, respectively, were on a nonaccrual basis). A specific allowance of **\$9,012** was established for the \$87,521 of impaired loans. The average recorded investment in impaired loans was **\$60,794** and \$45,080 during **2008** and 2007, respectively. The amount of interest income recognized on impaired loans during **2008**, 2007, and 2006, respectively was **\$66**, \$863 and \$2,171, respectively.

The loan portfolio consists of the following at **December 31**,

	2008	2007
Commercial and industrial	\$252,796	\$245,594
Real estate construction	254,438	264,839
Real estate mortgage	170,883	147,917
Real estate commercial	471,833	456,797
Consumer and other	22,758	22,232
Nontaxable states and political subdivision obligations	25,384	20,300
Loans, Gross	\$1,198,092	\$1,157,679

As of **December 31, 2008** and 2007 the aggregate indebtedness of all related parties was **\$210** and \$304, respectively. The aggregate indebtedness of these parties did not exceed five percent of equity during **2008** or 2007.

NOTE 5 - ALLOWANCE FOR LOAN LOSSES *(dollars in thousands)*

The following is an analysis of the changes in the allowance for loan losses:

	2008	2007	2006
Balance, January 1,	\$19,500	\$13,000	\$13,000
Loan Charge-Offs:			
Commercial and industrial	1,107	997	1,229
Real estate	3,275	1,364	1,237
Consumer and other	411	387	590
Total Loan Charge-Offs	4,793	2,748	3,056
Loan Recoveries:			
Commercial and industrial	304	806	523
Real estate	59	103	805
Consumer and other	455	276	308
Total Loan Recoveries	818	1,185	1,636
Net Loan Charge-Offs	3,975	1,563	1,420
Provision for loan losses	3,475	8,063	1,420
Balance, December 31,	\$19,000	\$19,500	\$13,000

NOTE 6 - PREMISES AND EQUIPMENT *(dollars in thousands)*

The following is a summary of the major components of premises and equipment as of **December 31,**

	2008	2007
Land	\$12,991	\$14,231
Bank premises	61,960	61,573
Leasehold improvements	638	616
Furniture and equipment	31,415	30,274
Total Premises And Equipment	107,004	106,694
Accumulated depreciation and amortization	63,320	60,151
Premises And Equipment, Net	\$43,684	\$46,543

Depreciation and amortization expense on premises and equipment for the year ended **December 31, 2008**, 2007 and 2006 totaled **\$3,521**, \$3,596 and \$3,747, respectively.

NOTE 7 - MORTGAGE SERVICING RIGHTS *(dollars in thousands)*

Year ended December 31,

	2008	2007
Fair Value, beginning of year	\$4,027	\$5,006
Additions:		
Capitalization of servicing assets	1,492	1,406
Purchases of servicing assets	38	20
Subtractions:		
Amortization	(1,890)	(2,203)
Accelerated amortization due to early payoffs	(173)	(202)
Fair Value, end of year	\$3,494	\$4,027

Mortgage servicing rights (MSRs) are accounted for under the amortization method. MSRs are included in other assets. MSRs are initially recorded at estimated fair value and are then amortized in proportion to and over the period of estimated net servicing income. The fair value of MSRs is estimated as the present value of the estimated expected future cash flows using a discount rate equivalent with the risks involved. MSRs are amortized against mortgage loan servicing income over seven years based upon prepayment assumptions. Those prepayment assumptions predict mortgages will payoff or refinance at lower levels during the first 30 months and at a constant level over the remaining 54 months. Accordingly, MSRs are amortized against mortgage loan servicing income at higher levels during the initial 30 months. If actual payments received exceed the prepayment assumptions, an impairment is recorded.

NOTE 8 - DEPOSITS (dollars in thousands)Total deposits by type of depositor as of **December 31,**

	2008	2007
Deposits of individuals, partnerships, and corporations	\$1,446,982	\$1,321,957
Deposits of U.S. Government	1,068	373
Deposits of states and political subdivisions	12,338	10,924
Other deposits	321	8,466
Total Deposits	\$1,460,709	\$1,341,720

As of **December 31, 2008** and 2007, the aggregate deposit overdrafts of **\$548** and \$314, respectively, have been reclassified as loan balances.

As of **December 31, 2008** and 2007, the aggregate deposits of related parties were **\$38,814** and \$27,805, respectively.

Time deposits have aggregate maturities as of **December 31** as follows:

	2008
Maturity:	
2009	\$155,781
2010	8,322
2011	1,617
2012	201
2013	2,789
Thereafter	318
Total Time Deposits	\$169,028

Included in time deposits are certificates of deposit in amounts of \$100 or more in the amount of **\$90,315** and \$66,182 as of **December 31, 2008** and 2007, respectively.

Interest expense on deposits was as follows:

	2008	FOR YEARS ENDED DECEMBER 31,	
		2007	2006
Savings	\$2,958	\$4,696	\$4,950
NOW	1,800	1,984	2,100
Money market	785	4,493	4,533
Time - less than \$100	2,078	2,671	2,059
Time - \$100 or more	2,271	2,591	1,912
Total Interest Expense On Deposits	\$9,892	\$16,435	\$15,554

NOTE 9 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE (dollars in thousands)

Selected balances and rates are as follows:

	2008	2007	2006
Maximum monthly average balance	\$542,753	\$547,404	\$481,370
Average daily balance	\$514,767	\$512,962	\$429,179
Average rate during year	1.09%	4.01%	4.34%
Average rate at December 31,	.27%	3.14%	4.46%

Investment securities with carrying amounts of **\$533,442** and \$553,962 at **December 31, 2008** and 2007, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2008, all repurchase agreements matured within 2 days.

NOTE 10 - NOTES PAYABLE *(dollars in thousands)*

The bank purchased investments in two limited partnerships for the purpose of investing in housing for low and moderate-income Alaskans living in Anchorage. The investments are included in other assets and are funded through installment payments on three subscription notes as follows:

	2008	2007
Face value Promissory Note payable in eight periodic installments, with final payment due October 1, 2010, secured by a limited partnership interest	\$2,229	\$7,702
Face value Promissory Note payable in scheduled annual installments, with final payment due January 1, 2014, secured by a limited partnership interest	1,093	1,791
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2015, secured by a limited partnership interest	1,751	2,281
Total face value before discounts	5,073	11,774
Discount on notes payable with imputed interest rates of 6.61% to 6.90%	(505)	(694)
Notes payable, net of discount	\$4,568	\$11,080

Aggregate maturities of notes payable for each of the five years subsequent to **December 31, 2008** and thereafter are:

2009	\$ —
2010	2,817
2011	570
2012	554
2013	540
2014-2015	592
Total	\$5,073

NOTE 11 - LEASES *(dollars in thousands)*

The bank is obligated under capital leases covering telephone and mail equipment. At **December 31, 2008**, the gross amount of telephone and mail equipment, including installation costs, and related accumulated amortization recorded under the capital leases were as follows:

	2008	2007
Furniture and equipment	\$942	\$942
Accumulated amortization	(793)	(631)
Capitalized lease equipment, net	\$149	\$311

Amortization of assets held under capital leases is included with depreciation expense.

The bank is party to various operating leases for the rental of premises and equipment. Total rental expenses for bank premises and equipment were **\$804**, \$992 and \$1,409 as of **December 31, 2008**, 2007 and 2006, respectively.

Aggregate minimum rental commitments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of **December 31, 2008** were:

	CAPITAL LEASES	OPERATING LEASES
Year ended December 31:		
2009	\$125	\$397
2010	55	39
2011	55	14
2012	9	7
2013	—	—
Thereafter	—	—
Total minimum lease payments	244	\$457
Amount representing interest at 4.5% - 5%	(14)	
Present value of net minimum capital lease payments	\$230	

NOTE 12 - SHAREHOLDERS' EQUITY

At the special shareholders meeting held on November 19, 2008, the bank was authorized to repurchase up to \$100 million worth of its outstanding common stock from time to time on the open market as well as through privately negotiated transactions. Repurchases will be funded from available capital. All shares repurchased will be retired. The repurchase program will expire when the bank has repurchased stock representing an aggregate purchase price of \$100 million or upon termination of the program by the Board of Directors, whichever occurs first.

As of **December 31, 2008**, the bank repurchased **5,999** shares of common stock representing as an aggregate purchase price of \$9.967 million, which equates to an average price per share of \$1,661. The repurchase transactions were accounted for as a reduction in retained earnings. The surplus balance of **\$40,000** as of **December 31, 2008** and 2007 has historically been maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

As of March 6, 2009, the bank repurchased an additional 5,657 shares of common stock representing an aggregate purchase price of \$8.785 million, which equates to an average price per share of \$1,553.

At the January 29, 2009 Board of Directors meeting, cash dividends of \$25 per share were declared, payable March 15, 2009 to shareholders of record as of March 1, 2009.

NOTE 13 - LITIGATION

From time to time in the normal course of business, various claims are asserted against the bank. Management and legal counsel are of the opinion that ultimate resolution of the matters presently known to exist will not have a material effect on the bank's financial statements.

The bank's payment services include acquisition of Visa credit card transactions from merchants who use the bank's merchant services. In order to be able to acquire those transactions the bank is a member of the Visa U.S.A. credit card association.

During October 2004, Discover Financial Services, Inc. filed an action against Visa U.S.A. and others seeking treble damages and injunctive relief under Federal antitrust laws. In November 2004, American Express Travel Related Services Company, Inc filed a similar action against Visa U.S.A. and others. There is other related litigation as well.

During 2007, Visa closed a restructuring of its organization. As part of this re-organization, the Visa U.S.A. by-laws were amended and included an indemnification provision whereby the bank, as a member of Visa U.S.A., is required to indemnify Visa for acts and omissions of the bank related to the Visa network and for certain specified litigation involving Visa U.S.A. An escrow arrangement was established anticipating the use of escrowed funds to pay the amount of certain Visa U.S.A. litigation expenses and settlements, including the Discover and American Express cases discussed above. Consequently, under FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Others", the bank was required to measure the indemnification obligation related to the Visa litigation at fair value.

In November 2007 and October 2008, respectively, Visa Inc., Visa U.S.A. and Visa International entered into agreements with American Express and Discover Financial Services to resolve all current litigation between them. Under the agreements Visa Inc. agreed to pay American Express some \$2.065 billion and some \$1.888 billion to Discover Financial Services. The bank's membership proportion according to the number of shares it was issued upon restructuring is 0.034121%.

Accordingly, in December 2007 the bank recorded a reserve for litigation expenses in the amount of \$925 thousand (an amount equal to the amount of its liability in respect of the American Express settlement plus an additional amount to cover proportionate exposure for an estimated \$650 million portion with respect to the Discover Financial Services, Inc. litigation. Additional charges to increase the reserve for litigation expenses of \$1.1 million and \$0.4 million were recorded in the first and fourth quarters of 2008, respectively, to cover further bank exposures to these settlements. All litigation expense charges were recorded in other noninterest expense with reserves included with other liabilities in the statement of condition. The bank has not recorded in its financial statements any value for its membership interest in Visa Inc.

The bank has a \$1.0 million escrow receivable included in other assets as of December 31, 2008, representing the bank's proportionate share of remaining escrowed funds Visa set aside to the purpose of settling these litigation claims. During 2008, the bank recorded \$1.4 million in noninterest income reflecting the value of its proportionate common shares attributed to the bank in escrow funds.

The specified litigation discussed above includes outstanding unresolved claims against Visa USA, which are complex and subject to substantial uncertainty and unspecified damages. As such, the ultimate outcome of the cases and corresponding indemnification may be significantly different than the fair value estimated in the December 31, 2008 financial statements.

NOTE 14 - MORTGAGE LOAN SERVICING INCOME (dollars in thousands)

Mortgage loan servicing income is comprised of the following:

	2008	2007	2006
Mortgage loan servicing fees	\$4,403	\$4,395	\$4,427
Amortization of costs	(1,890)	(2,203)	(2,692)
Accelerated amortization due to early payoffs	(173)	(202)	(272)
Mortgage Loan Servicing Income	\$2,340	\$1,990	\$1,463

NOTE 15 - EMPLOYEE BENEFIT PLANS (dollars in thousands)

The bank has a qualified non-contributory profit sharing plan for all employees. Vesting begins at 20% after completion of two full years of service, increasing 20% per year until fully vested at the completion of six years of service. The maximum amount that may be contributed to the plan is 15% of the total compensation paid to plan participants. The contribution can be made only from profits and the amount is determined by the Board of Directors.

The bank offers a 401(k) plan for all employees whom have attained 18 years of age. Participants are allowed to make voluntary salary deferral of up to 50% of their eligible pay subject to certain limitations. The bank will make matching contributions equal to 50% of the portion of each participant's before-tax contributions that do not exceed 7.5% of the participant's eligible pay. The participant's salary deferral plus any earnings they generate are 100% vested. Matching contributions made by the bank, including any earnings generated, are vested beginning at 20% after completion of two full years of service, increasing 20% each year until fully vested at six years of service.

The contribution to the profit sharing and 401(k) plan was **\$1,500** for each of the years ended **December 31, 2008**, 2007 and 2006.

NOTE 16 - OTHER NONINTEREST EXPENSE (dollars in thousands)

Other operating expense is comprised of the following:

	2008	2007	2006
Professional services	\$2,254	\$2,326	\$2,190
Other general expense	15,657	13,890	11,587
Other Noninterest Expense	\$17,911	\$16,216	\$13,777

NOTE 17 - PROVISION FOR INCOME TAXES (dollars in thousands)

The provision for income taxes is comprised of the following as of **December 31,**

	2008	2007	2006
Current:			
Federal	\$21,249	\$21,801	\$20,005
State	2,973	3,460	4,020
Total Current	24,222	25,261	24,025
Deferred:			
Federal	(1,114)	(2,701)	(580)
State	(195)	(471)	(101)
Total Deferred	(1,309)	(3,172)	(681)
Provision For Income Taxes	\$22,913	\$22,089	\$23,344

Income tax expense differed from the Federal statutory rate of 35% for 2008, 2007 and 2006 for the following reasons:

	2008	%	2007	%	2006	%
Tax expense at Federal statutory rate	\$23,034	35.00 %	\$21,042	35.00 %	\$22,931	35.00 %
Increase (decrease) resulting from:						
State tax, net of Federal tax effect	1,768	2.69 %	1,920	3.19 %	2,421	3.70 %
Disallowed interest expense	93	0.14 %	199	0.33 %	134	0.21 %
Interest exempt from Federal taxation	(1,324)	(2.01)%	(1,058)	(1.76)%	(701)	(1.07)%
Other items, net	(658)	(1.00)%	(14)	(0.02)%	(1,441)	(2.20)%
Provision For Income Taxes	\$22,913	34.82 %	\$22,089	36.74 %	\$23,344	35.64 %

Income taxes paid for years ended **December 31, 2008**, 2007 and 2006, totaled **\$23,145**, \$26,327 and \$24,873, respectively.

The tax effect of temporary differences that give rise to the bank's deferred tax assets and deferred tax liabilities are comprised of the following:

	2008	2007
Deferred Tax Assets:		
Allowance for loan losses	\$7,811	\$8,016
Mortgage servicing rights	1,803	1,964
Interest collected on nonperforming loans	3,966	2,404
Vacation accrual	1,048	1,020
Accumulated depreciation and amortization	742	719
Litigation reserve	401	381
Self insurance reserve	305	208
Other	278	141
Total Deferred Tax Assets	16,354	14,853
Deferred Tax Liabilities:		
Net unrealized holding gain on securities, available-for-sale	15,998	7,321
Net deferred loan fees	2,381	2,269
Low income housing projects	381	314
Other	52	42
Total Deferred Tax Liabilities	18,812	9,946
Net Deferred Tax (Liabilities) Assets	\$(2,458)	\$4,907

Net deferred tax assets and net liabilities are included in other assets and other liabilities in the statements of condition, respectively. The bank believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize deferred tax assets.

NOTE 18 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (dollars in thousands)

Effective January 1, 2008 the bank implemented Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value and expands the disclosure requirements for fair value measurements. 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.

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 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 nonaccrual 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 stock: The carrying amount is a reasonable estimate of the fair value. Federal Reserve Bank stock is required to be sold back at its par value.

Federal Home Loan Bank of Seattle stock: The carrying amount is a reasonable estimate of the fair value. Federal Home Loan Bank of Seattle (Seattle Bank) stock is required to be sold back at its par value.

Mortgage servicing rights: The carrying amount is a reasonable estimate of the fair value.

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 by using rates currently offered for 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.

Loan 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.

Commitments to fund mortgage loans to be sold: The fair value is the difference between the contract price to the investor and the contract price to the borrower.

Subscriptions to purchase Federal Reserve Bank stock: The fair value is the difference between the contract price and the current offered price, which is generally the par value.

The fair value estimates presented herein are based on pertinent information available to management as of **December 31, 2008**. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein. The fair value of mortgage servicing rights is disclosed in Note 7.

Amounts and estimated fair value of financial instruments as of **December 31,**

	2008		2007	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
FINANCIAL ASSETS				
Cash and cash equivalents:				
Cash and due from banks	\$138,088	\$138,088	\$87,313	\$87,313
Federal funds sold	—	—	10,933	10,933
Total Cash And Cash Equivalents	\$138,088	\$138,088	\$98,246	\$98,246
Securities:				
Available-for-sale	\$1,000,629	\$1,000,629	\$955,094	\$955,094
Held-to-maturity	\$23,000	\$23,216	—	—
Real estate loans to be sold	\$7,734	\$7,734	\$14,607	\$14,607
Loans:				
Commercial and industrial	\$252,796	\$256,148	\$245,594	\$245,198
Real estate	897,154	909,614	869,553	872,444
Consumer and other	22,758	22,699	22,232	21,594
Nontaxable states and political subdivision obligations	25,384	25,913	20,300	19,803
Total Loans	\$1,198,092	\$1,214,374	\$1,157,679	\$1,159,039
Federal Reserve Bank stock	\$2,234	\$2,234	\$2,234	\$2,234
Federal Home Loan Bank stock	\$2,139	\$2,139	\$2,139	\$2,139
Mortgage servicing rights	\$3,494	\$3,494	\$4,027	\$4,027
Interest receivable	\$16,130	\$16,130	\$17,202	\$17,202
FINANCIAL LIABILITIES				
Deposits:				
Non-interest bearing	\$593,499	\$593,499	\$565,945	\$565,945
Interest bearing:				
Savings	363,531	363,531	322,315	322,315
NOW	154,549	154,549	136,133	136,133
Money market	180,102	180,102	178,777	178,777
Time	169,028	171,710	138,550	139,328
Total interest bearing	867,210	869,892	775,775	776,553
Total Deposits	\$1,460,709	\$1,463,391	\$1,341,720	\$1,342,498
Securities sold under agreements to repurchase	\$487,138	\$487,138	\$488,633	\$488,633
Notes payable and capital lease obligations	\$4,798	\$4,798	\$11,445	\$11,445
Interest payable	\$1,309	\$1,309	\$1,850	\$1,850

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS, *Continued*

	2008		2007	
	CONTRACTUAL AMOUNT	ESTIMATED FAIR VALUE	CONTRACTUAL AMOUNT	ESTIMATED FAIR VALUE
Assets:				
Loan commitments	\$289,979	\$1,440	\$282,388	\$1,412
Bankcard commitments	\$199,068	—	\$199,719	—
Commitments to fund mortgage loans to be sold	\$21,919	—	\$3,452	—
Standby and commercial letters of credit	\$24,764	\$226	\$27,239	\$246
Liabilities:				
Subscriptions to purchase Federal Reserve Bank stock	\$2,234	—	\$2,234	—

In accordance with SFAS No. 157, 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 Company 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.

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

DESCRIPTION	DECEMBER 31, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Securities:				
Available-for-sale	\$1,000,629	\$ —	\$1,000,629	\$ —
Total	\$1,000,629	\$ —	\$1,000,629	\$ —

For investment securities, where quoted prices are available in an active market for identical securities they are classified within Level 1 of the valuation 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. Where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy.

The majority of the bank's investments are in high-quality short term 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 December 31, 2008 the bank had no investments in Fannie Mae or Freddie Mac common or preferred stock or mortgage-backed securities.

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

DESCRIPTION	DECEMBER 31, 2008	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL GAINS (LOSSES) FOR YEAR ENDED DECEMBER 31, 2008
Impaired loans	\$71,740	\$ —	\$ —	\$71,740	\$4,934
Originated mortgage servicing rights	3,197	—	—	3,197	126
Total	\$74,937	\$ —	\$ —	\$74,937	\$4,808

Certain 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, in accordance with provisions of SFAS 114. The bank may apply management-determined discount factors to appraisal valuations to take into consideration changing market conditions.

Fair value of mortgage servicing rights are estimated using discounted cash flow models that calculate the present value of estimated future net servicing income. The bank reassesses and periodically adjusts the remaining unamortized value to reflect actual prepayments.

Also effective January 1, 2008 the bank implemented Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement 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 January 1, 2008. The bank may adopt this guidance for financial assets and liabilities in the future as permitted under the statement.

NOTE 19 - CREDIT ARRANGEMENTS *(dollars in thousands)*

The bank had a committed line of credit of **\$76,810** and \$17,125 from the Federal Reserve Bank at a rate of **.50%** and 4.75% as of **December 31, 2008** and 2007, respectively. The bank also had a committed line of credit of **\$80,722** and \$78,952 from the Federal Home Loan Bank Seattle at a rate of **0.63%** and 4.35% as of **December 31, 2008** and 2007, respectfully. In addition, the bank also had federal funds arrangements available from unaffiliated banks of **\$40,000** and \$90,000, at rates estimated at **.25%** as of **December 31, 2008** and 4.25% as of December 31, 2007. There were no outstanding balances against these lines of credit as of **December 31, 2008** or 2007.

NOTE 20 - COMMITMENTS AND CONTINGENCIES (dollars in thousands)

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. Collateral varies but may include cash, securities, accounts receivable, inventory, premises and equipment, and real estate.

Amounts of off-balance-sheet commitments as of **December 31**,

	2008	2007
Loan commitments	\$289,979	\$282,388
Bankcard commitments	199,068	199,719
Commitments to fund mortgage loans to be sold	21,919	3,452
Total Loan Commitments	\$510,966	\$485,559
Commitments at fixed interest rates	\$335,337	\$268,539
Commitments at variable interest rates	175,629	217,020
Total Loan Commitments	\$510,966	\$485,559
Standby and commercial letters of credit	\$24,764	\$27,239
Subscriptions to purchase Federal Reserve Bank stock	\$2,234	\$2,234

Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," requires companies to accrue the fair market value of future asset retirement obligations when the amount can be reasonably estimated, even if the timing and method of retirement is uncertain at the time the obligation is known. It is bank policy to accrue the fair market value of asset retirement obligations when the fair market value of the obligations can be reasonably estimated. As of **December 31, 2008**, the range of settlement dates of asset retirement obligations is indeterminate and, accordingly, an estimate of the fair market value of the obligations has not been accrued in the statements of condition.

As of **December 31, 2008** the bank held **\$2,234** of Federal Home Loan Bank Seattle (Seattle Bank) Class B stock that is included in other assets. The Seattle Bank is anticipated to report a risk-based capital deficiency as of December 31, 2008. This would mean they would not be able to redeem or repurchase any stock outstanding while a risk-based capital deficiency exists. They have not repurchased Class B stock since 2004 and did not pay a dividend in fourth quarter 2008. If the stock was deemed to be other-than-temporarily impaired the resulting write-down would not be material to the financial position of First National Bank Alaska.

NOTE 21 - REGULATORY MATTERS (dollars in thousands)

The bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possible additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the bank's financial statements.

The directors of the bank may declare and pay dividends as frequently and of such amount of undivided profits as they judge prudent, subject to certain restrictions on capital accounts as defined in Federal banking regulations.

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

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

As of **December 31, 2008**, the most recent notifications from the Comptroller of the Currency categorized the bank as well capitalized under the regulatory framework for prompt corrective action for both **2008** and 2007. To be categorized as well capitalized, the bank is required to maintain minimum total risk-based, Tier I risk-based, Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The bank's actual amounts and ratios at **December 31, 2008** and 2007 are as follows:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2008:						
Total Capital (to Risk-weighted Assets)	\$465,096	29.01%	\$128,272	8.0%	\$160,340	10.00%
Tier I Capital (to Risk-weighted Assets)	\$446,096	27.82%	\$64,136	4.0%	\$96,204	6.00%
Tier I Capital (to Average Assets)	\$446,096	18.20%	\$98,054	4.0%	\$122,568	5.00%
As of December 31, 2007:						
Total Capital (to Risk-weighted Assets)	\$466,782	30.40%	\$122,851	8.0%	\$153,564	10.00%
Tier I Capital (to Risk-weighted Assets)	\$447,583	29.15%	\$61,426	4.0%	\$92,138	6.00%
Tier I Capital (to Average Assets)	\$447,583	19.13%	\$93,593	4.0%	\$116,991	5.00%

The following table presents the summary results for the four quarters during the years ended 2008 and 2007:

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

Summary Of Operations	2008			
	FIRST	SECOND	THIRD	FOURTH
Interest And Loan Fee Income	\$33,928	\$31,995	\$31,529	\$31,850
Interest Expense	5,860	3,731	3,623	2,495
Net Interest And Fee Income	28,068	28,264	27,906	29,355
Provision For Loan Losses	(1,046)	189	1,020	3,312
Net Interest And Fee Income After Provision For Loan Losses	29,114	28,075	26,886	26,043
Noninterest Income	11,448	11,363	9,890	8,665
Noninterest Expense	20,885	21,633	21,157	21,994
Income Before Taxes	19,677	17,805	15,619	12,714
Provision For Income Taxes	7,187	6,268	5,430	4,028
Net Income	\$12,490	\$11,537	\$10,189	\$8,686
Earnings Per Common Share	\$36.23	\$33.46	\$29.55	\$25.31
Summary Of Operations	2007			
	FIRST	SECOND	THIRD	FOURTH
Interest And Loan Fee Income	\$37,021	\$38,626	\$39,028	\$38,019
Interest Expense	9,462	10,159	9,464	8,214
Net Interest And Fee Income	27,559	28,467	29,564	29,805
Provision For Loan Losses	295	3,903	2,868	997
Net Interest And Fee Income After Provision For Loan Losses	27,264	24,564	26,696	28,808
Noninterest Income	8,061	8,939	9,838	9,261
Noninterest Expense	20,003	20,756	20,219	22,332
Income Before Taxes	15,322	12,747	16,315	15,737
Provision For Income Taxes	5,643	4,513	6,389	5,544
Net Income	\$9,679	\$8,234	\$9,926	\$10,193
Earnings Per Common Share	\$28.08	\$23.88	\$28.79	\$29.57

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders,
First National Bank Alaska:

We have audited the accompanying statements of condition of First National Bank Alaska as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First National Bank Alaska as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First National Bank Alaska's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 6, 2009 expressed an unqualified opinion on the effectiveness of the bank's internal control over financial reporting.

Anchorage, Alaska
March 6, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders, First National Bank Alaska:

We have audited First National Bank Alaska's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control— Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). First National Bank Alaska's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report. Our responsibility is to express an opinion on First National Bank Alaska's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. Because management's assessment and our audit were conducted to also meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management's assessment and our audit of First National Bank Alaska's internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions to the Federal Financial Institutions Examination Council for Consolidated Reports of Condition and Income (call report instructions). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First National Bank Alaska maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any other form of assurance on management's statement referring to compliance with laws and regulations.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statements of condition of First National Bank Alaska as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated March 6, 2009 expressed an unqualified opinion on those financial statements.

Anchorage, Alaska
March 6, 2009

MANAGEMENT'S REPORT

March 6, 2009

To the Shareholders:

Financial Statements

The management of First National Bank Alaska ("the bank") is responsible for the preparation, integrity, and fair presentation of its published financial statements and all other information presented in this annual report. The financial statements have been prepared in accordance with U.S. generally accepted accounting principles and, as such, include amounts based on informed judgments and estimates made by management.

Internal Control

Management is responsible for establishing and maintaining effective internal control over financial reporting, including safeguarding of assets, presented in conformity with both U.S. generally accepted accounting principles and the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management assessed the bank's internal control over financial reporting, including safeguarding of assets, presented in conformity with both U.S. generally accepted accounting principles and call report instructions as of December 31, 2008. This assessment was based on criteria for effective internal control over financial reporting, including safeguarding of assets, established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that as of December 31, 2008, the bank maintained effective internal control over financial reporting, including safeguarding of assets, presented in conformity with both U.S. generally accepted accounting principles and call report instructions.

The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of the bank's management. The Audit Committee is responsible for recommending to the Board of Directors the selection of independent auditors. It meets periodically with management, the independent auditors and the internal auditors to ensure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the bank in addition to reviewing the bank's financial reports. The independent auditors and the internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the adequacy of the internal control over financial reporting and any other matters which they believe should be brought to the attention of the Committee.

KPMG LLP has also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First National Bank Alaska's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and their report dated March 6, 2009 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

D.H. Cuddy,
Chairman and President

Jason L. Roth, Senior Vice President,
Financial Division

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There were no changes in and/or disagreements on accounting and financial disclosure matters between the First National Bank Alaska and their accountants.

ITEM 9A. CONTROLS AND PROCEDURES

The information required by Item 9A is included in item 8 on page 54.

ITEM 9B. OTHER INFORMATION

There were no reports on Form 8-K filed during the quarter ended December 31, 2008.

Part III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 regarding Directors and Executive Officers is included in First National Bank Alaska's 2009 Proxy Statement for the April 28, 2009, Annual Meeting Shareholders on pages 2 through 15, which is incorporated herein by reference.

The following table sets forth the Executive Officers of First National Bank Alaska, all of which serve at the pleasure of the Board of Directors.

NAME	AGE	DATE FIRST BECAME AN EXECUTIVE OFFICER	POSITIONS HELD DURING PRECEDING 5 YEARS
D. H. Cuddy	88	September 1, 1951	Chairman and President
Betsy Lawer	59	October 15, 1982	Vice Chair and Chief Operating Officer (COO through December 1, 2008)
William Renfrew	61	January 1, 1989	Senior Vice President, Interior Alaska Regional Manager
Sue Foley	60	May 1, 1992	Senior Vice President, Central Support Division
Jason Roth	52	May 1, 1992	Senior Vice President, Financial Division
Doug Longacre	56	January 1, 1993	Senior Vice President, Branch Administration and Loan Division
David Lawer	58	April 19, 1993	Senior Vice President, Corporate Systems Division and General Counsel
David Stringer	60	January 1, 1996	Senior Vice President, Loan Servicing Division
Charles Weimer	48	January 1, 1999	Senior Vice President and Regional Manager, Kenai Peninsula
Debra Wilson	48	January 1, 2003	Senior Vice President, EDP Division (through August 1, 2008)
William Inscho	57	January 1, 2004	Senior Vice President Vice President, Commercial Lending 2003-2000
Craig Thorn	48	January 1, 2004	Senior Vice President and Regional Manager Mat-Su Region
R.C. Woodson	42	August 1, 2008	Senior Vice President, EDP Division
Morton Plumb	65	December 1, 2008	Chief Operating Officer

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is included in First National Bank Alaska's 2009 Proxy Statement for the April 28, 2009, Annual Meeting of Shareholders on pages 5 and 6, which is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is included in First National Bank Alaska's 2009 Proxy Statement for the April 28, 2009, Annual Meeting of Shareholders on pages 5 through 10, which is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is included in First National Bank Alaska's 2009 Proxy Statement for the April 28, 2009, Annual Meeting of Shareholders on pages 14 and 15, which is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 is included in First National Bank Alaska's 2009 Proxy Statement for the April 28, 2009, Annual Meeting of Shareholders on pages 10 through 14, which is incorporated herein by reference.

All of the independent auditor fees for the years ended December 31, 2008 and 2007 were subject to this Charter and were pre-approved by the Audit Committee.

Part IV

ITEM 15. EXHIBITS

1. Exhibits

Page number references are to the First National Bank Alaska'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

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registration has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST NATIONAL BANK ALASKA

DATE	D. H. Cuddy Chairman and President (Principal Executive Officer)
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DATE	Jason L. Roth Senior Vice President (Principal Financial Officer)
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DATE	Michele M. Schuh Comptroller (Principal Accounting Officer)
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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

DATE D. H. Cuddy, Chairman

DATE John T. Kelsey, Director

DATE Betsy Lawer, Vice Chair

DATE Loren H. Lounsbury, Director

DATE Maurice J. Coyle, M.D., Director

DATE Margy K. Johnson, Director

DATE George E. Gordon, Director

DATE Jane Klopfer, Director

DATE Morton Plumb, Director

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-K of First National Bank Alaska;
2. Based on my knowledge, this 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 fourth 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.

Date:

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

EXHIBIT 31.2

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

I, Jason L. Roth, Senior Vice President, certify that:

1. I have reviewed this report on Form 10-K of First National Bank Alaska;
2. Based on my knowledge, this 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 fourth 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.

Date:

Jason L. Roth
Senior Vice President
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the First National Bank Alaska's ("bank") Annual Report on Form 10-K ("Report") for the period ending December 31, 2008, I, D.H. Cuddy, Chairman and President, certify, that:

- (1) To the best of my knowledge, the Report fully complies with the requirements of section 13(a) 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 aspects, the financial condition and results of operation of the bank.

Date:

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

EXHIBIT 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the First National Bank Alaska's ("bank") Annual Report on Form 10-K ("Report") for the period ending December 31, 2008, I, Jason L. Roth, Senior Vice President, certify, that:

- (1) To the best of my knowledge, the Report fully complies with the requirements of section 13(a) 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 aspects, the financial condition and results of operation of the bank.

Date:

Jason L. Roth
Senior Vice President
(Principal Financial Officer)