FIRST NATIONAL BANK ALASKA
Anchorage, Alaska

FINANCIAL STATEMENTS
December 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of First National Bank Alaska, which comprise the statements of financial condition as of December 31, 2013 and 2012, and the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, First National Bank Alaska's internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2014 expressed an unqualified opinion.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
March 10, 2014

FIRST NATIONAL BANK ALASKA
STATEMENTS OF FINANCIAL CONDITION
December 31, 2013 and 2012
(Dollars in thousands, except per share data)

	2013	2012
ASSETS		
Cash and cash equivalents	$ 93,083	$ 118,506
Securities, available-for-sale	1,610,395	1,543,451
Real estate loans to be sold	12,839	31,493
Loans:		
Commercial and industrial	246,127	242,102
Real estate	1,031,059	979,906
Consumer and other	16,205	17,791
Total loans, gross	1,293,391	1,239,799
Less: Allowance for loan losses	12,250	12,250
Total loans, net	1,281,141	1,227,549
Premises and equipment, net	48,405	43,645
Other real estate owned, net	13,333	14,418
Other assets	43,594	36,553
Total assets	$ 3,102,790	$ 3,015,615
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$ 1,011,286	$ 958,996
Interest bearing:		
Savings	582,286	607,533
NOW	186,917	183,524
Money market	156,655	176,352
Time	159,682	132,114
Total interest bearing	1,085,540	1,099,523
Total deposits	2,096,826	2,058,519
Securities sold under agreements to repurchase	545,612	484,195
Capital lease obligations	168	221
Notes payable, net	68	551
Other liabilities	7,580	12,006
Total liabilities	2,650,254	2,555,492
Shareholders' equity:		
Common stock, $100 par value (authorized: 2013 and 2012 – 400,000 shares) (issued and outstanding: 2013 – 322,356; 2012 – 324,855)	32,236	32,486
Surplus	40,000	40,000
Retained earnings	383,858	371,851
Accumulated other comprehensive income (loss)	(3,558)	15,786
Total shareholders' equity	452,536	460,123
Total liabilities and shareholders' equity	$ 3,102,790	$ 3,015,615

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF INCOME
Years ended December 31, 2013 and 2012
(Dollars in thousands, except per share data)

	2013	2012
Interest income and loan fees:		
Interest and fees on loans:		
Taxable	$ 77,157	$ 78,089
Nontaxable	1,919	1,857
Total interest and fees on loans	79,076	79,946
Interest and dividends on investment securities:		
Taxable	20,703	26,330
Nontaxable	1,455	1,253
Total interest and dividends on investment securities	22,158	27,583
Interest on cash and cash equivalents	243	209
Total interest and loan fee income	101,477	107,738
Interest expense:		
Interest on deposits	1,013	1,653
Interest on federal funds purchased and securities sold under agreements to repurchase	724	636
Interest on notes payable, capital lease obligations and other	38	71
Total interest expense	1,775	2,360
Net interest and loan fee income	99,702	105,378
Provision for loan losses	(9)	(1,075)
Net interest and loan fee income after provision for loan losses	99,711	106,453
Noninterest income:		
Bankcard fees	14,150	19,852
Service charges on deposit accounts	3,834	3,758
Gain on sale of mortgage loans	3,737	4,302
Mortgage loan servicing income	1,827	1,901
Net gains on investment securities	92	176
Other noninterest income	5,888	6,598
Total noninterest income	29,528	36,587
Noninterest expense:		
Salaries and employee benefits	46,708	45,083
Occupancy expense, net	7,365	7,230
Furniture and equipment expense	1,983	2,026
Bankcard expenses	8,035	12,506
Other noninterest expense	17,285	15,681
Total noninterest expense	81,376	82,526
Income before taxes	47,863	60,514
Provision for income taxes	15,551	20,477
Net income	$ 32,312	$ 40,037
Earnings per common share (not in thousands)	$ 99.80	$ 122.51

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2013 and 2012
(Dollars in thousands)

	2013	2012
Net income	$ 32,312	$ 40,037
Other comprehensive income –		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the period, net of tax effect of $10,982 and $(69) in 2013 and 2012, respectively	(19,290)	98
Reclassification adjustment for gains included in net income, net of tax effect of $38 and $72 in 2013 and 2012, respectively	(54)	(104)
Net losses recognized in other comprehensive income (loss)	(19,344)	(6)
Comprehensive Income	$ 12,968	$ 40,031

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012
(Dollars in thousands)

	2013	2012
Cash flows from operating activities		
Net income	$ 32,312	$ 40,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on investment securities, net	11,247	9,144
Loss from equity method investment	441	503
Depreciation, accretion and amortization	5,427	5,444
Provision for loan losses	(9)	(1,075)
Deferred taxes	(23)	1,868
Gain on sale of mortgage loans	(3,737)	(4,302)
Net gain on the sales of other real estate owned	(725)	(220)
Valuation adjustment on other real estate owned	845	236
Net (gain) loss on the sale of premises and equipment	19	(10)
Net gain on disposition of investment securities	(92)	(176)
Real estate loans to be sold-originated	(214,716)	(311,912)
Real estate loans to be sold-shipped	235,119	306,274
Net decrease in other assets	1,987	3,426
Net decrease in other liabilities	(1,257)	(358)
Net cash provided by operating activities	66,838	48,879
Cash flows from investing activities		
Proceeds from calls and maturities of securities, available-for-sale	444,650	758,154
Proceeds from sales of securities, available-for-sale	75,302	83,539
Purchase of securities, available-for-sale	(630,387)	(840,446)
Net redemptions of Federal Home Loan Bank stock	76	38
Net redemptions of Federal Reserve Bank stock	9	20
Net increase in loans, net of undisbursed portion	(55,352)	(96,362)
Proceeds from sales of premises and equipment	4	15
Purchase of land, premises and equipment	(7,885)	(4,875)
Improvements to other real estate owned	(1,724)	(1,167)
Proceeds from sales of other real estate owned	4,451	4,962
Other investing activity	-	(1)
Net cash used in investing activities	(170,856)	(96,123)
Cash flows from financing activities		
Net increase in total deposits	38,307	127,394
Net increase in securities sold under agreements to repurchase	61,417	997
Payments on notes and capital leases	(574)	(594)
Dividends paid	(16,182)	(16,327)
Retirement of common stock	(4,373)	(7,849)
Net cash provided by financing activities	78,595	103,621
Increase (decrease) in cash and cash equivalents	(25,423)	56,377
Cash and cash equivalents, January 1	118,506	62,129
Cash and cash equivalents, December 31	$ 93,083	$ 118,506

(Continued)

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2013 and 2012
(Dollars in thousands)

	2013	2012
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 1,796	$ 2,401
Cash paid during the year for income taxes	14,736	17,053
Noncash investing and financing activities:		
Transfer of loans to other real estate owned	$ 2,354	$ 292
Bank financed sales of other real estate owned	580	234
Transfer of land held for Bank premises to other real estate owned	-	314
Purchase of mail equipment under capital lease obligation	-	265

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2013 and 2012
(Dollars in thousands, except per share data)

	Common Stock ($100 Par Value)	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, January 1, 2012	$ 32,981	$ 40,000	$ 355,495	$ 15,792	$ 444,268
Net income	-	-	40,037	-	40,037
Other comprehensive loss, net of tax	-	-	-	(6)	(6)
Dividends declared - $50 per share	-	-	(16,327)	-	(16,327)
Retirement of common stock (4,954 shares)	(495)	-	(7,354)	-	(7,849)
Balance, December 31, 2012	32,486	40,000	371,851	15,786	460,123
Net income	-	-	32,312	-	32,312
Other comprehensive loss, net of tax	-	-	-	(19,344)	(19,344)
Dividends declared - $50 per share	-	-	(16,182)	-	(16,182)
Retirement of common stock (2,499 shares)	(250)	-	(4,123)	-	(4,373)
Balance, December 31, 2013	$ 32,236	$ 40,000	$ 383,858	$ (3,558)	$ 452,536

See accompanying notes to financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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.

Subsequent Events: The Bank has evaluated subsequent events for recognition and disclosure through March 10, 2014, which is the date the financial statements were available to be issued.

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

Cash and Cash Equivalents: Cash and cash equivalents include cash and due from banks and overnight federal funds sold. Net cash flows are reported for customer loan and deposit transactions, securities sold under agreements to repurchase and federal funds purchased.

Securities, Available-for-Sale: 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 holding gains or losses on securities, available-for-sale are included in other comprehensive income and as a separate component of shareholders' equity. Amortization of premiums and accretion of discounts are recognized using the level yield method. Realized gains and losses on sales of securities are computed using the specific identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Real Estate Loans to be Sold: Real estate loans to be sold are carried at the lower of cost or fair value in the aggregate. 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 real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate 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 effective interest method.

The accrual of interest on all classes of real estate and commercial loans is normally discontinued at the time a loan is 90 days delinquent. Past due status is based on the contractual terms of the loan. All classes within consumer and other loans are typically charged off no later than 120 days. 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. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. 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: The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

The general component is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of non-impaired loans in light of historical loss 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. The historical loss experience is determined by portfolio segment and is based on the actual loss history of the Bank over the most recent 3, 5 or 7 years for consumer, commercial and real estate loans, respectively. The actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Management considers the following when assessing the risk of the loan portfolio segments:

Commercial and Industrial loans – are dependent on the strength of the industries of the related borrowers and the success of their businesses. Commercial loans are advanced for equipment purchases, to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans.
Real estate loans are considered by loan portfolio class as follows:

Commercial and Construction/Development loans – are dependent on the industries tied to these loans as well as the local real estate market. The loans are secured by the real estate, appraisals or other external valuations are obtained to support the loan amount. An evaluation of the project's cash flows is performed to evaluate the borrower's ability to repay the loan at the time of origination.

1-4 and multifamily residential loans – are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination the Bank evaluates the borrower's repayment ability through a review of credit scores and debt to income ratios. Appraisals or other external valuations are obtained to support the loan amount. Multifamily real estate loans are dependent on the industries tied to these loans as well as the local real estate market for the particular property segments. Appraisals or other external valuations are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination.

Consumer and other loans – are dependent on local economies. Consumer loans are generally secured by consumer assets, but may be unsecured. At the time of origination, the Bank evaluates the borrower's repayment ability through a review of credit scores and an evaluation of debt to income ratios.

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. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulty, are considered troubled debt restructurings and classified as impaired.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Troubled debt restructurings are measured at the net present value of estimated future cash flows or where considered to be collateral dependent, the loan is reported, net, at the fair value of the collateral.

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.

Reserve for Unfunded Commitments: A reserve is established at a level that is considered adequate by management to provide for possible losses associated with commitments to lend funds under existing agreements. Management determines the adequacy of the reserve for unfunded commitments by evaluating the outstanding commitment levels, the expected conversion to loans, historical loss estimates, and other relevant factors. This evaluation is inherently subjective and actual losses may vary from current estimates. Changes in the reserve are reported in earnings in the periods they become known. The reserve for unfunded commitments is included in other liabilities in the accompanying statements of condition.

At December 31, 2013 and 2012, the recorded liability was $1,000 and $800, respectively.

Premises and Equipment: Premises and equipment, including leasehold improvements and software, are stated at cost less accumulated depreciation and amortization. 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 under capital leases is stated at the present value of minimum lease payments. 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: This 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 and periodically evaluated for impairment based on ultimate recovery of par value, ($2,167 and $2,176 as of 2013 and 2012, respectively). Calculation of the stock requirement is based solely on the capital structure of the Bank.

Federal Home Loan Bank Stock: This 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 and periodically evaluated for impairment based on ultimate recovery of par value, ($2,025 and $2,101 as of 2013 and 2012, respectively). 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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Loan Commitments and Related Financial Instruments: This includes off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Originated Mortgage Servicing Rights (OMSRs): 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 income. 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.

Transfers of Financial Assets: These are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Bank, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Mortgage Loan Servicing Fees: These 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 servicing rights cost.

Investments in Limited Partnerships: Investments where the underlying assets are qualified affordable housing projects are accounted for using either the cost method or equity method, depending on investment ownership percentage. Under the cost method, the Bank amortizes the excess of the carrying amount of the investment over its estimated residual value during the periods in which tax credits are allocated to the Bank. Under the equity method, the Bank includes its proportionate share of income or loss in other noninterest income or expense.

Bankcard Fees: These 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 collectability is reasonably assured. Expenses related to rebate reward programs are recorded when earned by cardholders.

Income Taxes: Income taxes are accounted for in accordance with Accounting Standards Codification (ASC) Topic 740. 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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: These are computed on the basis of the weighted average number of shares outstanding. The weighted average number of shares outstanding were 323,753 and 326,806 for 2013 and 2012, respectively. The Bank does not have any potentially dilutive securities.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Values of Financial Instruments: These are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications: Reclassifications have been made to conform 2012 financial statement data with the 2013 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards: In February 2013, the FASB amended existing guidance related to reporting amounts reclassified out of other comprehensive income out of accumulated other comprehensive income. These amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. These amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The effect of adopting this standard did not have a material effect on the Company's operating results or financial condition.

NOTE 2 - CASH AND CASH EQUIVALENTS

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, 2013 and 2012 was $23,902 and $12,168, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - SECURITIES

The amortized cost and fair value of securities, available-for-sale are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2013:

December 31, 2013	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities maturities:				
One to five years	$ 83,489	$ 1,779	$ 75	$ 85,193
Five to 10 years	4,889	-	13	4,876
Total	88,378	1,779	88	90,069
U.S. government-sponsored enterprises maturities:				
Within one year	105,242	494	-	105,736
One to five years	878,402	6,592	5,873	879,121
Five to 10 years	211,954	-	9,406	202,548
After 10 years	10,000	-	546	9,454
Total	1,205,598	7,086	15,825	1,196,859
States and political subdivisions maturities:				
Within one year	4,954	68	-	5,022
One to five years	91,916	659	159	92,416
Five to 10 years	28,364	-	635	27,729
Total	125,234	727	794	125,167
Corporate bonds maturities:				
Within one year	11,966	64	-	12,030
One to five years	184,748	2,023	501	186,270
Total	196,714	2,087	501	198,300
Total securities, available-for-sale	$ 1,615,924	$ 11,679	$ 17,208	$ 1,610,395

Within the state and political subdivisions category, the largest concentrations of securities, available-for-sale are held in Texas with 39%, Utah with 28%, and Alaska with 21% of the category.

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - SECURITIES (Continued)

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, 2013, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2013						
Available-for-sale:						
U.S. Treasury	$ 25,014	$ 88	$ -	$ -	$ 25,014	$ 88
U.S. government-sponsored Enterprises	601,228	14,430	21,921	1,395	623,149	15,825
States and political subdivisions	41,452	708	11,331	86	52,783	794
Corporate bonds	37,129	437	5,959	64	43,088	501
Total	$ 704,823	$ 15,663	$ 39,211	$ 1,545	$ 744,034	$ 17,208

The unrealized holding losses on investments are the result of increasing interest rates. 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. Unrealized losses on U.S. government-sponsored enterprises, states and political subdivisions and corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bond(s) approach maturity.

Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2012:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2012				
U.S. Treasury securities maturities:				
Within one year	$ 60,275	$ 157	$ -	$ 60,432
One to five years	42,876	2,776	-	45,652
Total	103,151	2,933	-	106,084
U.S. government-sponsored enterprises maturities:				
Within one year	207,580	2,571	-	210,151
One to five years	685,219	10,567	16	695,770
Five to 10 years	285,685	6,688	101	292,272
After 10 years	10,000	45	-	10,045
Total	1,188,484	19,871	117	1,208,238
States and political subdivisions maturities:				
Within one year	4,793	44	-	4,837
One to five years	57,843	1,093	81	58,855
Five to 10 years	29,704	57	38	29,723
Total	92,340	1,194	119	93,415

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - SECURITIES (Continued)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2012				
Corporate bonds maturities:				
Within one year	$ 20,033	$ 149	$ -	$ 20,182
One to five years	112,636	2,971	75	115,532
Total	132,669	3,120	75	135,714
Total securities, available-for-sale	$ 1,516,644	$ 27,118	$ 311	$ 1,543,451

Within the state and political subdivisions category, the largest concentrations of securities, available-for-sale are held in Utah with 33%, Alaska with 29%, and Texas with 23% of the category.

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, 2012, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2012						
Available-for-sale:						
U.S. government-sponsored enterprises	$ 43,337	$ 117	$ -	$ -	$ 43,337	$ 117
States and political subdivisions	39,019	119	-	-	39,019	119
Corporate bonds	6,198	75	-	-	6,198	75
Total	$ 88,554	$ 311	$ -	$ -	$ 88,554	$ 311

The unrealized holding losses on investments are the result of increasing interest rates. 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. Unrealized losses on U.S. government-sponsored enterprises, states and political subdivisions and corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bond(s) approach maturity.

Investment securities with carrying amounts of $814,712 and $701,513 at December 31, 2013 and 2012, respectively, were pledged to secure public and trust deposits, securities sold under agreements to re-purchase, and for other purposes as required or permitted by law.

Gross realized gains on the disposition of investment securities totaled $92 and $176 in 2013 and 2012, respectively. Realized losses on the disposition of investment securities were $0 for 2013 and 2012.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - LOANS

The loan portfolio consists of the following at December 31:

	2013	2012
Commercial and industrial	$ 246,127	$ 242,102
Real estate construction	165,413	156,479
Real estate mortgage	210,558	194,713
Real estate commercial	655,088	628,714
Consumer and other	16,205	17,791
Loans, gross	$ 1,293,391	$ 1,239,799

There were unearned discounts of $11 and $17 as of December 31, 2013 and 2012, respectively.

Net loan origination fees for which recognition has been deferred to future periods as of December 31, 2013 and 2012, were $7,215 and $6,792, respectively.

Other real estate, acquired through foreclosure, resulted in a reduction to loans of $2,354 and $292 in 2013 and 2012, respectively. Loans made to facilitate the sales of other real estate were $580 and $234 in 2013 and 2012, respectively.

Real estate loans serviced for others as of December 31, 2013 and 2012 were $1,304,997 and $1,298,178, respectively. Reserve balances, associated with these loans and held in noninterest bearing demand accounts, amounted to $9,824 and $10,215 as of December 31, 2013 and 2012, respectively.

Nonaccrual loans totaled $6,296 and $24,115 at December 31, 2013 and 2012, respectively. The Bank has commitments to lend additional funds to debtors whose loans are nonperforming in the amount of $0 as of December 31, 2013.

As of December 31, 2013 and 2012 the aggregate indebtedness of all related parties (directors and executive officers of the Bank and their family members) was $190 and $182, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES

The following is an analysis of the changes in the allowance for loan losses by portfolio segment for the period ended:

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2013				
Allowance for loan losses:				
Beginning balance, January 1, 2013	$ 2,505	$ 9,490	$ 255	$ 12,250
Provision for loan losses	615	(808)	184	(9)
Loans charged-off	-	(514)	(150)	(664)
Recoveries	135	452	86	673
Ending Balance, December 31, 2013	$ 3,255	$ 8,620	$ 375	$ 12,250
2012				
Allowance for loan losses:				
Beginning balance, January 1, 2012	$ 2,070	$ 9,825	$ 355	$ 12,250
Provision for loan losses	(362)	(690)	(23)	(1,075)
Loans charged-off	(2)	(68)	(186)	(256)
Recoveries	799	423	109	1,331
Ending Balance, December 31, 2012	$ 2,505	$ 9,490	$ 255	$ 12,250

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2013 and 2012:

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2013				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 600	$ 250	$ -	$ 850
Collectively evaluated for impairment	2,655	8,370	375	11,400
Total ending allowance balance	$ 3,255	$ 8,620	$ 375	$ 12,250
Loans:				
Individually evaluated for impairment	$ 2,102	$ 24,645	$ 40	$ 26,787
Collectively evaluated for impairment	245,142	1,012,514	16,163	1,273,819
Total loans outstanding balance	$ 247,244	$ 1,037,159	$ 16,203	1,300,606
Deferred loan fees, net				(7,215)
Total loans				$ 1,293,391

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2012				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 400	$ 2,600	$ -	$ 3,000
Collectively evaluated for impairment	2,105	6,890	255	9,250
Total ending allowance balance	$ 2,505	$ 9,490	$ 255	$ 12,250
Loans:				
Individually evaluated for impairment	$ 2,492	$ 34,901	$ -	$ 37,393
Collectively evaluated for impairment	240,648	950,748	17,802	1,209,198
Total loans outstanding balance	$ 243,140	$ 985,649	$ 17,802	1,246,591
Deferred loan fees, net				(6,792)
Total loans				$ 1,239,799

The following table summarizes our nonaccrual loans and loans past due by loan class as of December 31, 2013 and 2012:

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual
December 31, 2013						
Commercial and industrial	$ 978	$ 599	$ 1,577	$ 245,667	$ 247,244	$ 937
Real Estate						
Construction and development	131	124	255	166,201	166,456	1,576
1– 4 and multifamily residential	1,803	804	2,607	209,003	211,610	639
Commercial real estate	3,324	392	3,716	655,377	659,093	3,193
Consumer and other	140	-	140	16,063	16,203	-
Total	$ 6,376	$ 1,919	$ 8,295	$ 1,292,311	1,300,606	6,345
Deferred loan fees, net					(7,215)	(49)
Total loans					$ 1,293,391	$ 6,296
December 31, 2012						
Commercial and industrial	$ 1,072	$ 412	$ 1,484	$ 241,656	$ 243,140	$ 769
Real Estate						
Construction and development	9,158	1,798	10,956	146,316	157,272	11,090
1– 4 and multifamily residential	2,302	923	3,225	192,413	195,638	1,733
Commercial real estate	1,473	888	2,361	630,378	632,739	10,637
Consumer and other	87	4	91	17,711	17,802	-
Total	$ 14,092	$ 4,025	$ 18,117	$ 1,228,474	1,246,591	24,229
Deferred loan fees, net					(6,792)	(114)
Total loans					$ 1,239,799	$ 24,115

Loans greater than 89 days past due and accruing are $579 and $74 at December 31, 2013 and 2012, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans by class of loans as of December 31, 2013:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
December 31, 2013						
With no allowance recorded:						
Commercial and industrial	$ 1,003	$ 809	$ -	$ 1,004	$ 15	$ 13
Real estate						
Construction and other	5,820	4,145	-	4,566	307	248
1-4 and multifamily residential	2,510	2,239	-	2,469	130	132
Commercial real estate	20,336	17,235	-	17,430	1,385	1,068
Consumer and other	8	8	-	4	-	-
Subtotal	29,677	24,436		25,473	1,837	1,461
With an allowance recorded:						
Commercial and industrial	1,427	1,283	600	1,350	62	64
Real estate						
Construction and other	-	-	-	-	-	-
1-4 and multifamily residential	787	718	100	751	57	45
Commercial real estate	273	166	150	184	-	-
Consumer and other	32	32	-	37	3	3
Subtotal	2,519	2,199	850	2,322	122	112
Total	$ 32,196	$ 26,635	$ 850	$ 27,795	$ 1,959	$ 1,573

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents information related to impaired loans by class of loans as of December 31, 2012:

December 31, 2012	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no allowance recorded:						
Commercial and industrial	$ 2,128	$ 2,015	$ -	$ 2,334	$ 133	$ 135
Real estate						
Construction and other	3,688	3,262	-	3,680	131	120
1-4 and multifamily residential	5,159	4,918	-	5,066	262	268
Commercial real estate	14,104	10,894	-	11,998	659	474
Consumer and other	-	-	-	-	-	-
Subtotal	25,079	21,089	-	23,078	1,185	997
With an allowance recorded:						
Commercial and industrial	709	467	400	583	-	-
Real estate						
Construction and other	10,749	9,004	2,000	9,359	-	-
1-4 and multifamily residential	753	711	300	740	-	-
Commercial real estate	6,472	5,969	300	6,192	-	-
Consumer and other	-	-	-	-	-	-
Subtotal	18,683	16,151	3,000	16,874	-	-
Total	$ 43,762	$ 37,240	$ 3,000	$ 39,952	$ 1,185	$ 997

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

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

The Bank uses the following definitions for risk ratings:

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

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

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

Doubtful/Loss: Loans classified as doubtful/loss have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table summarizes our internal risk rating by loan class based on the most recent analysis performed as of December 31, 2013 and 2012:

	Pass/ Watch	Special Mention	Sub- Standard	Doubtful/ Loss	Total
December 31, 2013					
Commercial and Industrial	$ 244,186	$ 829	$ 1,685	$ 544	$ 247,244
Real Estate					
Construction and development	161,816	409	4,231	-	166,456
1-4 and multifamily residential	205,829	2,140	3,552	89	211,610
Commercial real estate	634,845	10,369	13,783	96	659,093
Consumer and other	15,697	465	11	30	16,203
Total	$ 1,262,373	$ 14,212	$ 23,262	$ 759	1,300,606
Deferred loan fees, net					(7,215)
Total					$ 1,293,391

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

	Pass/ Watch	Special Mention	Sub-Standard	Doubtful/ Loss	Total
December 31, 2012					
Commercial and Industrial	$ 239,374	$ 1,116	$ 2,428	$ 222	$ 243,140
Real Estate					
Construction and development	143,478	965	11,579	1,250	157,272
1-4 and multifamily residential	184,584	1,580	9,295	179	195,638
Commercial real estate	613,406	882	18,286	165	632,739
Consumer and other	17,747	41	14	-	17,802
Total	$ 1,198,589	$ 4,584	$ 41,602	$ 1,816	1,246,591
Deferred loan fees, net					(6,792)
Total					$ 1,239,799

Troubled Debt Restructurings:

At December 31, 2013 and 2012, the Bank had loans of $22,955 and $29,600 classified as troubled debt restructurings, respectively, which are included in impaired loans. These loans had allocated specific reserves of $577 and $2,700 at December 31, 2013 and 2012, respectively. The Bank has committed to lend $550 and $0 as of December 31, 2013 and 2012, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

During the year ended December 31, 2013, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary deferral of all or part of the original periodic principal payments.

Commercial loans: Restructurings of commercial loans reduced the loan's stated interest rate for periods ranging from 13 months to 20 years. Extensions of maturity dates were for periods ranging from 4 months to 18 years, and temporary deferrals of all or part of the scheduled principal payments were for periods ranging from 8 months to 20 years during the year ended December 31, 2013.

Constructions Loans: Restructurings of construction loans reducing the stated interest rate of the loan were all for a period of 7 years, an extension of a maturity dates was for a period of 7 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 4 years to 7 years during the year ended December 31, 2013.

1-4 and multifamily residential loans: A restructuring of a 1-4/multifamily residential loan reducing the stated interest rate of the loan was for a period of 12 months, extensions of maturity dates were for periods ranging from 14 months to 6 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 12 months to 16 years during the year ended December 31, 2013.

Commercial real estate loans: A restructuring of a commercial real estate loan reduced the loan's stated interest rate for a period of 6 years. Extensions of maturity dates were for periods ranging from 7 months to 6 years and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 6 months to 11 years during the year ended December 31, 2013.

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

Consumer Loans: A restructuring of a consumer loan reduced the loan's stated interest rate for a period of 25 months. Extensions of maturity dates were for periods ranging from 2 months to 18 months and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 7 months to 3 years during the year ended December 31, 2013.

During the year ended December 31, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary deferral of all or part of the original periodic principal payments.

Commercial loans: No restructuring of a commercial loan reduced the loan's stated interest rate. Extensions of maturity dates were for periods ranging from 7 months to 1 year, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods from 3 months to 4 years during the year ended December 31, 2012.

Constructions Loans: No restructuring of a construction loan reduced the loan's stated interest rate. Extensions of maturity dates were for periods from 5 months to 2 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 3 months to 5 years during the year ended December 31, 2012.

1-4 and multifamily residential loans: No restructuring of a 1-4 or multifamily residential loan reduced the loan's stated interest rate. Extensions of maturity dates were for periods ranging from 1 year to 7 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 2 years to 15 years during the year ended December 31, 2012.

Commercial real estate loans: No restructuring of a commercial real estate loan reduced the loan's stated interest rate. Extensions of maturity dates were for periods ranging from 5 months to 2 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 2 years to 16 years during the year ended December 31, 2012.

Consumer Loans: No consumer loans were restructured during the year ended December 31, 2012.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2013:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial	14	$ 1,429	$ 1,429
Real estate:			
Construction and other	4	1,392	1,392
1-4 and multifamily residential	4	147	147
Commercial real estate	5	3,621	3,621
Consumer and other	5	62	62
Total	32	$ 6,651	$ 6,651

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The troubled debt restructurings described in the above table had allocated specific reserves of $421 as of December 31, 2013 and resulted in no charge-offs during the year ended December 31, 2013.

The following table presents loans by class which had defaulted (became at least 60 days past due) during the year ended December 31, 2013 after having been modified as a troubled debt restructuring within the previous 12 months:

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
Commercial	4	$ 297
Real estate:		
Construction and other	-	-
1-4 and multifamily residential	1	9
Commercial Real Estate	-	-
Consumer and other	-	-
Total	5	$ 306

The troubled debt restructurings that subsequently defaulted described in the above table had allocated specific reserves of $130 as of December 31, 2013 and resulted in no charge-offs during the year ended December 31, 2013.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2012:

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	7	$ 559	$ 559
Real estate:			
Construction and other	3	183	183
1-4 and multifamily residential	5	908	908
Commercial real estate	10	7,737	7,737
Consumer and other	-	-	-
Total	25	$ 9,387	$ 9,387

The troubled debt restructurings described in the above table had allocated specific reserves of $200 as of December 31, 2012 and resulted in no charge-offs during the year ended December 31, 2012.

The following table presents loans by class which had defaulted during the year ended December 31, 2012 after having been modified as a troubled debt restructuring within the previous 12 months:

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
Commercial	2	$ 110
Real estate:		
Construction and other	6	8,284
1-4 and multifamily residential	1	41
Commercial Real Estate	2	892
Consumer and other	-	-
Total	11	$ 9,327

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The troubled debt restructurings that subsequently defaulted described in the above table had allocated specific reserves of $1,300 as of December 31, 2012 and resulted in no charge-offs during the year ended December 31, 2012.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

NOTE 6 - PREMISES AND EQUIPMENT

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

	2013	2012
Land	$ 12,981	$ 12,981
Bank premises	71,745	66,722
Leasehold improvements	219	728
Furniture and equipment	34,995	34,655
Construction in process	4,751	3,111
Total premises and equipment	124,691	118,197
Less: Accumulated depreciation and amortization	76,286	74,552
Premises and equipment, net	$ 48,405	$ 43,645

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2013 and 2012 totaled $3,103 and $3,138, respectively.

NOTE 7 - OTHER REAL ESTATE OWNED

The following is an analysis of the changes in other real estate owned:

	2013	2012
Balance, January 1	$ 18,423	$ 23,953
Acquired upon foreclosure	2,354	292
Transfers from Bank premises	-	314
Capitalized improvements	1,724	1,167
Dispositions	(5,732)	(7,303)
Balance, December 31	16,769	18,423
Less Devaluation Reserves:		
Balance, January 1	(4,005)	(6,043)
Impairments subsequent to foreclosure	(845)	(236)
Dispositions	1,414	2,274
Balance, December 31	(3,436)	(4,005)
Other real estate owned, net	$ 13,333	$ 14,418

(Continued)

(Dollars in thousands except per share data)

NOTE 7 - OTHER REAL ESTATE OWNED (Continued)

Net gains on sales of other real estate owned included in other noninterest expense for the years ended December 31, 2013 and 2012, totaled $725 and $219, respectively. Impairments recorded subsequent to foreclosure in the amounts of $845 and $236 for the years ended December 31, 2013 and 2012, respectively.

NOTE 8 - MORTGAGE SERVICING RIGHTS

The following is an analysis of the changes in mortgage servicing rights:

	2013	2012
Balance, January 1,	$ 4,363	$ 3,529
Additions -		
Capitalization of servicing assets	1,989	2,608
Subtractions:		
Amortization	(1,519)	(1,422)
Accelerated amortization due to early payoffs	(301)	(352)
Balance, December 31,	$ 4,532	$ 4,363

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 at 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 pay off 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. Fair value of MSRs exceed amortized cost for each individual stratum. Accordingly, there has been no impairment for 2013 and 2012.

NOTE 9 - DEPOSITS

Total deposits by type of depositor as of December 31:

	2013	2012
Deposits of individuals, partnerships, and corporations	$ 2,052,505	$ 2,029,902
Deposits of U.S. government	1,440	1,456
Deposits of states and political subdivisions	42,689	26,949
Other deposits	192	212
Total deposits	$ 2,096,826	$ 2,058,519

As of December 31, 2013 and 2012, the aggregate deposit overdrafts of $151 and $163, respectively, have been reclassified as loan balances.

As of December 31, 2013 and 2012 the aggregate deposits of related parties (directors and executive officers of the Bank and their family members) were $45,434 and $46,403, respectively.

(Continued)

(Dollars in thousands except per share data)

NOTE 9 - DEPOSITS (Continued)

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

Maturity:	2013
2014	$ 142,889
2015	6,550
2016	3,019
2017	3,851
2018	3,323
Thereafter	50
Total time deposits	$ 159,682

Included in time deposits are certificates of deposit in amounts of $100 or more in the amount of $89,218 and $65,116 as of December 31, 2013 and 2012, respectively.

Interest expense on deposits was as follows:

	2013	2012
Savings	$ 334	$ 829
NOW	47	56
Money market	90	119
Time - less than $100	201	252
Time - $100 or more	341	397
Total interest expense on deposits	$ 1,013	$ 1,653

NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Selected balances and rates are as follows:

	2013	2012
Maximum monthly average balance	$ 583,175	$ 511,395
Average daily balance	$ 532,853	$ 476,799
Average rate during year	0.14%	0.13%
Average rate at December 31,	0.14%	0.13%

Investment securities with carrying amounts of $607,743 and $514,959 at December 31, 2013 and 2012, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2013 all repurchase agreements matured within 1 business day.

As of December 31, 2013 and 2012, aggregate repurchase agreement balances of related parties (directors and executive officers of the Bank and their family members) were $1,662 and $1,853, respectively.

(Dollars in thousands except per share data)

NOTE 11 - NOTES PAYABLE

The Bank purchased investments in two national limited partnerships that provide within their asset portfolio housing for low and moderate-income Alaskans living in Anchorage. The investments are included in other assets and are funded through installment payments on two subscription notes as follows:

	2013	2012
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2014, secured by a limited partnership interest	$ -	$ 193
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2015, secured by a limited partnership interest	72	400
Total face value before discounts	72	593
Discount on notes payable with imputed interest rates of 6.61% to 7.02%	(4)	(42)
Notes payable, net of discount	$ 68	$ 551

Aggregate maturities of notes payable for each of the five years subsequent to December 31, 2013 and thereafter are:

2014	$ -
2015	72
2016	-
2017	-
2018	-
Thereafter	-
Total	$ 72

NOTE 12 - LEASES

The Bank is obligated under a capital lease covering mail equipment. The gross amount of mail equipment, including installation costs, and related accumulated amortization recorded under the capital lease was as follows for December 31:

	2013	2012
Furniture and equipment	$ 1,011	$ 1,011
Accumulated amortization	(900)	(825)
Capitalized lease equipment, net	$ 111	$ 186

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

(Continued)

(Dollars in thousands except per share data)

NOTE 12 - LEASES (Continued)

The Bank is party to various operating leases for the rental of premises and equipment. Total rental expenses for Bank premises and equipment were $220 and $286 as of December 31, 2013 and 2012, 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, 2013 were:

	Capital Leases	Operating Leases
Year ended December 31:		
2014	$ 53	$ 132
2015	53	123
2016	53	106
2017	9	100
2018	-	52
Thereafter	-	506
Total minimum lease payments	$ 168	$ 1,019

NOTE 13 - SHAREHOLDERS' EQUITY

Since November 2008 the Bank has been authorized to repurchase up to a value of $100,000 of its outstanding common stock on the open market and through privately negotiated transactions. The original program term expired in August 2009 and has been renewed annually since that period. The existing authority expires April 2, 2014.

Repurchase transactions are accounted for as a reduction in common stock and retained earnings. Repurchases are funded from available capital and retired. These transactions have not impacted the surplus balance of $40,000 as of December 31, 2013 and 2012, which is maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

During 2013 the Bank repurchased a total of 2,499 shares of common stock representing an aggregate purchase value of $4,373, at an average price per share of $1,750. During 2012 the Bank repurchased a total of 4,954 shares of common stock representing an aggregate purchase value of $7,850, at an average price per share of $1,585. Cumulative shares of 22,403 have been repurchased under the program since inception for a combined purchase total of $36,302.

At the January 30, 2014 Board of Directors meeting, cash dividends of $12.50 per share were declared, payable March 15, 2014 to shareholders of record as of March 1, 2014.

(Continued)

NOTE 14 - 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 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. Also in 2004, American Express Travel Related Services Company, Inc. filed a similar action against Visa U.S.A. and others. There was other related litigation as well.

During 2007, Visa closed a restructuring of its organization. As part of this reorganization, 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 ASC Topic 460, the Bank was required to measure the indemnification obligation related to the Visa litigation at fair value.

In late 2007 and 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 $2,065,000 and some $1,888,000 to Discover Financial Services. The Bank's membership proportion according to the number of shares it was issued upon restructuring is 0.02959% after share repurchase adjustments.

The Bank has carried reserves for litigation expense in other liabilities for proportional exposure under these matters deemed covered litigation by VISA Inc. since 2007. The reserve is $1,500 as of December 31, 2013 and 2012, recorded through charges to noninterest expense in the amount of $0 and $400 in 2013 and 2012, respectively. The Bank has not recorded in its financial statements any value for its membership interest in Visa Inc.

The Bank has $1,500 escrow receivable included in other assets as of December 31, 2013 and 2012, respectively, representing the Bank's proportionate share of remaining escrowed funds Visa set aside to the purpose of settling these litigation claims. The Bank recorded $0 and $500 during 2013 and 2012, respectively, 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 U.S.A., 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 value estimated in the December 31, 2013 financial statements.

(Continued)

(Dollars in thousands except per share data)

NOTE 15 - MORTGAGE LOAN SERVICING INCOME

Mortgage loan servicing income is comprised of the following:

	2013	2012
Mortgage loan servicing fees	$ 3,647	$ 3,675
Amortization of costs	(1,519)	(1,422)
Accelerated amortization due to early payoffs	(301)	(352)
Mortgage loan servicing income	$ 1,827	$ 1,901

NOTE 16 - EMPLOYEE BENEFIT PLANS

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 annual profit sharing 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. For 2013, the maximum amount that may be deferred by participant is $17.5. Additionally, participants who reach the age of 50 by the end of the calendar year are eligible to make a “catch-up contribution” in an amount up to $5.5.

The Bank will make matching contributions equal to 50% of the portion of each participant’s before-tax contributions (excluding “catch-up 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 2013 combined limit of all employee and employer contributions to an individual participant’s account is $51.

The contribution to the profit sharing and 401(k) plan was $1,500 for each of the years ended December 31, 2013 and 2012.

(Continued)

(Dollars in thousands except per share data)

NOTE 17 - OTHER NONINTEREST INCOME AND EXPENSE

Other noninterest income is comprised of the following:

	2013	2012
Escrow fees	$ 1,456	$ 1,471
Other income	4,432	5,127
Other noninterest income	$ 5,888	$ 6,598

Other noninterest expense is comprised of the following:

	2013	2012
Professional services	$ 3,428	$ 2,816
FDIC insurance and other assessments	1,439	1,402
Software licensing fees	1,682	1,446
Other general expense	10,736	10,017
Other noninterest expense	$ 17,285	$ 15,681

NOTE 18 - PROVISION FOR INCOME TAXES

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

	2013	2012
Current:		
Federal	$ 13,594	$ 16,301
State	1,980	2,308
Total current	15,574	18,609
Deferred:		
Federal	(20)	1,590
State	(3)	278
Total deferred	(23)	1,868
Provision for income taxes	$ 15,551	$ 20,477

(Continued)

(Dollars in thousands except per share data)

NOTE 18 - PROVISION FOR INCOME TAXES (Continued)

Income tax expense differed from the Federal statutory rate of 35% for 2013 and 2012 for the following reasons:

	2013	%	2012	%
Tax expense at federal statutory rate	$ 16,752	35.00%	$ 21,180	35.00%
Increase (decrease) resulting from:				
State tax, net of Federal tax effect	1,278	2.67%	1,665	2.75%
Disallowed interest expense	25	0.05%	18	0.03%
Interest exempt from federal taxation	(1,166)	(2.44)%	(1,069)	(1.77)%
Low income housing tax credits	(1,394)	(2.91)%	(1,397)	(2.31)%
Other items, net	56	0.12%	80	0.13%
Provision for income taxes	$ 15,551	32.49%	$ 20,477	33.83%

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:

	2013	2012
Deferred tax assets:		
Allowance for loan losses	$ 5,036	$ 5,036
Mortgage servicing rights	-	44
Interest collected on nonperforming loans	2,270	2,361
Vacation accrual	1,280	1,158
Accumulated depreciation and amortization	1,119	795
Other real estate owned valuation reserve	2,035	2,279
Net unrealized holding loss on securities, available for sale	1,971	-
Other	735	721
Total deferred tax assets	14,446	12,394
Deferred tax liabilities:		
Net unrealized holding gain on securities, available-for-sale	-	11,020
Net deferred loan fees	2,703	2,666
Mortgage servicing rights	138	-
Low income housing projects	647	760
Deferred loan costs	459	449
Other	641	655
Total deferred tax liabilities	4,588	15,550
Net deferred tax assets (liabilities)	$ 9,858	$ (3,156)

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

The Bank does not have any material uncertain tax positions or unrecognized tax benefits for additional disclosure in the financial statements.

(Continued)

NOTE 18 - PROVISION FOR INCOME TAXES (Continued)

The total amount of interest and penalties recorded in the income statement for the years ended December 31, 2013 and 2012 were immaterial and no amounts are accrued for interest and penalties at December 31, 2013 or 2012.

The Bank is subject to U.S. federal income tax as well as income tax for the state of Alaska and various other state income and franchise taxes. The Bank is no longer subject to examination by taxing authorities for years before 2010.

The Bank had purchased, at a discount, tax credits under the Alaska Film Production Incentive Program, which awards transferable tax credits to film producers who choose to film in Alaska. These credits can be used towards the Bank's State of Alaska tax liability and are fully negotiable and assignable for up to three years from the date of issuance. The Bank anticipates fully utilizing the credits against a portion of its State of Alaska tax liability. The Bank used $1,238 and $2,200 of the Alaska film tax credits as of December 31, 2013 and 2012, respectively, to offset its State of Alaska tax obligations. As of December 31, 2013, there was $0 in remaining tax credits. The Bank will consider additional tax credit purchases under the Alaska Film Production Incentive Program in the future to offset future State of Alaska tax obligations.

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires disclosure of the estimated fair values of certain financial assets and liabilities, both on and off-balance sheet, for which it is practical to estimate the fair value. Because the estimated fair values provided herein exclude disclosure of the fair value of certain other financial instruments and all non-financial instruments, any aggregation of the estimated fair value amounts presented would not represent the underlying value of the Bank. Examples of non-financial instruments having significant value include the future earnings potential of significant customer relationships and the value of the Bank's trust department operations and other fee-generating businesses. In addition, other significant assets including property, plant, and equipment and mortgage servicing rights for portfolio loans are not considered financial instruments and, therefore, have not been valued.

Various methodologies and assumptions have been utilized in management's determination of the estimated fair value of the Bank's financial instruments, which are detailed below. The fair value estimates are made at a discrete point in time based on relevant market information. Because no market exists for a significant portion of these financial instruments, fair value estimates are based on judgments regarding future expected economic conditions, loss experience, and risk characteristics of the financial instruments. These estimates are subjective, involve uncertainties, and cannot be determined with precision. Changes in assumptions could significantly affect the estimates. In addition to the valuation methodology explained above for financial instruments recorded at fair value, the following methods and assumptions were used in estimating the fair value of financial instruments that are carried at cost in the Statements of Condition as of December 31, 2013 and 2012:

<u>Cash and Cash Equivalents</u>: The carrying amount is a reasonable estimate of the fair value.

<u>Securities, Available-for-Sale</u>: Where quoted prices are available in an active market for identical securities, they are utilized. If quoted market prices are not available, then fair values are estimated by using pricing modes and quoted prices of securities with similar characteristics.

(Continued)

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Real Estate Loans To Be Sold: The carrying amount plus unearned loan fees is a reasonable estimate of the fair value as it reflects the short-term nature of the commitment and a commitment to sell at a fixed price.

Loans: The fair value is estimated by discounting the future scheduled cash flows using the current rates at which similar loans with similar maturities would be made to similar borrowers plus unearned income. The fair value of delinquent and 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 (FRB) and Federal Home Loan Bank (FHLB) of Seattle Stock: The stock is required to be sold back at its par value. It is not practicable to determine the fair value of FRB or FHLB stock due to restrictions placed on transferability.

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

Deposits: The carrying value of demand deposits, savings accounts, NOW accounts and money market accounts approximates fair value.

Time Deposits: The fair value is estimated by discounting the future cash flows using rates currently offered for time deposits of similar remaining maturities, which are based on an observation and evaluation of current market rates.

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.

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

Off-Balance Sheet Instruments: The fair value is estimated based on fees currently charged for similar arrangements, adjusted for changes in rates that occurred subsequent to the commitments being made. The fair value of commitments is not material.

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, 2013 and 2012. 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.

(Continued)

(Dollars in thousands except per share data)

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	2013		2012	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 93,083	$ 93,083	$ 118,506	$ 118,506
Securities, available-for-sale	1,610,395	1,610,395	1,543,451	1,543,451
Real estate loans to be sold	12,839	12,924	31,493	31,683
Loans:				
Commercial and industrial	242,872	238,831	239,597	237,576
Real estate	1,022,439	1,039,420	970,416	988,210
Consumer and other	15,830	15,606	17,536	17,351
Total loans, net	1,281,141	1,293,857	1,227,549	1,243,137
Federal Reserve Bank stock	2,167	N/A	2,176	N/A
Federal Home Loan Bank stock	2,025	N/A	2,101	N/A
Interest receivable	12,076	12,076	11,923	11,923
Financial liabilities:				
Deposits:				
Non-interest bearing	1,011,286	1,011,286	958,996	958,996
Interest bearing:				
Savings	582,286	582,286	607,533	607,533
NOW	186,917	186,917	183,524	183,524
Money market	156,655	156,655	176,352	176,352
Time	159,682	161,219	132,114	133,745
Total interest bearing	1,085,540	1,087,077	1,099,523	1,101,154
Total deposits	2,096,826	2,098,363	2,058,519	2,060,150
Securities sold under agreements to repurchase	545,612	545,612	484,195	484,195
Notes payable and capital lease obligations	236	236	772	772
Interest payable	106	106	127	127
Off-balance-sheet financial instruments:				
Assets:				
Loan commitments	$ 459,412	$ 2,268	$ 338,210	$ 1,894
Bankcard commitments	68,749	-	73,545	-
Standby and commercial letters of credit	14,762	54	27,846	263
Liabilities:				
Subscriptions to purchase Federal Reserve Bank stock	2,167	-	2,176	-

(Continued)

(Dollars in thousands except per share data)

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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. government-sponsored enterprises, securities of state and political subdivisions, and corporate bonds. 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:

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013				
Securities:				
U.S. Treasury securities	$ 90,069	$ 90,069	$ -	$ -
U.S. government-sponsored enterprises	1,196,859	-	1,196,859	-
States and political subdivisions	125,167	-	125,167	-
Corporate bonds	198,300	-	198,300	-
Securities total	$ 1,610,395	$ 90,069	$ 1,520,326	$ -
2012				
Securities:				
U.S. Treasury securities	$ 106,084	$ 106,084	$ -	$ -
U.S. government-sponsored enterprises	1,208,238	-	1,208,238	-
States and political subdivisions	93,415	-	93,415	-
Corporate bonds	135,714	-	135,714	-
Securities total	$ 1,543,451	$ 106,084	$ 1,437,367	$ -

(Continued)

(Dollars in thousands except per share data)

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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. No securities were classified as Level 3 during 2013 and 2012.

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, 2013 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:

	Total	Quoted Prices in Active Markets For Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Losses
December 31, 2013					
Impaired loans:					
Commercial and Industrial	$ 683	$ -	$ -	$ 683	$ (375)
Real Estate	633	-	-	633	(15)
Consumer	32	-	-	32	-
Other real estate owned:					
Construction and development	10,081	-	-	10,081	(829)
Commercial	-	-	-	-	-
Bank premise	-	-	-	-	-
Total	$ 11,429	$ -	$ -	$ 11,429	$ (1,219)
December 31, 2012					
Impaired loans:					
Commercial and Industrial	$ 70	$ -	$ -	$ 70	$ (138)
Real Estate	13,586	-	-	13,586	(532)
Consumer	-	-	-	-	-
Other real estate owned:					
Construction and development	3,902	-	-	3,902	-
Commercial	1,093	-	-	1,093	(96)
Bank premise	392	-	-	392	-
Total	$ 19,043	$ -	$ -	$ 19,043	$ (766)

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net principal balance of $2,198 with a valuation allowance of $850 at December 31, 2013, resulting in additional provision for loan losses of $390 for the year ended December 31, 2013. At December 31, 2012, impaired loans had a net principal balance of $16,656 with a valuation allowance of $3,000, resulting in an additional provision for loan losses of $670 for the year ended December 31, 2012.

(Continued)

(Dollars in thousands except per share data)

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Other real estate owned measured at fair value less costs to sell had a net carrying amount of $10,081, which is made up of the gross book value of $13,516, net of a valuation allowance of $3,435 at December 31, 2013, resulting in write-downs of $829 for the year ended December 31, 2013. At December 31, 2012, other real estate owned measured at fair value less costs to sell had a net carrying amount of $5,387, made up of the outstanding balance of $9,392, net of a valuation allowance of $4,005, resulting in write-downs of $96 for the year ended December 31, 2012

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a nonrecurring basis at December 31, 2013 and 2012:

December 31, 2013		Fair value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans – Commercial and industrial	$	683	Sales comparison approach	Adjustment for differences between the comparable sales	0% to -2.60% (-1.74%)
Impaired loans – Real estate	$	633	Sales comparison approach	Adjustment for differences between the comparable sales	-2.88% to -15.00% (-6.45%)
Impaired loans – Consumer	$	32	Sales comparison approach	Adjustment for differences between the comparable sales	0% to -1.65% (-1.65%)
Other real estate owned – Construction and development	$	10,081	Sales comparison approach	Adjustment for differences between the comparable sales	-2.00% to -17.20% (-9.77%)

(Continued)

(Dollars in thousands except per share data)

NOTE 19 - ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

December 31, 2012		Fair value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans – Commercial and industrial	$	70	Sales comparison approach	Adjustment for differences between the comparable sales	0% to -1.07% (-0.85%)
Impaired loans – Real estate	$	13,586	Sales comparison approach	Adjustment for differences between the comparable sales	-0.04% to -15.00% (-1.73%)
Other real estate owned – Construction and development	$	3,902	Sales comparison approach	Adjustment for differences between the comparable sales	-17.20%
Other real estate owned – Commercial	$	1,093	Sales comparison approach	Adjustment for differences between the comparable sales	-11.80% to -20.80% (-17.28%)
Other real estate owned – Bank Premise	$	392	Sales comparison approach	Adjustment for differences between the comparable sales	-11.80%

ASC Topic 825 provides an option to selectively report financial assets and financial liabilities at fair value and establishes presentation and disclosure requirements. The Bank did not elect the fair value option for any additional financial assets or liabilities as of December 31, 2013. The Bank may adopt this guidance for financial assets and liabilities in the future as permitted under the guidance.

NOTE 20 - CREDIT ARRANGEMENTS

The Bank had a committed line of credit, secured by investment securities, of $106,134 and $109,287 from the Federal Reserve Bank at a rate of 0.75% as of December 31, 2013 and 2012, respectively. In addition, the Bank also had federal funds arrangements available from an unaffiliated Bank of $80,000 at a rate estimated at 0.25% as of December 31, 2013 and 2012. There were no outstanding balances against these lines of credit as of December 31, 2013 or 2012.

(Continued)

(Dollars in thousands except per share data)

NOTE 21 - COMMITMENTS AND CONTINGENCIES

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments include standby letters of credit, loan commitments, subscriptions for the purchase of stock in the Federal Reserve Bank, and commitments to purchase and sell securities. The credit and market risks involved in issuing letters of credit and loan commitments are essentially the same as those involved in extending loans to customers. Such transactions are made under the same terms, including interest rates and collateral, as those prevailing at the same time for comparable on-balance-sheet transactions.

To reduce credit risk, related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. 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,

	2013	2012
Loan commitments	$ 459,412	$ 338,210
Bankcard commitments	68,749	73,545
Commitments to fund mortgage loans to be sold	33,801	96,335
Total loan commitments	$ 561,962	$ 508,090
Commitments at fixed interest rates	$ 185,695	$ 217,931
Commitments at variable interest rates	376,267	290,159
Total loan commitments	$ 561,962	$ 508,090
Standby and commercial letters of credit	$ 14,762	$ 27,846
Subscriptions to purchase Federal Reserve Bank stock	2,167	2,176

Commitments to make loans are generally made for periods of 90 days or less. At December 31, 2013, the fixed rate loan commitments have interest rates ranging from 1.48 to 16.50%.

As of December 31, 2013, the Bank held $2,025 of Federal Home Loan Bank Seattle (Seattle Bank) Class B stock that is included in other assets. As of December 31, 2013, the Seattle Bank continued to meet all of its regulatory capital requirements. They have repurchased Class B stock and paid dividends in 2013. The Bank has conducted an assessment and has concluded that an impairment is not necessary as of December 31, 2013.

(Continued)

(Dollars in thousands except per share data)

NOTE 22 - REGULATORY MATTERS

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 judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total 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, 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent notifications from the Comptroller of the Currency (OCC) categorized the Bank as well capitalized under the regulatory framework for prompt corrective action for both 2013 and 2012. 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, 2013 and 2012 are as follows:

	Actual		for Capital Adequacy Purposes		Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2013						
Total capital (to risk-weighted assets)	$ 468,890	23.11%	$162,314	8.00%	$ 202,893	10.00%
Tier I capital (to risk-weighted assets)	455,640	22.46%	81,157	4.00%	121,736	6.00%
Tier I capital (to average assets)	455,640	14.40%	126,565	4.00%	158,207	5.00%
2012						
Total capital (to risk-weighted assets)	$ 456,951	24.25%	$150,766	8.00%	$ 188,458	10.00%
Tier I capital (to risk-weighted assets)	443,901	23.55%	75,383	4.00%	113,075	6.00%
Tier I capital (to average assets)	443,901	14.64%	121,281	4.00%	151,602	5.00%

(Continued)

NOTE 22 - REGULATORY MATTERS (Continued)

The Bank's principal source of funds for dividend payments are net income and cash provided by operations. Banking regulations limit the amount of dividends that may be paid without prior approval of the OCC. Under these regulations, the amount of dividends that may be paid in any calendar year is subject to the current year's net profits (net income less dividends paid), combined with the retained net profits of the preceding two years, subject to the minimum requirements for capital adequacy in the table above. The maximum dividend that can be paid as of December 31, 2013 is $58,123 without OCC approval.