FIRST NATIONAL BANK ALASKA
Anchorage, Alaska

FINANCIAL STATEMENTS
December 31, 2012 and 2011

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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, 2012 and 2011, 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, 2012 and 2011, 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, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 19, 2013 expressed an unqualified opinion.

Crowe Horwath LLP

Crowe Horwath LLP

Oak Brook, Illinois
March 19, 2013

FIRST NATIONAL BANK ALASKA
STATEMENTS OF FINANCIAL CONDITION
December 31, 2012 and 2011
(Dollars in thousands, except per share data)

	2012	2011
ASSETS		
Cash and cash equivalents	$ 118,506	$ 62,129
Securities, available-for-sale	1,543,451	1,553,675
Real estate loans to be sold	31,493	24,161
Loans:		
Commercial and industrial	242,102	231,438
Real estate	979,906	890,527
Consumer and other	17,791	20,445
Total loans, gross	1,239,799	1,142,410
Less: Allowance for loan losses	12,250	12,250
Total loans, net	1,227,549	1,130,160
Premises and equipment, net	43,645	41,961
Other real estate owned, net	14,418	17,910
Other assets	36,553	40,178
Total assets	$ 3,015,615	$ 2,870,174
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest bearing	$ 958,996	$ 849,410
Interest bearing:		
Savings	607,533	566,960
NOW	183,524	177,533
Money market	176,352	197,841
Time	132,114	139,381
Total interest bearing	1,099,523	1,081,715
Total deposits	2,058,519	1,931,125
Securities sold under agreements to repurchase	484,195	483,198
Capital lease obligations	221	9
Notes payable, net	551	1,021
Other liabilities	12,006	10,553
Total liabilities	2,555,492	2,425,906
Shareholders' equity:		
Common stock, $100 par value (authorized: 2012 and 2011 – 400,000 shares) (issued and outstanding: 2012 – 324,855; 2011 – 329,809)	32,486	32,981
Surplus	40,000	40,000
Retained earnings	371,851	355,495
Accumulated other comprehensive income	15,786	15,792
Total shareholders' equity	460,123	444,268
Total liabilities and shareholders' equity	$ 3,015,615	$ 2,870,174

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF INCOME
Years ended December 31, 2012 and 2011
(Dollars in thousands, except per share data)

	2012	2011
Interest income and loan fees:		
Interest and fees on loans:		
Taxable	$ 78,089	$ 76,588
Nontaxable	1,857	1,867
Total interest and fees on loans	79,946	78,455
Interest and dividends on investment securities:		
Taxable	26,330	26,509
Nontaxable	1,253	1,693
Total interest and dividends on investment securities	27,583	28,202
Interest on cash and cash equivalents	209	335
Total interest and loan fee income	107,738	106,992
Interest expense:		
Interest on deposits	1,653	2,404
Interest on federal funds purchased and securities sold under agreements to repurchase	636	665
Interest on notes payable, capital lease obligations and other	71	103
Total interest expense	2,360	3,172
Net interest and loan fee income	105,378	103,820
Provision for loan losses	(1,075)	1,242
Net interest and loan fee income after provision for loan losses	106,453	102,578
Noninterest income:		
Bankcard fees	19,852	20,399
Service charges on deposit accounts	3,758	4,239
Gain on sale of mortgage loans	2,608	1,850
Mortgage loan servicing income	3,595	2,558
Net gains on investment securities	176	795
Other noninterest income	6,606	6,542
Total noninterest income	36,595	36,383
Noninterest expense:		
Salaries and employee benefits	45,083	45,007
Occupancy expense, net	7,238	7,213
Furniture and equipment expense	2,026	2,411
Bankcard expenses	12,506	13,932
Other noninterest expense	15,681	19,292
Total noninterest expense	82,534	87,855
Income before taxes	60,514	51,106
Provision for income taxes	20,477	16,265
Net income	$ 40,037	$ 34,841
Earnings per common share (not in thousands)	$ 122.51	$ 105.17

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
Net income	$ 40,037	$ 34,841
Other comprehensive income –		
Unrealized gains/losses on securities:		
Unrealized holding gain arising during the period, net of tax effect of $(69) and $(5,307) in 2012 and 2011, respectively	98	7,603
Reclassification adjustment for gains included in net income, net of tax effect of $72 and $327 in 2012 and 2011, respectively	(104)	(468)
Net gains (losses) recognized in other comprehensive income	(6)	7,135
Comprehensive Income	$ 40,031	$ 41,976

See accompanying notes to financial statements.

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
Cash flows from operating activities		
Net income	$ 40,037	$ 34,841
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium on investment securities, net	9,144	9,514
Loss from equity method investment	503	73
Depreciation, accretion and amortization	5,444	5,806
Provision for loan losses	(1,075)	1,242
Deferred taxes	1,868	(41)
Gain on sale of mortgage loans	(2,608)	(1,850)
Net loss on the sales or impairment of other real estate owned	16	1,909
Net gain on the sale of premises and equipment	(10)	(19)
Net gain on disposition of investment securities	(176)	(795)
Real estate loans to be sold-originated	(311,912)	(210,403)
Real estate loans to be sold-shipped	304,580	207,096
Net decrease in other assets	3,426	1,129
Net increase (decrease) in other liabilities	(358)	1,446
Net cash provided by operating activities	48,879	49,948
Cash flows from investing activities		
Proceeds from calls and maturities of securities, available-for-sale	758,154	448,813
Proceeds from sales of securities available-for-sale	83,539	155,350
Purchase of securities, available-for-sale	(840,446)	(854,325)
Proceeds from calls and maturities of securities, held-to-maturity	-	23,000
Net redemptions of Federal Home Loan Bank stock	38	-
Net redemptions of Federal Reserve Bank stock	20	-
Net (increase) decrease in loans, net of undisbursed portion	(96,362)	69,195
Proceeds from sales of premises and equipment	15	39
Purchase of land, premises and equipment	(4,875)	(3,565)
Improvements to other real estate owned	(1,167)	(1,934)
Proceeds from sales of other real estate owned	4,962	1,659
Other investing activity	(1)	(40)
Net cash used in investing activities	(96,123)	(161,808)
Cash flows from financing activities		
Net increase in total deposits	127,394	135,410
Net increase in securities sold under agreements to repurchase	997	10,062
Net decrease in federal funds purchased	-	(25,000)
Payments on notes and capital leases	(594)	(609)
Dividends paid	(16,327)	(16,558)
Retirement of common stock	(7,849)	(3,585)
Net cash provided by financing activities	103,621	99,720
Increase (decrease) in cash and cash equivalents	56,377	(12,140)
Cash and cash equivalents, January 1	62,129	74,269
Cash and cash equivalents, December 31	$ 118,506	$ 62,129

(Continued)

FIRST NATIONAL BANK ALASKA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011
(Dollars in thousands)

	2012	2011
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 2,401	$ 3,283
Cash paid during the year for income taxes	17,053	17,187
Noncash investing and financing activities:		
Transfer of loans to other real estate owned	$ 292	$ 2,477
Bank financed sales of other real estate owned	234	1,357
Transfer of land held for Bank premises to other real estate owned	314	165
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, 2012 and 2011
(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, 2011	$ 33,205	$ 40,000	$ 340,573	$ 8,657	$ 422,435
Net income - 2011	-	-	34,841	-	34,841
Other comprehensive income, net of tax	-	-	-	7,135	7,135
Comprehensive income					41,976
Dividends declared - $50 per share	-	-	(16,558)	-	(16,558)
Retirement of common stock (2,245 shares)	(224)	-	(3,361)	-	(3,585)
Balance, December 31, 2011	32,981	40,000	355,495	15,792	444,268
Net income - 2012	-	-	40,037	-	40,037
Other comprehensive loss, net of tax	-	-	-	(6)	(6)
Comprehensive income					40,031
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

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 Company has evaluated subsequent events for recognition and disclosure through March 19, 2013, 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) other-than-temporary impairment (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. 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: 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 for loan losses 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.

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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

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.

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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

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, 2012 and 2011, the recorded liability was $800 and $1,000, 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, ($2,176 and $2,196 as of 2012 and 2011, 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, ($2,101 and $2,139 as of 2012 and 2011, 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.

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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

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.

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.

(Continued)

NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

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 326,806 and 331,292 for 2012 and 2011, 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 2011 financial statement data with the 2012 presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards: In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance did not have a material effect on the Bank's financial statements.

In June 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholder's equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. The amendments in this guidance are effective as of the beginning of a fiscal reporting year, and interim periods within that year, that begins after December 15, 2011. The adoption of this amendment has been included in these financial statements.

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, 2012 and 2011 was $12,168 and $8,458, respectively.

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(Dollars in thousands except per share data)

NOTE 3 - SECURITIES

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

December 31, 2012	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Treasury securities maturities:				
Within one year	$ 60,275	$ 157	$ -	$ 60,432
One to five years	42,876	2776	-	45,652
Total	103,151	2,933	-	106,084
U.S. government-sponsored enterprises maturities:				
Within one year	493,794	3,556	92	497,258
One to five years	523,079	10,124	25	533,178
Five to 10 years	171,611	6,190	-	177,801
Total	1,188,484	$ 19,870	$ 117	1,208,237
States and political subdivisions maturities:				
Within one year	7,539	78	-	7,617
One to five years	55,096	1,059	81	56,074
Five to 10 years	29,704	58	38	29,724
Total	92,339	1,195	119	93,415
Corporate bonds maturities:				
Within one year	20,033	149	-	20,182
One to five years	112,637	2,971	75	115,533
Total	132,670	3,120	75	135,715
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 available-for-sale securities are held in Utah with 33%, Alaska with 29%, and Texas with 23% 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, 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.

Amortized cost and fair values of securities, available-for-sale by maturity date, as of December 31, 2011:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011				
U.S. Treasury securities maturities:				
Within one year	$ 85,632	$ 335	$ -	$ 85,967
One to five years	81,340	1,761	-	83,101
Five to 10 years	22,654	1,502	-	24,156
Total	189,626	3,598	-	193,224
U.S. government-sponsored enterprises maturities:				
Within one year	597,417	3,157	9	600,565
One to five years	444,528	10,953	-	455,481
Five to 10 years	112,699	5,694	-	118,393
Total	1,154,644	19,804	9	1,174,439
States and political subdivisions maturities:				
Within one year	10,691	180	-	10,871
One to five years	35,103	1,502	-	36,605
Five to 10 years	323	18	-	341
Total	$ 46,117	$ 1,700	$ -	$ 47,817

(Continued)

(Dollars in thousands except per share data)

NOTE 3 - SECURITIES (Continued)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011				
Corporate bonds maturities:				
Within one year	$ 11,980	$ 116	$ -	$ 12,096
One to five years	112,380	1,456	32	113,804
Five to 10 years	12,112	183	-	12,295
Total	136,472	1,755	32	138,195
Total securities, available-for-sale	$ 1,526,859	$ 26,857	$ 41	$ 1,553,675

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, 2011, were as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011						
Available-for-sale:						
U.S. government–sponsored enterprises	$ 29,991	$ 9	$ -	$ -	$ 29,991	$ 9
States and political subdivisions	343	-	-	-	343	-
Corporate bonds	-	-	5,226	32	5,226	32
Total	$ 30,334	$ 9	$ 5,226	$ 32	$ 35,560	$ 41

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 $701,513 and $699,071 at December 31, 2012 and 2011, 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 $176 and $795 in 2012 and 2011, respectively. Realized losses on the disposition of investment securities were $0 for 2012 and 2011.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - LOANS

Loan maturity and rate sensitivity of the loan portfolio as of December 31, 2012 and 2011:

	Within 1 Year	After1 but Within 5 Years	After 5 Years	Loans Gross
2012				
Commercial and industrial	$ 63,309	$ 122,080	$ 56,713	$ 242,102
Real estate	51,877	114,601	813,428	979,906
Consumer and other	7,743	6,631	3,417	17,791
Loans, gross	$ 122,929	$ 243,312	$ 873,558	$ 1,239,799
Loans at fixed interest rates	$ 28,516	$ 111,343	$ 64,896	$ 204,755
Loans at variable interest rates	94,413	131,969	808,662	1,035,044
Loans, gross	$ 122,929	$ 243,312	$ 873,558	$ 1,239,799
2011				
Commercial and industrial	$ 59,865	$ 104,457	$ 67,116	$ 231,438
Real estate	41,210	82,559	766,758	890,527
Consumer and other	7,580	9,142	3,723	20,445
Loans, gross	$ 108,655	$ 196,158	$ 837,597	$ 1,142,410
Loans at fixed interest rates	$ 32,985	$ 98,258	$ 81,492	$ 212,735
Loans at variable interest rates	75,670	97,900	756,105	929,675
Loans, gross	$ 108,655	$ 196,158	$ 837,597	$ 1,142,410

There were unearned discounts of $17 and $27 as of December 31, 2012 and 2011, respectively.

Net loans origination fees for which recognition has been deferred to future periods as of December 31, 2012 and 2011, were $6,792 and $6,926, respectively.

Other real estate, acquired through foreclosure, resulted in a reduction to loans of $292 and $2,477 in 2012 and 2011, respectively. Loans made to facilitate the sales of other real estate were $234 and $1,357 in 2012 and 2011, respectively.

Real estate loans serviced for others as of December 31, 2012 and 2011 were $1,298,178 and $1,306,740, respectively. Reserve balances, associated with these loans and held in noninterest bearing demand accounts, amounted to $10,215 and $10,062 as of December 31, 2012 and 2011, respectively.

Nonaccrual loans totaled $24,115 and $31,416 at December 31, 2012 and 2011, respectively. The Bank has commitments to lend additional funds to debtors whose loans are nonperforming in the amount of $0 as of December 31, 2012.

(Continued)

(Dollars in thousands except per share data)

NOTE 4 - LOANS

The loan portfolio consists of the following at December 31:

	2012	2011
Commercial and industrial	$ 242,102	$ 231,438
Real estate construction	156,479	220,610
Real estate mortgage	194,713	194,873
Real estate commercial	628,714	475,044
Consumer and other	17,791	20,445
Loans, gross	$ 1,239,799	$ 1,142,410

As of December 31, 2012 and 2011 the aggregate indebtedness of all related parties (directors and executive officers of the Bank and their family members) was $182 and $271, respectively.

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
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
2011				
Allowance for loan losses:				
Beginning balance, January 1, 2011	$ 2,541	$ 11,805	$ 654	$ 15,000
Provision for loan losses	1,639	(120)	(277)	1,242
Loans charged-off	(2,588)	(1,984)	(162)	(4,734)
Recoveries	478	124	140	742
Ending Balance, December 31, 2011	$ 2,070	$ 9,825	$ 355	$ 12,250

In January 2013, the Bank received title to a property for satisfaction of a judgment against a borrower whose loan was fully charged-off in a prior period. As a result, a net recovery to the allowance for loan losses of $728 was recorded in January 2013 and the property is carried in other real estate owned.

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

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, 2012 and 2011:

	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

	Commercial and Industrial	Real Estate	Consumer and Other	Total
2011				
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$ 300	$ 3,345	$ 5	$ 3,650
Collectively evaluated for impairment	1,770	6,480	350	8,600
Total ending allowance balance	$ 2,070	$ 9,825	$ 355	$ 12,250
Loans:				
Individually evaluated for impairment	$ 2,969	$ 40,879	$ 20	$ 43,868
Collectively evaluated for impairment	229,584	855,434	20,450	1,105,468
Total loans outstanding balance	$ 232,553	$ 896,313	$ 20,470	$ 1,149,336
Deferred loan fees, net				(6,926)
Total loans				$ 1,142,410

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table summarizes our nonaccrual loans and loans past due by loan class as of December 31, 2012 and 2011:

	30-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual
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
December 31, 2011						
Commercial and industrial	$ 629	$ 659	$ 1,288	$ 231,265	$ 232,553	$ 1,137
Real Estate						
Construction and development	822	1,392	2,214	219,817	222,031	17,512
1– 4 and multifamily residential	1,603	309	1,912	193,880	195,792	2,293
Commercial real estate	2,743	539	3,282	475,208	478,490	10,567
Consumer and other	104	-	104	20,366	20,470	20
Total	$ 5,901	$ 2,899	$ 8,800	$ 1,140,536	1,149,336	31,529
Deferred loan fees, net					(6,926)	(113)
Total loans					$ 1,142,410	$ 31,416

Loans greater than 89 days past due and accruing are $74 and $189 at December 31, 2012 and 2011, 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, 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 following table presents information related to impaired loans by class of loans as of December 31, 2011:

December 31, 2011	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	$ 3,683	$ 2,477	$ -	$ 2,836	$ 69	$ 71
Real estate						
Construction and other	8,463	7,165	-	5,752	141	142
1-4 and multifamily residential	6,513	6,192	-	5,721	258	259
Commercial real estate	18,190	14,017	-	15,383	199	198
Consumer and other	9	9	-	18	12	13
Subtotal	36,858	29,860	-	29,710	679	683
With an allowance recorded						
Commercial and industrial	651	479	300	596	-	-
Real estate						
Construction and other	13,599	11,813	2,750	14,567	-	-
1-4 and multifamily residential	808	749	200	784	-	-
Commercial real estate	515	457	395	674	-	-
Consumer and other	11	11	5	12	-	-
Subtotal	15,584	13,509	3,650	16,633	-	-
Total	$ 52,442	$ 43,369	$ 3,650	$ 46,343	$ 679	$ 683

(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, 2012 and 2011:

	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

(Continued)

(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, 2011					
Commercial and Industrial	$ 217,972	$ 5,593	$ 8,788	$ 200	$ 232,553
Real Estate					
Construction and development	193,821	7,017	19,190	2,003	222,031
1-4 and multifamily residential	173,989	9,882	11,803	118	195,792
Commercial real estate	444,823	11,677	21,693	297	478,490
Consumer and other	20,347	73	41	9	20,470
Total	$ 1,050,952	$ 34,242	$ 61,515	$ 2,627	$ 1,149,336
Deferred loan fees, net					(6,926)
Total					$ 1,142,410

Troubled Debt Restructurings:

At December 31, 2012 and 2011, the Bank had loans of $29,600 and $29,900 classified as troubled debt restructurings, respectively, which are included in impaired loans. These loans had allocated specific reserves of $2,700 and $3,000 at December 31, 2012 and 2011, respectively. The Bank has committed to lend no additional amounts as of December 31, 2012 and 2011, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

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.

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

During the year ended December 31, 2011, 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: A restructuring of a commercial loan reduced the loan's stated interest rate for a period of 5 years. Extensions of maturity dates were for periods ranging from 2 months to 6 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods from 2 months to 8 years during the year ended December 31, 2011.

Constructions Loans: Restructurings of construction loans reducing the stated interest rate of the loan were all for a period of 4 months, extensions of maturity dates were for periods from 4 months to 2 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 4 months to 14 years during the year ended December 31, 2011.

1-4 and multifamily residential loans: Restructurings of 1-4 and multifamily residential loans reducing the stated interest rate of the loan were for periods from 9 years to 10 years, extensions of maturity dates were for periods ranging from 1 year to 18 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 6 months to 18 years during the year ended December 31, 2011.

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 2 months to 11 years, and temporary deferrals of all or part of the loan's scheduled principal payments were for periods ranging from 2 months to 15 years during the year ended December 31, 2011.

Consumer Loans: No consumer loans were restructured during the year ended December 31, 2011.

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

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
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.

(Continued)

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents loans by class which had defaulted (became at least 60 days past due) 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

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.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ended December 31, 2011:

Troubled Debt Restructurings:	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	15	$ 7,789	$ 7,789
Real estate:			
Construction and other	13	13,389	13,389
1-4 and multifamily residential	10	4,235	4,235
Commercial real estate	17	10,638	10,638
Consumer and other	-	-	-
Total	55	$ 36,051	$ 36,051

The troubled debt restructurings described in the above table had allocated specific reserves of $2,100 as of December 31, 2011 and resulted in charge-offs of $1,800 during the year ended December 31, 2011.

The following table presents loans by class which had defaulted during the year ended December 31, 2011 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	3	$ 5,451
Real estate:		
Construction and other	1	1,565
1-4 and multifamily residential	1	144
Commercial Real Estate	2	2,524
Consumer and other	-	-
Total	7	$ 9,684

(Dollars in thousands except per share data)

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (Continued)

The troubled debt restructurings that subsequently defaulted described in the previous table had allocated specific reserves of $2 as of December 31, 2011 and resulted in charge-offs of $1,800 during the year ended December 31, 2011.

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:

	2012	2011
Land	$ 12,981	$ 12,981
Bank premises	66,722	65,574
Leasehold improvements	728	729
Furniture and equipment	34,655	34,050
Construction in process	3,111	630
Total premises and equipment	118,197	113,964
Less: Accumulated depreciation and amortization	74,552	72,003
Premises and equipment, net	$ 43,645	$ 41,961

Depreciation and amortization expense on premises and equipment for the years ended December 31, 2012 and 2011 totaled $3,138 and $3,485, respectively.

NOTE 7 - OTHER REAL ESTATE OWNED

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

	2012	2011
Balance, January 1	$ 23,953	$ 22,653
Acquired upon foreclosure	292	2,477
Transfers from Bank premises	314	165
Capitalized improvements	1,167	1,934
Dispositions	(7,303)	(3,276)
Balance, December 31	18,423	23,953
Less Devaluation Reserves:		
Balance, January 1	(6,043)	(4,423)
Impairments subsequent to foreclosure	(236)	(1,924)
Dispositions	2,274	304
Balance, December 31	(4,005)	(6,043)
Other real estate owned, net	$ 14,418	$ 17,910

(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, 2012 and 2011, totaled $219 and $15, respectively. Impairments recorded subsequent to foreclosure in the amounts of $236 and $1,924 for the years ended December 31, 2012 and 2011, respectively.

NOTE 8 - MORTGAGE SERVICING RIGHTS

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

	2012	2011
Balance, January 1,	$ 3,529	$ 3,389
Additions:		
Capitalization of servicing assets	2,608	1,850
Purchases of servicing assets	-	52
Subtractions:		
Amortization	(1,422)	(1,581)
Accelerated amortization due to early payoffs	(352)	(181)
Balance, December 31,	$ 4,363	$ 3,529

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.

NOTE 9 - DEPOSITS

Total deposits by type of depositor as of December 31:

	2012	2011
Deposits of individuals, partnerships, and corporations	$ 2,029,902	$ 1,904,306
Deposits of U.S. government	1,456	949
Deposits of states and political subdivisions	26,949	25,486
Other deposits	212	384
Total deposits	$ 2,058,519	$ 1,931,125

As of December 31, 2012 and 2011, the aggregate deposit overdrafts of $163 and $175, respectively, have been reclassified as loan balances.

As of December 31, 2012 and 2011 the aggregate deposits of related parties (directors and executive officers of the Bank and their family members) were $46,403 and $46,450, 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:	2012
2013	$ 117,017
2014	6,217
2015	2,395
2016	2,448
2017	3,990
Thereafter	47
Total time deposits	$ 132,114

Included in time deposits are certificates of deposit in amounts of $100 or more in the amount of $65,116 and $68,069 as of December 31, 2012 and 2011, respectively.

Interest expense on deposits was as follows:

	2012	2011
Savings	$ 829	$ 1,322
NOW	56	50
Money market	119	126
Time - less than $100	252	344
Time - $100 or more	397	562
Total interest expense on deposits	$ 1,653	$ 2,404

NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Selected balances and rates are as follows:

	2012	2011
Maximum monthly average balance	$ 511,395	$ 559,414
Average daily balance	$ 476,799	$ 514,276
Average rate during year	0.13%	0.13%
Average rate at December 31,	0.13%	0.13%

Investment securities with carrying amounts of $514,959 and $571,635 at December 31, 2012 and 2011, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2012 all repurchase agreements matured within 1 business day.

As of December 31, 2012 and 2011, aggregate repurchase agreement balances of related parties (directors and executive officers of the Bank and their family members) were $1,853 and $4,751, respectively.

(Continued)

(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:

	2012	2011
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2014, secured by a limited partnership interest	$ 193	$ 395
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2015, secured by a limited partnership interest	400	738
Total face value before discounts	593	1,133
Discount on notes payable with imputed interest rates of 6.61% to 7.02%	(42)	(112)
Notes payable, net of discount	$ 551	$ 1,021

Aggregate maturities of notes payable for each of the five years subsequent to December 31, 2012 and thereafter are:

2013	$ -
2014	522
2015	71
2016	-
2017	-
Thereafter	-
Total	$ 593

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:

	2012	2011
Furniture and equipment	$ 1,011	$ 942
Accumulated amortization	(825)	(936)
Capitalized lease equipment, net	$ 186	$ $6

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 $286 and $265 as of December 31, 2012 and 2011, 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, 2012 were:

	Capital Leases	Operating Leases
Year ended December 31:		
2013	$ 53	$ 91
2014	53	76
2015	53	52
2016	53	28
2017	9	28
Thereafter	-	534
Total Minimum Lease Payments	$ 221	$ 809

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 5, 2013.

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, 2012 and 2011, which is maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

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. During 2011 the Bank repurchased a total of 2,245 shares of common stock representing an aggregate value of $3,600, at an average price of $1,598 per share. Cumulative shares of 19,904 have been repurchased under the program since inception for a combined purchase total of $31,900.

At the January 31, 2013 Board of Directors meeting, cash dividends of $12.50 per share were declared, payable March 15, 2013 to shareholders of record as of March 1, 2013.

(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 was 0.034121% and is currently 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 and $1,100 as of December 31, 2012 and 2011, respectively, recorded through charges to noninterest expense in the amount of $400 and $0 in 2012 and 2011, respectively. The Bank has not recorded in its financial statements any value for its membership interest in Visa Inc.

The Bank has $1,500 and $1,000 escrow receivable included in other assets as of December 31, 2012 and 2011, 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 $500 and $100 during 2012 and 2011, 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 fair value estimated in the December 31, 2012 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:

	2012	2011
Mortgage loan servicing fees	$ 5,369	$ 4,320
Amortization of costs	(1,422)	(1,581)
Accelerated amortization due to early payoffs	(352)	(181)
Mortgage loan servicing income	$ 3,595	$ 2,558

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 2012, the maximum amount that may be deferred by participant is $17. 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 2012 combined limit of all employee and employer contributions to an individual participant’s account is $50.

The contribution to the profit sharing and 401(k) plan was $1,500 for each of the years ended December 31, 2012 and 2011.

(Continued)

(Dollars in thousands except per share data)

NOTE 17 - OTHER NONINTEREST INCOME AND EXPENSE

Other noninterest income is comprised of the following:

	2012	2011
Escrow fees	$ 1,471	$ 1,538
Other income	5,135	5,004
Other noninterest income	$ 6,606	$ 6,542

Other noninterest expense is comprised of the following:

	2012	2011
Professional services	$ 2,816	$ 3,291
FDIC insurance and other assessments	1,402	2,594
Valuation loss on other real estate owned	236	1,924
Software licensing fees	1,446	1,543
Other general expense	9,781	9,940
Other noninterest expense	$ 15,681	$ 19,292

NOTE 18 - PROVISION FOR INCOME TAXES

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

	2012	2011
Current:		
Federal	$ 16,301	$ 14,911
State	2,308	1,395
Total current	18,609	16,306
Deferred:		
Federal	1,590	(35)
State	278	(6)
Total deferred	1,868	(41)
Provision for income taxes	$ 20,477	$ 16,265

(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 2012 and 2011 for the following reasons:

	2012	%	2011	%
Tax expense at federal statutory rate	$ 21,180	35.00%	$ 17,887	35.00%
Increase (decrease) resulting from:				
State tax, net of Federal tax effect	1,665	2.75%	1,088	2.13%
Disallowed interest expense	18	0.03%	28	0.05%
Interest exempt from federal taxation	(1,069)	(1.77)%	(1,221)	(2.39)%
Low income housing tax credits	(1,397)	(2.31)%	(1,402)	(2.74)%
Other items, net	80	0.13%	(115)	(0.22)%
Provision for income taxes	$ 20,477	33.83%	$ 16,265	31.83%

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:

	2012	2011
Deferred tax assets:		
Allowance for loan losses	$ 5,036	$ 5,036
Mortgage servicing rights	44	594
Interest collected on nonperforming loans	2,361	2,914
Vacation accrual	1,158	1,164
Accumulated depreciation and amortization	795	551
Other real estate owned valuation reserve	2,279	2,970
Other	721	957
Total deferred tax assets	12,394	14,186
Deferred tax liabilities:		
Net unrealized holding gain on securities, available-for-sale	11,020	11,023
Net deferred loan fees	2,666	2,468
Low income housing projects	760	848
Deferred loan costs	449	457
Other	655	681
Total deferred tax liabilities	15,550	15,477
Net deferred tax liabilities	$ (3,156)	$ (1,291)

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.

The total amount of interest and penalties recorded in the income statement for the years ended December 31, 2012 and 2011 were immaterial and no amounts are accrued for interest and penalties at December 31, 2012 or 2011.

(Continued)

NOTE 18 - PROVISION FOR INCOME TAXES (Continued)

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 2009.

During 2012, the Bank purchased at a discount approximately $2,100 in tax credits under the Alaska Film Production Incentive Program, which awards transferable tax credits to film producers who choose to film in Alaska. Additionally, the bank has a commitment to purchase another $100 in film tax credits. 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 $2,200 and $1,800 of the Alaska film tax credits as of December 31, 2012 and 2011, respectively, to offset its State of Alaska tax obligations. 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, 2012 and 2011:

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

Securities, Available-for-Sale: 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.

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.

(Continued)

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

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, 2012 and 2011. 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,

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$ 118,506	$ 118,506	$ 62,129	$ 62,129
Securities, available-for-sale	1,543,451	1,543,451	1,553,675	1,553,675
Real estate loans to be sold	31,493	31,683	24,161	24,643
Loans:				
Commercial and industrial	239,597	237,576	229,368	230,302
Real estate	970,416	961,487	880,702	885,416
Consumer and other	17,536	17,351	20,090	19,938
Total loans, net	1,227,549	1,216,414	1,130,160	1,135,656
Federal Reserve Bank stock	2,176	N/A	2,196	N/A
Federal Home Loan Bank stock	2,101	N/A	2,139	N/A
Interest receivable	11,923	11,923	13,573	13,573
Financial liabilities:				
Deposits:				
Non-interest bearing	958,996	958,996	849,410	849,410
Interest bearing:				
Savings	607,533	607,533	566,960	566,960
NOW	183,524	183,524	177,533	177,533
Money market	176,352	176,352	197,841	197,841
Time	132,114	133,745	139,381	141,195
Total interest bearing	1,099,523	1,101,154	1,081,715	1,083,529
Total deposits	2,058,519	2,060,150	1,931,125	1,932,939
Securities sold under agreements to repurchase	484,195	484,195	483,198	483,198
Notes payable and capital lease obligations	772	772	1,030	1,030
Interest payable	127	127	168	168
Off-balance-sheet financial instruments:				
Assets:				
Loan commitments	$ 338,210	$ 1,894	$ 361,996	$ 1,962
Bankcard commitments	73,545	-	73,606	-
Standby and commercial letters of credit	27,846	263	19,694	150
Liabilities:				
Subscriptions to purchase Federal Reserve Bank stock	2,176	-	2,196	-

(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)
2012				
Securities:				
U.S. Treasury securities	$ 106,084	$ 106,084	$ -	$ -
U.S. government-sponsored enterprises	1,208,237	-	1,208,237	-
States and political subdivisions	93,415	-	93,415	-
Corporate bonds	135,715	-	135,715	-
Securities total	$ 1,543,451	$ 106,084	$ 1,437,367	$ -
2011				
Securities:				
U.S. Treasury securities	$ 193,224	$ 193,224	$ -	$ -
U.S. government-sponsored enterprises	1,174,439	-	1,174,439	-
States and political subdivisions	47,817	-	47,817	-
Corporate bonds	138,195	-	138,195	-
Securities total	$ 1,553,675	$ 193,224	$ 1,360,451	$ -

(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 2012 and 2011.

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, 2012 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, 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)
December 31, 2011					
Impaired loans:					
Commercial and Industrial	$ 182	$ -	$ -	$ 182	$ (118)
Real Estate	14,511	-	-	14,511	(1,299)
Consumer	6	-	-	6	(5)
Other real estate owned:					
Construction and development	6,146	-	-	6,146	(1,533)
Commercial	2,176	-	-	2,176	(126)
Bank premise	392	-	-	392	-
Total	$ 23,413	$ -	$ -	$ 23,413	$ (3,081)

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a net principal balance of $16,656 with a valuation allowance of $3,000 at December 31, 2012, resulting in additional provision for loan losses of $670 for the year ended December 31, 2012. At December 31, 2011, impaired loans had a net principal balance of $18,399 with a valuation allowance of $3,700, resulting in an additional provision for loan losses of $1,422 for the year ended December 31, 2011.

(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 $5,387, which is made up of the gross book value of $9,392, net of a valuation allowance of $4,005 at December 31, 2012, resulting in write-downs of $96 for the year ended December 31, 2012. At December 31, 2011, other real estate owned measured at fair value less costs to sell had a net carrying amount of $8,714, made up of the outstanding balance of $14,814, net of a valuation allowance of $6,100, resulting in write-downs of $1,659 for the year ended December 31, 2011.

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, 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, 2012. 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 $109,287 and $84,650 from the Federal Reserve Bank at a rate of 0.75% as of December 31, 2012 and 2011, respectively. In addition, the Bank also had federal funds arrangements available from an unaffiliated Bank of $80,000 and $30,000, at a rate estimated at 0.25% as of December 31, 2012 and 2011, respectively. There were no outstanding balances against these lines of credit as of December 31, 2012 or 2011.

(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,

	2012	2011
Loan commitments	$ 338,210	$ 361,996
Bankcard commitments	73,545	73,606
Commitments to fund mortgage loans to be sold	96,335	66,750
Total loan commitments	$ 508,090	$ 502,352
Commitments at fixed interest rates	$ 217,931	$ 199,617
Commitments at variable interest rates	290,159	302,735
Total loan commitments	$ 508,090	$ 502,352
Standby and commercial letters of credit	$ 27,846	$ 19,694
Subscriptions to purchase Federal Reserve Bank stock	2,176	2,196

Commitments to make loans are generally made for periods of 90 days or less. At December 31, 2012, the fixed rate loan commitments have interest rates ranging from 2.75% to 16.5%.

As of December 31, 2012, the Bank held $2,101 of Federal Home Loan Bank Seattle (Seattle Bank) Class B stock that is included in other assets. As of December 31, 2012, the Seattle Bank continued to meet all of its regulatory capital requirements. They have not repurchased Class B stock since 2004 and did not pay a dividend in 2012. The Bank has conducted an assessment and has concluded that an impairment is not necessary as of December 31, 2012.

(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, 2012, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2012, 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 2012 and 2011. 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, 2012 and 2011 are as follows:

	Actual		for Capital Adequacy Purposes		Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
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%
2011						
Total capital (to risk-weighted assets)	$ 441,373	24.96%	$141,488	8.00%	$ 176,859	10.00%
Tier I capital (to risk-weighted assets)	428,123	24.21%	70,744	4.00%	106,116	6.00%
Tier I capital (to average assets)	428,123	14.60%	117,286	4.00%	146,607	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, 2012 is $15,900 without OCC approval.