



First National Bank
ALASKA

FORCES IN MOTION

2013 Annual Highlights

≡ The Strength of Change

After more than six decades as bank president, D.H. Cuddy passed the torch and title to Betsy Lawer, who begins a new phase in her 40-year tenure with the bank. The smooth transition speaks to the consistent policies, procedures and customer service focus that have made First National one of the nation's strongest and most secure financial institutions.



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Mission Statement

The bank's multi-part mission to safekeep depositors' money, provide all legitimate financial services to the community consistent with bank resources, furnish employees with competitive salaries and a pleasant working environment, and earn a proper return for shareholders speaks to our commitment to our customers, our employees and our shareholders.

CHAIRMAN'S MESSAGE

First National Bank Alaska stands as the premier community bank in Alaska and I continue to be proud of our many accomplishments. In reviewing fiscal year 2013, it is appropriate to highlight the impact of the low interest rate environment, changing competitive landscape and increased regulatory scrutiny on all community banks, including ours.

The traditional banking activities of deposit gathering, lending and investing are the primary sources of revenue for community banks. This year we again achieved record levels of loans, assets and deposits. Despite those accomplishments, our net interest income for 2013 of \$99.7 million was \$5.7 million lower than the prior year. The loan portfolio continues to perform very well while the sustained low interest rate environment has reduced income on the investment portfolio. Lower net interest margin impacts overall profits and this was evidenced in our results.

Our bank also earns income from the wide variety of supporting bank services we provide across Alaska to a diverse customer base. Income from bankcard fees, deposit services, mortgage lending and loan servicing activities, and escrow and trust services make important contributions to shareholder profits. Many of these income sources were under pressure from changing marketplace conditions brought on by Dodd-Frank legislation and competition from businesses that are not traditional banks. Many banking processes are also increasingly subject to burdensome regulatory requirements that increase costs for compliance, monitoring, and reporting. These requirements resulted in an increase in our expenses in the areas of systems, technology and human resources.

During 2013 we engaged in design and implementation of new technology and new processes with improved efficiency, enhancing our tools and capabilities to meet the challenges of this changing banking industry.

This year's report theme is *Forces in Motion*. Our senior management team appreciates we don't have control over many of the outside forces impacting the banking industry. But we can determine how our own internal forces are focused. During 2013 we engaged in design and implementation of new technology and new processes with improved efficiency, enhancing our tools and capabilities to meet the challenges of this changing banking industry. This report highlights some of those important initiatives. We continue to make investments in services and delivery systems that will meet growing customer expectations for convenience and value, make our bank a desirable employment choice for more than 650 Alaskans, and provide a return to our shareholders.

Our bank remains strongly capitalized and high-performing even against the challenging forces of competitive and regulatory headwinds. Alaskans can be confident that after more than 90 years of history and service to the Great Land, First National Bank Alaska is the one Alaska bank where dreams of Alaskans continue to grow.

D.H. Cuddy

D.H. Cuddy
Chairman



FINANCIAL HIGHLIGHTS

In the face of persistent low interest rates, regulatory challenges and dynamic competitive forces, First National Bank Alaska again set financial records in 2013.

Total assets rose to a record \$3.1 billion, an increase of \$87.2 million over the previous year. This 2.8 percent increase was thanks to Alaskans' trust in the stability of the bank and its strong capital position, demonstrated by the increase in deposits and repurchase agreements to a record \$2.64 billion.

Loans to Alaskans and their businesses increased by 4 percent to a record \$1.29 billion as bankers worked shoulder to shoulder with their neighbors to help them meet the challenges of living and doing business successfully in the Great Land.

Net income for 2013 decreased to \$32.3 million compared to 2012 net income of \$40.0 million. Income and dividends on investment securities were lower in 2013 by \$5.4 million on reduced earnings from the securities portfolio which is conservatively invested. The year-to-date average yield on earning assets decreased 27 basis points to 3.4 percent from 3.7 percent in 2012. Growth in the deposit base was used to fund growth in loans to the extent of demand; remaining levels were invested in securities that are subject to the prolonged low interest rate environment.

* Unrealized holding gain (loss) on securities, available-for-sale, net of tax effect

** In 2010 the bank paid a \$100 per share special cash dividend resulting in a reduction of shareholders' equity of \$33.2 million.

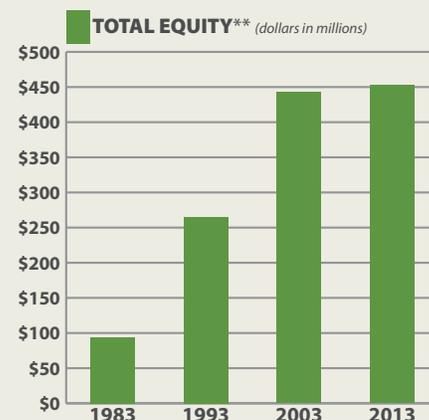
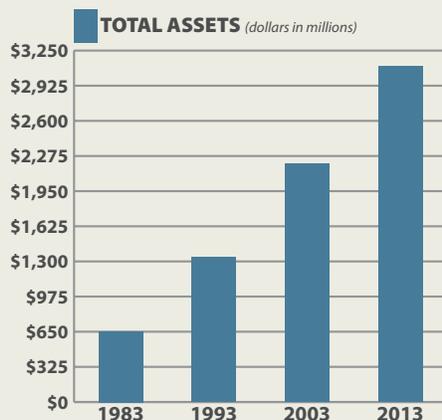
STATEMENTS OF CONDITION

(Dollars in thousands)

ASSETS	DECEMBER 31	
	2013	2012
Cash and cash equivalents	\$93,083	\$118,506
Securities, available-for-sale	1,610,395	1,543,451
Real estate loans to be sold	12,839	31,493
Loans:		
Commercial and industrial	246,127	242,102
Real estate	1,031,059	979,906
Consumer and other	16,205	17,791
Total Loans, Gross	1,293,391	1,239,799
Less: Allowance for loan losses	12,250	12,250
Total Loans, Net	1,281,141	1,227,549
Premises and equipment	48,405	43,645
Other real estate owned	13,333	14,418
Other assets	43,594	36,553
Total Assets	\$3,102,790	\$3,015,615

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Deposits:		
Noninterest bearing	\$1,011,286	\$958,996
Interest bearing:		
Savings	582,286	607,533
NOW	186,917	183,524
Money market	156,655	176,352
Time	159,682	132,114
Total interest bearing	1,085,540	1,099,523
Total Deposits	2,096,826	2,058,519
Securities sold under agreements to repurchase	545,612	484,195
Capital lease obligations	168	221
Notes payable	68	551
Other liabilities	7,580	12,006
Total Liabilities	2,650,254	2,555,492
Shareholders' Equity:		
Common stock, \$100 par value (Authorized shares: 2013 and 2012 - 400,000 shares) (Issued shares: 2013 - 322,356; 2012 - 324,855 shares)	32,236	32,486
Surplus	40,000	40,000
Retained earnings	383,858	371,851
Accumulated other comprehensive income (loss)*	(3,558)	15,786
Total Shareholders' Equity	452,536	460,123
Total Liabilities And Shareholders' Equity	\$3,102,790	\$3,015,615



STATEMENTS OF INCOME

(Dollars in thousands)

INTEREST INCOME AND LOAN FEES

	DECEMBER 31	
	2013	2012
Interest and fees on loans	\$79,076	\$79,946
Interest and dividends on investment securities	22,158	27,583
Interest on cash and cash equivalents	243	209
Total Interest And Loan Fee Income	101,477	107,738

INTEREST EXPENSE

Interest on deposits	1,013	1,653
Interest on federal funds purchased and securities sold under agreements to repurchase	724	636
Interest on notes payable, capital lease obligations and other	38	71
Total Interest Expense	1,775	2,360

Net Interest And Loan Fee Income

99,702 **105,378**

Provision for loan losses

(9) (1,075)

Net Interest And Loan Fee Income After Provision For Loan Losses

99,711 **106,453**

NONINTEREST INCOME

Bankcard fees	14,150	19,852
Service charges on deposit accounts	3,834	3,758
Gain on sale of mortgage loans	3,737	4,302
Mortgage loan servicing income	1,827	1,901
Net gains on investment securities	92	176
Other noninterest income	5,888	6,598
Total Noninterest Income	29,528	36,587

NONINTEREST EXPENSE

Salaries and employee benefits	46,708	45,083
Occupancy expense, net	7,365	7,230
Furniture and equipment expense	1,983	2,026
Bankcard expenses	8,035	12,506
Other noninterest expense	17,285	15,681
Total Noninterest Expense	81,376	82,526

Income Before Taxes

47,863 **60,514**

Provision for income taxes

15,551 20,477

Net Income

\$32,312 **\$40,037**

Earnings per common share (not in thousands)

\$99.80 **\$122.51**

Cash Dividends Paid Per Common Share (not in thousands)

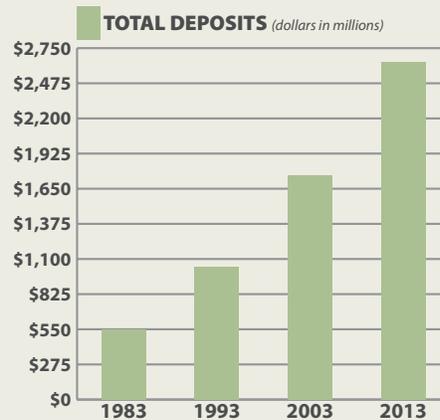
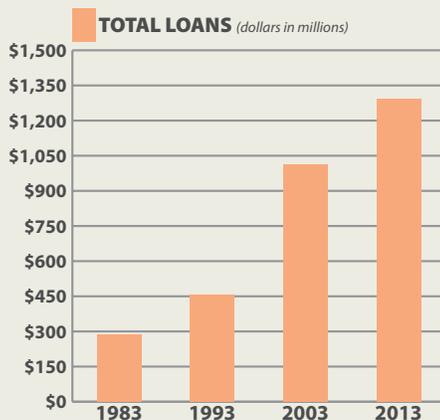
\$50.00 **\$50.00**

Year-to-date net loan recoveries during 2013 of \$9.0 thousand were \$1.0 million less than those recovered in 2012. Nonaccrual loans and loan delinquencies were at their lowest levels since 2005. Nonaccrual loans decreased \$17.8 million during 2013 to \$6.3 million, 0.5 percent of total loans.

Noninterest income was lower by \$7.1 million in 2013 compared to 2012 levels. Reduced income was recorded in bankcard fees along with lower mortgage loan origination and servicing income in 2013 on expected lower refinancing and servicing volumes. Noninterest expense decreased \$1.2 million in 2013 when compared to 2012.

"Our bank performed well in 2013 despite the challenging low interest rate environment and the expense of complying with the growing regulatory burden," said President Betsy Lawer.

First National remains one of the best capitalized community banks in our national peer group and is in a strong position to make every good loan to Alaskans and Alaska businesses.





≡ Responding to Innovation

With a Kaladi Brothers bistro and a half-dozen townhouse-style apartments on a site of less than 40,000 square feet, Turnagain Crossing illustrates the “mixed-use” concept that many see as a coming trend. Developer J. Jay Brooks spent two years in planning and research, with numerous trips to the Anchorage Assembly to resolve zoning issues. It took just one visit to First National’s local lenders to get the financing to bring his innovative dream to life. Local decision-making gave First National the ability to respond quickly and definitively to our customer’s needs. The Rustic Goat bistro (pictured above) opened in February 2014. It’s a one-of-a-kind eatery and community hot spot in Anchorage’s Turnagain neighborhood.



FORCES IN MOTION

First National Bank Alaska faced challenging forces in the dynamic environment of 2013.

Continuing low interest rates and increased competition put pressure on the bottom line. The bank pushed back with a vigorous relationship management initiative designed to deepen existing customer relationships and develop new ones. This officer outreach leveraged First National's superior knowledge of the Alaska market and the financial strength to fund projects large and small along with local, fast decision-making.

The increased regulatory burden loomed over operations. A massive effort to standardize policies, procedures and desk manuals as part of a broader regulatory compliance program ensured compliance bankwide, and helped to establish consistent processes under varied conditions.

Transition in management was another force in 2013. Two new directors joined the bank's Board, and the naming of a new bank President sharpened the bank's focus on meeting challenges and opportunities.

But the greatest force of all was one that has sustained the bank for 92 years: a genuine interest in the success of Alaskans, particularly our shareholders, our employees, our customers and our communities.

Increased competition, increased opportunity

One of the forces most prevalent in 2013 was increased competition for good loans. With a flat economy, fewer businesses sought loans, and many of those that did shopped various banks for the lowest rate. First National countered this competitive pressure by strengthening the quality of relationships with customers, prospects and community leaders. By demonstrating First National's genuine interest in their success, and by delivering banking solutions that met or exceeded their expectations, branch loan officers in First National communities around Alaska deepened existing relationships and brought new ones into the fold.

 **This focus on high quality customer service meant taking the time when working with current and potential customers to understand Alaskans' needs and the challenges or obstacles to their success.**

Their efforts paid off. Adding value to each relationship and providing the convenience of working with knowledgeable, local Alaskans netted positive results in an extremely competitive loan interest rate environment. Most regions showed an increase or remained stable in loans and deposits. The Southeast Region earned its largest-ever increase in loans, up \$19.5 million over 2012.

Vice President and Regional Manager Luke Fanning, with an eye toward future growth opportunities in the Southeast Region, helped to facilitate the bank's purchase of the Bill Ray Center in Juneau. The purchase of this property, adjacent to the bank's existing Channel Branch and near one of the busiest traffic intersections in the region, provides the space needed to rebuild and expand the Channel Branch building to offer more robust service and enhance accessibility.

Another force at work was the power of persistent and consistent effort when seeking to acquire new business to the bank. As Senior Vice President and Regional Manager Charlie Weimer, put it, "The biggest successes I had in my own portfolio in 2013 were the fruits of my labors that started well over a year ago." Weimer's Kenai Peninsula, Kodiak, Valdez, Glennallen and Kuskokwim branches showed \$9.3 million in loan growth.

Training for the long run

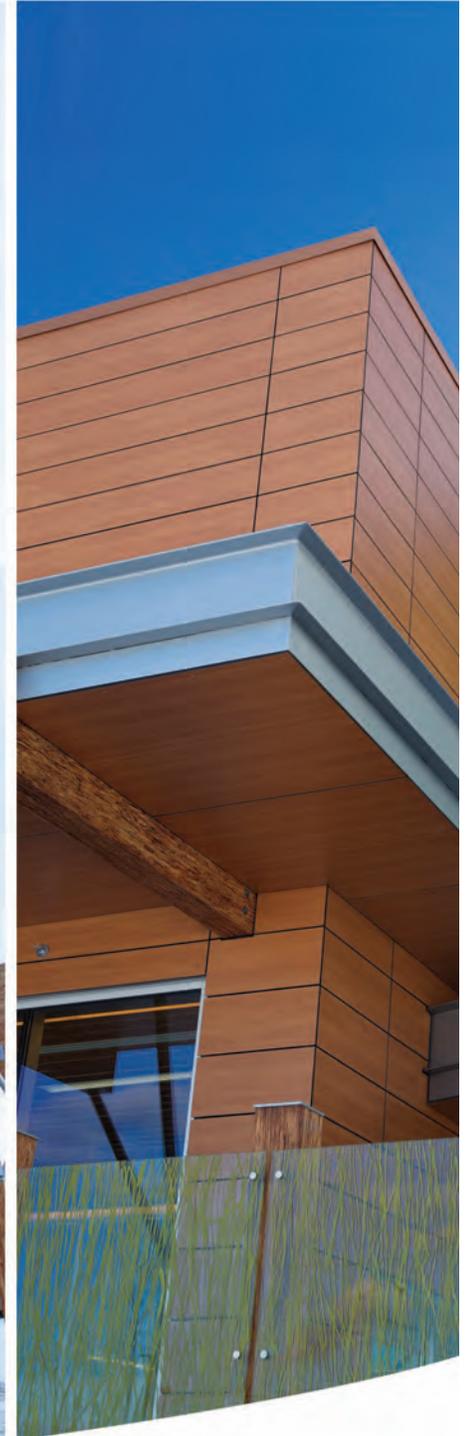
A driving force in any business is the desire to reduce costs while maintaining or enhancing levels of service. Thanks to a full-spectrum approach to its responsibilities, the Human Resources Department accomplished both.

During 2013, the bank's Human Resources professionals expanded their offerings to better meet the needs of the bank. In addition to typical Human Resources functions, they transitioned from simply recruiting and developing employees to providing a full Talent Management function. This includes a career counseling effort to prepare employees for future opportunities and enables the bank to build on existing talents of our employees. This full work-life cycle allows the bank to better assess staffing needs, developmental opportunities and capacity vulnerabilities.



≡ A Natural Fit

When long-time customers Rick and Vikki Solberg wanted to expand the Natural Pantry, other banks hoped to make the commercial real estate loan and equipment loan for their new building. Corporate Lending Division Head and Senior Vice President Bill Inscho knew his team had the advantage. The years spent developing a relationship with the Solbergs gave First National a keen understanding of their business. The bank offered the Solbergs an option for equipment leasing that was a better financial fit for them and their business. The value added by our lenders' hard work and expertise made all the difference to the Solbergs.



Training for employees has expanded appreciably. In addition to compliance training, the bank now offers employees an online learning library, lender training assistance and a new web-based interactive method to deliver training to remote and local locations. The bank's training experts have been instrumental in energizing branch employee customer service by offering management and supervisory coaching on the use of best practices and tools. This translates directly to a better experience and value for our customers.

Human Resource experts also expanded recruitment outreach efforts to increase the rich diversity of First National's employee base. This outreach helped to communicate the bank's local brand consistently at a grass roots level.

Ahead of the mortgage interest rate curve

Mortgage loan rates were in motion in 2013 and employees in First National's Mortgage Lending Division were ready, having anticipated that mortgage rates would rise and effectively end the "refinance market" the industry enjoyed on and off for the last 10 years. The bank's mortgage officers shifted their focus to attracting more purchase transaction business. It worked; employees in the Mortgage Lending Division increased the number of purchase transactions by 34 percent last year, more than doubling the overall statewide purchase volume growth of 14 percent.

Increasing customer satisfaction was a key goal set forth by Division Head and Senior Vice President Ryan Strong. Thanks to a mortgage customer survey developed and implemented in 2013, the bank identified important issues key to customer satisfaction with the delivery of the bank's mortgage services. Completed by bank

customers during the closing process at the title company, the survey drew a significant 79 percent response rate. Overall, ratings were consistently excellent and, in the infrequent case they weren't, the bank was able to quickly respond to the customer's concerns.

Moving to the next level

When First National recently passed \$3 billion in assets, it put the bank in new territory.

Reaching that plateau placed the bank in a different regulatory tier requiring greater documentation of the bank's compliance activities. As federal banking regulations have increased, the bank's burden to provide standardized policy documents, procedures and desk manuals has grown exponentially. The bank must document everything we do more clearly and in greater detail.

Accordingly, in 2013 the bank undertook a large-scale effort to refine and implement a full-scope compliance program that detailed comprehensive policies and procedures for all bank processes subject to increased regulatory oversight.

In an ongoing process, every First National policy has been re-affirmed or amended, and new detailed ones have been adopted. Every organizational unit also reviewed and updated their respective desk manuals and each manual is published using a standard template.


New employees will be able to step into their positions more efficiently by following the updated and standardized desk manuals.

This standardization will help employees fill unfamiliar positions if and when contingency plans kick in during emergency situations. New employees will be able to step into their positions more efficiently by following the updated and standardized desk manuals.



Donation to Bethel Museum Part of \$1 Million to Alaska Communities

A donation of \$10,000 to the Association of Village Council Presidents (ACVP) for their cultural heritage center, the Yupiit Piciryarait Museum in Bethel, was part of \$1,028,140 in donations and community activity sponsorships given in 2013.

(Left to right) Representing The Association of Village Council Presidents: Mike Hoffman, Executive VP; Eva Malvich, Director of Yupiit Piciryarait Museum; Marc Stemp, VP of Business Development. Representing First National Bank Alaska; Kippy Mena, Operations Supervisor; Linda Gordon, wife of Director George Gordon; Agnes Coyle, wife of Director Dr. Maurice Coyle; Michele Schuh, SVP, Chief Financial Officer.

Good business is more than transactions

The efforts of Division Head and Senior Vice President Cheri Gillian and employees in the Corporate Communications Division were the driving forces behind the renewed focus on customer relationship management. The bank executed a consistent outreach program that involves regular, pre-planned calling on customers and prospective customers by bank officers in lending, deposit, mortgage, trust and escrow functions.

The program builds on First National's already strong customer service reputation to deepen, broaden and acquire banking relationships that are a win-win for the customer and for the bank. Effective program execution was a contributing factor to the growth of loans and deposits in a time of increased competition.

Gillian's division was also on the forefront of developing a social media policy adopted by the board in 2013. The new policy takes a careful approach.

Although the bank has reserved a bank-named Twitter account and administers a First National-sponsored Alaska's Economy Facebook page, there are no official bank-branded social media accounts. The new policy demonstrates due diligence and leadership by setting forth clear expectations for how bank-related interests might best be represented and protected in social media.

One of the bank's first forays into the social media world is the creation of the Facebook page about Alaska's economy. First National has invited all Alaskans to join the conversation about the state's financial future at facebook.com/AlaskasEconomy.

Whether social media generates a favorable effect or has a negative influence is a force First National must try to manage. The newly adopted Social Media Policy is a good start toward getting all the bases covered.

Senior Management Team

(Standing, left to right): Doug Longacre, Senior Vice President, Branch Lending and Administration Division; Phil Griffin, Senior Vice President and Chief Information Officer, Information Technology Division; David Lawer, Senior Vice President and General Counsel, Corporate Systems Division; Betsy Lawer, President and Vice Chair; Bill Inscho, Senior Vice President, Corporate Lending Division; Cheri Gillian, Senior Vice President, Corporate Communications and External Affairs Division; Charles Weimer, Senior Vice President and Regional Manager - Combined Region; William Renfrew, Senior Vice President and Regional Manager - Interior Alaska Region (Seated, left to right): Ryan Strong, Senior Vice President, Mortgage Lending Division; Michele Schuh, Senior Vice President and Chief Financial Officer, Financial Division; Craig Thorn, Senior Vice President, Regional Manager - Mat-Su Region



John Hoyt
Senior Vice President
Deposit, Consumer Credit
and ePayment Division



David Stringer
Senior Vice President
Loan Servicing Division



≡ **Outstanding Alaskan**

The Alaska Chamber presented Director Margy Johnson with the William A. Egan Outstanding Alaskan Award, given to Alaskans who have "made substantial, continued contributions of statewide significance." Among those many contributions is her election as the first female chair of the Alaska Chamber in 1992.

≡ **Board of Directors**

(Left to right): George Gordon, Retired, Private Utility Manager; Margy Johnson, Executive Vice President, Alaska Dispatch; Jane Klopfer, Co-Owner, Snow Goose Restaurant; Loren Lounsbury, Chairman, International Management Group; Betsy Lawer, President and Vice Chair; Perry Eaton, Artist; Lucy Mahan, Owner, Transitional Counseling; Dr. Maurice Coyle, Medical Consultant



D.H. Cuddy
Chairman of the Board

Giving employees more power to serve

Communication is a powerful force. Division Head and Senior Vice President John Hoyt believes it's the key to delivering greater convenience, service and value for branch customers. He saw this power firsthand in a customer-focused campaign for consumer loans in 2013.

Hoyt's goal was to create a more sophisticated environment enriched by value-added conversations between First National's customers and employees. Since kicking off the initiative in the second quarter, it appears to be working. In the Anchorage area through January 2014, First National booked 22 percent more consumer loans than the previous year. Applications alone were up 44 percent.

Communicating with customers was just the beginning. Hoyt believed the Tellers and Customer Service Representatives could contribute more, but they needed greater knowledge of the bank's full array of services.

Together, supervisors in the division set out to perpetuate the concept of learning and educating. Hoyt's objective was not to create product pushers, but to teach employees so they could educate customers.

Employees say this renewed effort to involve them at all levels made them feel more a part of the team. And creating buzz and excitement about consumer loans and overall customer service made a difference in branch results. The number of new accounts opened in 2013 was up 13 percent from the previous year.

"The branch experience is a combination of the customer experience and the employee experience," Hoyt said. "We can't have a positive customer experience if we don't also have a positive employee experience."

BRANCHES

ANCHORAGE BRANCHES

777-4362

Dimond Branch

8725 Old Seward Hwy.
P.O. Box 200588
Anchorage, AK 99520-0588

Eastchester Branch

1821 Gambell Street
P.O. Box 200029
Anchorage, AK 99520-0029

Federal Branch

222 W. 7th Avenue
P.O. Box 100413
Anchorage, AK 99510-0413

Main Branch

646 W. 4th Avenue
P.O. Box 100720
Anchorage, AK 99510-0720

Muldoon Branch

1100 Muldoon Road
P.O. Box 200748
Anchorage, AK 99520-0748

North Star Branch

5850 Westover Avenue
JBER, AK 99506-1603

Northern Lights Branch

1210 W. Northern Lights Blvd.
P.O. Box 200668
Anchorage, AK 99520-0668

Parkway Branch

5305 E. Northern Lights Blvd.
P.O. Box 200788
Anchorage, AK 99520-0788

South Center Branch

201 W. 36th Avenue
P.O. Box 200628
Anchorage, AK 99520-0628

BETHEL

Kuskokwim Branch

700 Front Street
P.O. Box 286
Bethel, AK 99559-0286
543-7650

CORDOVA

Cordova Branch

528 First Street
P.O. Box 360
Cordova, AK 99574-0360
424-6700

EAGLE RIVER

Eagle River Branch

11412 Business Blvd.
Eagle River, AK 99577-7722
689-5200

FAIRBANKS

Golden Valley Branch

1300 Washington Drive
P.O. Box 82487
Fairbanks, AK 99708-2487
459-7100

Interior City Branch

800 Noble Street
Fairbanks, AK 99701-4950
459-5300

Johansen Branch

430 Merhar Avenue
Fairbanks, AK 99701-3166
450-7300

GLENNALLEN

Glennallen Branch

Mile 187 Glenn Hwy., Suite C
P.O. Box 85
Glennallen, AK 99588-8085
822-7350

HAINES

Haines Branch

123 Main Street
P.O. Box 70
Haines, AK 99827-0070
766-6100

HEALY

Healy Branch

Tri-Valley Community Center
P.O. Box 460
Healy, AK 99743-0460
683-7750

HOMER

Homer Branch

3655 Heath Street
Homer, AK 99603-7667
235-5800

JUNEAU

Channel Branch

840 W. 10th Street
Juneau, AK 99801-1824
586-5500

Juneau Branch

238 Front Street
P.O. Box 21667
Juneau, AK 99802-1667
586-5400

Valley Centre Branch

8990 Glacier Hwy.
Juneau, AK 99801-8030
790-8000

KENAI

Kenai Branch

11408 Kenai Spur Hwy.
Kenai, AK 99611-7799
283-6800

KODIAK

Kodiak Branch

218 Center Avenue
P.O. Box 2517
Kodiak, AK 99615-2517
486-7900

PALMER

Palmer Branch

303 W. Evergreen Avenue
Palmer, AK 99645-6954
746-8900

SEWARD

Seward Branch

303 4th Avenue
P.O. Box 69
Seward, AK 99664-0069
224-4200

SITKA

Sitka Branch

318 Lincoln Street
Sitka, AK 99835-7545
747-7000

SOLDOTNA

Soldotna Branch

44501 Sterling Hwy.
Soldotna, AK 99669-7938
260-6000

VALDEZ

Valdez Branch

101 Egan Drive
P.O. Box 37
Valdez, AK 99686-0037
834-4800

WASILLA

Wasilla Branch

775 E. Parks Hwy.
Wasilla, AK 99654-8191
352-5900

Corporate Headquarters

101 W. 36th Avenue
Anchorage, AK 99503-5904

Operations Center

1751 Gambell Street
Anchorage, AK 99501-5324



Equal Opportunity Employment Statement

It is the policy of First National Bank Alaska to provide equal opportunity in employment to all employees and applicants and to recruit, hire, train, and promote persons in all job titles, without regard to race, religion, color, sex, age, national origin, genetic information, pregnancy, childbirth or related medical condition, parenthood, marital status or changes in marital status and without discrimination or unlawful harassment against any disabled person or covered veteran afforded protection under applicable federal, state and local laws.

The policy of First National Bank Alaska prohibits retaliation against a person who files a charge or complains of discrimination, participates in a discrimination investigation or proceeding or otherwise opposes an unlawful or prohibited practice.



NMLS# 640297