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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

FIRST NATIONAL BANK ALASKA

ALASKA 92-0006595

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

(907) 777-4362

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

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

TITLE OF CLASS

Common Stock, $100.00 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [ ] No [X]

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

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company.
Yes [ ] No [X]

The approximate aggregate market value of the voting common equity held by non-affiliates computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common equity, as of June 30, 2011, was approximately $204,246,816.

There were 329,809 shares of common stock outstanding as of February 29, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information by reference from the First National Bank Alaska's 2012 Proxy Statement for the Annual Meeting of Shareholders to be held on April 24, 2012.

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Part I

ITEM 1. BUSINESS

First National Bank Alaska (bank) was organized as a National Association on September 21, 1921, and is a full service commercial bank providing general banking and trust services for business, industry, and individuals primarily within the State of Alaska. The bank is the largest bank headquartered in Alaska based upon asset and deposit size as of December 31, 2011. Banking services are provided from 30 branches in 18 Alaska communities, including 9 branches in Anchorage, 3 branches in Juneau and 3 branches in Fairbanks.

General Banking Services

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

Competition

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

Loans and Deposit Concentration

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

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

Foreign Sources and Application of Funds

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

Environmental Protection

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

Employees

The bank employed 662 full-time equivalent employees on December 31, 2011.

Available Information

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

Cheri Gillian, Secretary to the Board
First National Bank Alaska
P.O. Box 100720
Anchorage, Alaska 99510-0720
(907) 777-3441
email:cgillian@FNBAlaska.com

ITEM 1A. RISK FACTORS

Competition

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

Credit Risk: Concentration of Loan Portfolio

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

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

Interest Rate Risk

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

Effect of Environmental Regulation

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

Capital Standards

The Federal Deposit Insurance Corporation and other federal banking agencies have risk-based capital adequacy guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a banking organization's operations. As of December 31, 2011, the bank's capital significantly exceeds regulatory requirements. A schedule of capital amounts and ratios is included in Note 22 to the financial statements presented in Item 8 on page 57.

Highly Regulated Environment

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed the Dodd-Frank Act, which is a sweeping overhaul of financial industry regulation. In general, the Act

- Creates a systemic-risk council of top regulators, the Financial Stability Oversight Council (FSOC), whose purpose is to identify risks and respond to emerging threats to the financial stability of the U.S. arising from large, interconnected bank holding companies or nonbank financial companies.

- Gives the FDIC authority to unwind large failing financial firms. Treasury would supply funds to cover the up-front costs of winding down the failed firm, but the government would have to put a "repayment plan" in place. Regulators would recoup any losses incurred from the wind-down afterwards by assessing fees on financial firms with more than $50 billion in assets.

- Directs the FDIC to base deposit-insurance assessments on assets minus tangible capital instead of on domestic deposits and requires the FDIC to increase premium rates to raise the Deposit Insurance Fund's (DIF) minimum reserve ratio from 1.15% to 1.35% by September 30, 2020.

- Extends the FDIC's Transaction Account Guarantee (TAG) program to December 31, 2012. There is no "opt-out" from the extension.

- Permanently increases FDIC deposit-insurance coverage to $250,000, retroactive to January 1, 2008. The Act eliminates the 1.5% cap on the Deposit Insurance Fund (DIF) reserve ratio and automatic dividends when the ratio exceeds 1.35%. Under the agreement, the FDIC would have discretion on whether to provide dividends to DIF members.

- Restricts interchange fees to amounts that are reasonable and in relation to the costs incurred by the issuer for such transactions. The Act also prohibits exclusivity arrangements between issuers and networks for debit card transactions and routing restrictions for processing transactions.

- Establishes a new federal Consumer Financial Protection Bureau ("CFPB") with broad authority and permits states to adopt stricter consumer protection laws and enforce consumer protection rules issued by the CFPB.
- Includes broad reform over mortgage lending activities and places additional restrictions on lending practices and loan terms and the ability to sell loans on the secondary market.
- The "Volcker Rule," which goes into effect on July 21, 2012, of the Dodd-Frank Act prohibits "proprietary trading" and investments in "covered funds" including hedge and private equity funds.
- Requires application of the same leverage and capital requirements that apply to insured depository institutions to most bank holding companies, savings and loan institutions and systemically important nonbank financial companies.

At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations will impact the bank's business. However, compliance with these new laws and regulations will likely result in additional costs to our business. It is also difficult to predict the impact of the Dodd-Frank Act on our competitors and on the financial services industry as a whole. Competitive and industry factors could also adversely impact our results of operations, financial condition or liquidity.

Liquidity Risk

Liquidity sources are provided from both the asset and liability side of the balance sheet. Asset side liquidity is generated from maturing loans and investments plus marketable assets disposable at or near book values. The ability to attract and retain deposits represents the bank's primary source of liquidity on the liability side. The bank has a large base of core deposits and has the ability to obtain other funds in order to meet its liquidity needs. At December 31, 2011 the bank had a committed line of credit from the Federal Reserve Bank in the amount of $84,650,000.

Information System Security Risk

The bank relies heavily on communications and information systems to conduct our business. Computer systems and network infrastructure can be vulnerable to unforeseen problems. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our core customer service delivery systems. While the bank, with the assistance of third-party service providers, has and continues to implement security technology and establish operations procedures to prevent such damage, there can be no assurance that these security measures will be successful. Any failure, interruption or breach of security that causes an interruption in our operations could have a material adverse effect on our financial condition and results of operations.

ITEM 2. PROPERTIES

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

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

ITEM 3. LEGAL PROCEEDINGS

The information required by Item 3 is included in Note 14 to the financial statements presented in Item 8 on page 49.

Part II

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

SECURITIES MARKET

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

	CALENDAR QUARTER			
2011	FIRST	SECOND	THIRD	FOURTH
High	$1,850	$1,830	$1,700	$1,575
Low	$1,700	$1,658	$1,515	$1,450
2010				
High	$1,748	$1,829	$1,900	$1,900
Low	$1,620	$1,687	$1,725	$1,765
Cash Dividends Paid Per Share				
2011	$12.50	$12.50	$12.50	$12.50
2010	$25.00	$25.00	$25.00	$125.00

As of **December 31, 2011** and 2010, there were **523** and 542 shareholders of record, respectively, according to the bank's shareholder record system. These records do not include beneficial owners whose stock is held in street name.

The following table provides information about repurchases of common stock by the bank during the year ended December 31, 2011:

MONTH ENDING	(A) TOTAL NUMBER OF SHARES PURCHASED	(B) AVERAGE PRICE PAID PER SHARE	(C) TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICILY ANNOUNCED PROGRAM	(D) MAXIMUM NUMBER OF SHARES OR APPROXIMATE DOLLAR VALUE SHARES THAT MAY YET BE PURCHASED UNDER THE PROGRAM
January 2011	-	-	-	$100,000,000
February 2011	-	-	-	$100,000,000
March 2011	-	-	-	$100,000,000
April 2011	-	-	-	$100,000,000
May 2011	-	-	-	$100,000,000
June 2011	85	$1,700.88	85	$99,855,425
July 2011	50	$1,600.00	50	$99,775,425
August 2011	1,533	$1,606.26	1,533	$97,313,035
September 2011	151	$1,608.08	151	$97,070,215
October 2011	55	$1,525.00	55	$96,986,340
November 2011	164	$1,527.44	164	$96,735,840
December 2011	207	$1,557.22	207	$96,413,495
Total	**2,245**	**$1,597.55**	**2,245**	

ITEM 6. SELECTED FINANCIAL DATA

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

Summary Of Operations	**2011**	**2010**	**2009**	**2008**	**2007**
Interest and loan fee income	$106,992	$114,977	$121,035	$129,302	$152,694
Interest expense	3,172	3,944	5,566	15,709	37,299
Net interest and loan fee income	103,820	111,033	115,469	113,593	115,395
Provision for loan losses	1,242	(521)	6,625	3,475	8,063
Net interest and loan fee income after provision for loan losses	102,578	111,554	108,844	110,118	107,332
Noninterest income	36,383	35,957	35,174	41,366	36,099
Noninterest expense	87,855	86,365	89,100	85,669	83,310
Income before taxes	51,106	61,146	54,918	65,815	60,121
Provision for income taxes	16,265	20,764	17,760	22,913	22,089
Net Income	**$34,841**	**$40,382**	**$37,158**	**$42,902**	**$38,032**
Cash Dividends Paid	**$16,558**	**$66,411**	**$33,270**	**$34,476**	**$34,476**

Selected Year-End Balances	**2011**	**2010**	**2009**	**2008**	**2007**
Investment securities	$1,553,675	$1,323,117	$1,205,118	$1,023,629	$955,094
Loans, gross	$1,166,571	$1,237,536	$1,194,471	$1,205,826	$1,172,286
Total assets	$2,870,174	$2,725,609	$2,651,312	$2,436,989	$2,308,664
Deposits	$1,931,125	$1,795,715	$1,649,730	$1,460,709	$1,341,720
Shareholders' Equity	$444,268	$422,435	$453,098	$469,361	$458,474

Per Common Share Data	**2011**	**2010**	**2009**	**2008**	**2007**
Net income	$105.17	$121.61	$111.45	$124.59	$110.32
Cash dividends paid	$50.00	$200.00	$100.00	$100.00	$100.00
Book Value At December 31,	$1,347.05	$1,272.19	$1,364.53	$1,385.53	$1,329.84

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

	AVERAGE BALANCE		
ASSETS	2011	2010	2009
Interest bearing cash balances	$145,377	$158,567	$120,273
Federal funds sold	421	25	73
Investment securities:			
U.S. Treasury securities	207,622	150,871	55,397
U.S. Government-sponsored enterprises	930,029	878,098	882,627
States and political subdivisions*	56,542	64,463	70,977
Corporate bonds	121,598	100,872	49,153
Other securities	4,335	4,335	4,360
Total investment securities	1,320,126	1,198,639	1,062,514
Loans:			
Commercial and industrial	244,993	235,338	234,870
Real estate	843,297	868,624	832,714
Real estate loans to be sold	18,611	12,004	11,901
Consumer and other	25,744	26,070	27,765
Nontaxable states and political subdivision obligations*	30,905	19,201	21,430
Total loans	1,163,550	1,161,237	1,128,680
Total Earning Assets	**2,629,474**	**2,518,468**	**2,311,540**
Nonaccrual loans	35,412	42,399	70,613
Other non-earning assets	130,211	138,481	116,903
Total Assets	**$2,795,097**	**$2,699,348**	**$2,499,056**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Savings	$516,106	$445,205	$390,444
NOW	174,436	170,351	156,946
Money market	191,047	199,175	180,777
Time	134,791	155,719	174,501
Federal funds purchased and securities sold under agreements to repurchase	523,649	547,839	502,411
Notes payable, capital lease obligations and other	1,557	2,063	2,573
Total Interest Bearing Liabilities	**1,541,586**	**1,520,352**	**1,407,652**
Noninterest bearing demand	804,976	728,077	640,441
Other noninterest bearing liabilities	27,090	20,217	10,784
Shareholders' equity	421,445	430,702	440,179
Total Noninterest Bearing Liabilities And Shareholders' Equity	**1,253,511**	**1,178,996**	**1,091,404**
Total Liabilities And Shareholders' Equity	**$2,795,097**	**$2,699,348**	**$2,499,056**
NET INTEREST INCOME* AND RATIO TO EARNING ASSETS			
Loan origination fees			
Less taxable equivalent adjustment*			
Net Interest And Loan Fee Income (Financial Reporting Basis)			
Provision for loan losses			
Noninterest income			
Noninterest expense			
Provision for income taxes			
Net Income And Ratio To Total Assets			

* Nontaxable income is presented on a tax equivalent basis using a combined Federal and State marginal tax rate of **41.11%** for **2011**, 2010 and 2009, and adjusted for the disallowance of interest expense associated with tax-exempt assets.

INCOME AND EXPENSE			AVERAGE RATE		
2011	2010	2009	2011	2010	2009
$334	$397	$ 302	0.23%	0.25%	0.25%
1	—	—	0.24%	—	—
2,818	2,410	1,636	1.36%	1.60%	2.95%
21,010	25,613	32,901	2.26%	2.92%	3.73%
2,830	3,454	3,934	5.01%	5.36%	5.54%
2,506	2,977	1,919	2.06%	2.95%	3.90%
160	157	156	3.69%	3.62%	3.58%
29,324	34,611	40,546	2.22%	2.89%	3.82%
14,714	14,793	14,618	6.01%	6.29%	6.22%
53,337	57,337	56,968	6.32%	6.60%	6.84%
1,027	700	780	5.52%	5.83%	6.55%
1,601	1,705	1,800	6.22%	6.54%	6.48%
2,984	1,530	2,177	9.66%	7.97%	10.16%
73,663	76,065	76,343	6.33%	6.55%	6.76%
103,322	**111,073**	**117,191**	**3.93%**	**4.41%**	**5.07%**
1,322	1,317	1,245	0.26%	0.30%	0.32%
50	89	97	0.03%	0.05%	0.06%
126	182	276	0.07%	0.09%	0.15%
906	1,512	2,914	0.67%	0.97%	1.67%
665	708	866	0.13%	0.13%	0.17%
103	136	168	6.62%	6.59%	6.53%
3,172	**3,944**	**5,566**	**0.21%**	**0.26%**	**0.40%**
100,150	**107,129**	**111,625**	**3.81%**	**4.25%**	**4.83%**
5,970	5,625	6,256			
2,300	1,721	2,412			
103,820	**111,033**	**115,469**			
1,242	(521)	6,625			
36,383	35,957	35,174			
87,855	86,365	89,100			
16,265	20,764	17,760			
$34,841	**$40,382**	**$37,158**	**1.25%**	**1.50%**	**1.49%**

ANALYSIS OF INTEREST CHANGE *(dollars in thousands)*

ASSETS	COMPONENTS OF INTEREST CHANGE - 2011 VS. 2010 CHANGE DUE TO, RATE	VOLUME	TOTAL CHANGE
Interest bearing cash balances	$(30)	$(33)	$(63)
Federal funds sold	1	—	1
Investment securities:			
U.S. Treasury securities	(499)	907	408
U.S. Government-sponsored enterprises	(6,118)	1,515	(4,603)
States and political subdivisions	(200)	(424)	(624)
Corporate bonds	(1,083)	612	(471)
Other securities	3	—	3
Total investment securities	(8,795)	3,508	(5,287)
Loans:			
Commercial and industrial	(686)	607	(79)
Real estate	(2,328)	(1,672)	(4,000)
Real estate loans to be sold	(58)	385	327
Consumer and other	(83)	(21)	(104)
Nontaxable states and political subdivision obligations	521	933	1,454
Total loans	(2,554)	152	(2,402)
Total Earning Assets	**(12,647)**	**4,896**	**(7,751)**

LIABILITIES			
Savings	(205)	210	5
NOW	(41)	2	(39)
Money market	(49)	(7)	(56)
Time	(403)	(203)	(606)
Federal funds purchased and securities sold under agreements to repurchase	(12)	(31)	(43)
Notes payable, capital lease obligations and other	—	(33)	(33)
Total Interest Bearing Liabilities	**$(827)**	**$ 55**	**$(772)**
Net Interest Income			**(6,979)**
Loan origination fees			345
Taxable equivalent adjustment			579
Net Interest And Fee Income (Financial Reporting Basis)			**(7,213)**
Provision for loan losses			1,763
Noninterest income			426
Noninterest expense			1,490
Provision for income taxes			(4,499)
Net Income			**$(5,541)**

ANALYSIS OF INTEREST CHANGE *(dollars in thousands)*

	COMPONENTS OF INTEREST CHANGE - 2010 VS. 2009		
	CHANGE DUE TO,		
ASSETS	RATE	VOLUME	TOTAL CHANGE
Interest bearing cash balances	$(1)	$96	$95
Federal funds sold	—	—	—
Investment securities:			
U.S. Treasury securities	(2,046)	2,820	774
U.S. Government-sponsored enterprises	(7,119)	(169)	(7,288)
States and political subdivisions	(119)	(361)	(480)
Corporate bonds	(961)	2,019	1,058
Other securities	2	(1)	1
Total investment securities	(11,130)	5,195	(5,935)
Loans:			
Commercial and industrial	146	29	175
Real estate	(2,088)	2,457	369
Real estate loans to be sold	(87)	7	(80)
Consumer and other	15	(110)	(95)
Nontaxable states and political subdivision obligations	(421)	(226)	(647)
Total loans	(2,480)	2,202	(278)
Total Earning Assets	**(16,609)**	**10,491**	**(6,118)**

LIABILITIES			
Savings	(103)	175	72
NOW	(16)	8	(8)
Money market	(122)	28	(94)
Time	(1,088)	(314)	(1,402)
Federal funds purchased and securities sold under agreements to repurchase	(236)	78	(158)
Notes payable, capital lease obligations and other	1	(33)	(32)
Total Interest Bearing Liabilities	**$(2,068)**	**$ 446**	**$(1,622)**
Net Interest Income			**(4,496)**
Loan origination fees			(631)
Taxable equivalent adjustment			(691)
Net Interest And Fee Income (Financial Reporting Basis)			**(4,436)**
Provision for loan losses			(7,146)
Noninterest income			783
Noninterest expense			(2,735)
Provision for income taxes			3,004
Net Income			**$3,224**

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

ANALYSIS OF FINANCIAL CONDITION *(dollars in thousands)*

The following tables provide an overview of the condensed statements of condition and changes for the year and quarter ended December 31, 2011 and provide the foundation for the management summary that follows.

Table 1 provides the percentage change by major caption for the year ended December 31, 2011 and major caption comparative data for the years ended 2010 and 2009.

Table 1A provides condensed, comparative statements of condition as of the quarterly period-end dates with percentage changes for the fourth quarter period ended December 31, 2011.

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

Table 1C provides comparative information regarding the average term, duration, and yield to maturity for each major category of securities for the years ended 2011, 2010 and 2009.

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

	2011	INCREASE (DECREASE) %	2010	2009
Total cash and equivalents	$62,129	(16.3)%	$74,269	$169,572
Total securities	1,553,675	17.4 %	1,323,117	1,205,118
Total loans, net [1]	1,154,321	(5.6)%	1,222,536	1,176,471
Premises and equipment, net	41,961	(0.2)%	42,066	42,986
Other real estate owned, net	17,910	(1.8)%	18,230	9,332
Other assets	40,178	(11.5)%	45,391	47,833
Total Assets	**$2,870,174**	**5.3 %**	**$2,725,609**	**$2,651,312**
Total deposits	1,931,125	7.5 %	$1,795,715	$1,649,730
Other liabilities	494,781	(2.5)%	507,459	548,484
Total shareholders' equity	444,268	5.2 %	422,435	453,098
Total Liabilities And Shareholders' Equity	**$2,870,174**	**5.3 %**	**$2,725,609**	**$2,651,312**

[1] Total loans, net include real estate loans to be sold

TABLE 1A - CONDENSED, COMPARATIVE STATEMENTS OF CONDITION AS OF DECEMBER 31, 2011 (dollars in thousands)

	DECEMBER 31, 2011	% CHANGE	SEPTEMBER 30, 2011	JUNE 30, 2011	MARCH 31, 2011
Total cash and equivalents	$62,129	(71.8)%	$220,667	$180,891	$250,256
Total securities	1,553,675	6.3 %	1,461,735	1,239,662	1,188,452
Total loans, net [1]	1,154,321	(0.4)%	1,159,514	1,189,176	1,204,357
Premises and equipment, net	41,961	(0.8)%	42,297	41,947	41,579
Other real estate owned, net	17,910	(2.9)%	18,454	18,841	18,605
Other assets	40,178	(4.3)%	41,990	45,842	47,363
Total Assets	**$2,870,174**	**(2.5)%**	**$2,944,657**	**$2,716,359**	**$2,750,612**
Noninterest bearing deposits	$849,410	(3.9)%	$883,998	$768,024	$762,641
Interest bearing deposits	1,081,715	2.4 %	1,056,689	1,008,518	1,026,822
Securities sold under agreements to repurchase	483,198	(12.6)%	553,158	499,014	499,326
Other liabilities	11,583	7.7 %	10,752	9,545	38,004
Total shareholders' equity	444,268	1.0 %	440,060	431,258	423,819
Total Liabilities And Shareholders' Equity	**$2,870,174**	**(2.5)%**	**$2,944,657**	**$2,716,359**	**$2,750,612**

[1] Total loans, net include real estate loans to be sold

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

	DECEMBER 31, 2011	SEPTEMBER 30, 2011	JUNE 30, 2011	MARCH 31, 2011	DECEMBER 31, 2010
Total cash and equivalents	2%	8%	7%	9%	3%
Total securities	54%	50%	46%	43%	48%
Total loans, net [(1)]	40%	39%	44%	44%	45%
Premises and equipment, net	2%	1%	1%	1%	1%
Other real estate owned, net	1%	1%	1%	1%	1%
Other assets	1%	1%	1%	2%	2%
Total Assets	**100%**	**100%**	**100%**	**100%**	**100%**
Noninterest bearing deposits	30%	30%	28%	28%	29%
Interest bearing deposits	38%	36%	37%	37%	37%
Securities sold under agreements to repurchase	17%	19%	19%	18%	17%
Other liabilities	—	—	—	1%	1%
Total shareholders' equity	15%	15%	16%	16%	16%
Total Liabilities And Shareholders' Equity	**100%**	**100%**	**100%**	**100%**	**100%**

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

TABLE 1C - SECURITIES PORTFOLIO ANALYSIS term and Duration in months *(dollars in thousands)*

	DECEMBER 31, 2011			DECEMBER 31, 2010			DECEMBER 31, 2009		
	TERM	AVERAGE DURATION	YIELD	TERM	AVERAGE DURATION	YIELD	TERM	AVERAGE DURATION	YIELD
U.S. Treasury notes	21.2	19.3	1.26%	29.4	27.5	1.36%	17.2	13.8	2.34%
U.S. Government agencies	49.9	45.4	2.09%	25.1	22.7	2.47%	22.4	19.5	3.26%
Municipal bank-qualified	26.8	18.0	3.18%	31.6	23.6	3.21%	33.5	26.3	3.31%
Municipal non bank-qualified	41.7	34.3	2.75%	42.5	33.9	2.86%	33.9	22.5	3.61%
Corporate bonds	39.0	36.2	1.89%	28.8	26.8	2.47%	17.4	16.4	3.41%
Total Securities Portfolio	**44.7**	**40.6**	**1.99%**	**26.6**	**24.1**	**2.30%**	**22.4**	**19.3**	**3.22%**

MANAGEMENT SUMMARY

ASSETS

Total assets increased to **$2.870 billion** as of **December 31, 2011**, for an increase of $144.7 million, 5.3% over December 31, 2010. **Total cash and equivalents** decreased by $12.1 million (16.3%) to **$62.1 million** as of **December 31, 2011** as funds provided by operations and financing activities were invested in securities available for sale during the year.

The **securities available-for-sale** increased $230.6 million (17.4%) to **$1.554 billion** as of **December 31, 2011** driven by continued strong cash flow from operations, deposit growth and, a net decrease in the loan portfolio. The portfolio composition continues to be conservative in risk profile with the majority of investments in U.S. Treasury securities and U.S. Government-sponsored enterprises. The increase in corporate bonds as a component of the portfolio has continued to achieve higher yield relative to other investment options. Note 3 to the financial statements presented in Item 8 provide additional information regarding the securities portfolio.

The **average duration** of the portfolio is **45 months** as of **December 31, 2011** in comparison to 24 months as of December 31, 2010. The increase in the average duration follows reinvestment of maturing securities of shorter term duration with new securities of longer duration to achieve yield, while still balancing the bank need for liquidity. **The average yield** on securities as of **December 31, 2011** is **1.99%** as compared to 2.30% as of December 31, 2010. The decrease in yields is a reflection of higher yielding securities maturing and being reinvested at current lower rates. The portfolio is in a **net unrealized gain** position of **$26.8 million, net of $41 thousand of unrealized losses** as of **December 31, 2011**.

The bank has never been invested in collateralized debt obligations or high risk asset-based securities.

Total loans decreased $74.3 million (6.1%) to **$1.142 billion** as of **December 31, 2011.** Commercial and industrial loans decreased $40.8 million (15.0%) and real estate loans decreased $36.0 million (3.9%) while consumer loans increased $2.5 million (14.1%) for the year. The loan portfolio is detailed in Note 4 to the financial statements presented in Item 8.

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

The allowance for loan losses was **$12.250 million** and $15.0 million as of **December 31, 2011** and 2010, respectively. The decline in the allowance for loan losses over the prior year is partially attributable to reduced balances in the non-performing loans and delinquent loans in the 30-89 days past due category as well as the overall decline in the loan portfolio. The allowance is maintained at a level that provides for continued existent weakness in the portfolio. Additional information on the allowance for loan losses is contained in the provision for loan losses section that follows.

Other real estate owned, net decreased $0.3 million (1.8%) to **$17.9 million** as of **December 31, 2011**. The net realizable value is net of property specific valuation allowances of $6.0 million. During 2011, additions of $4.6 million in property value were offset by $3.0 million in disposals, along with an increase of $1.9 million in devaluation losses. Individual properties owned have a range in values from $93 thousand to $5.0 million. Many of these properties are a result of land development loans which were previously impaired and will require extended holding times to allow the market to absorb excess projects and create an improved market for these properties.

Other assets decreased $5.2 million (11.5%) to **$40.2 million** as of **December 31, 2011**. Interest receivable on securities available-for-sale decreased $0.4 million consistent with the lower coupon rates. Interest on real estate loans decreased $0.5 million consistent with lower outstanding loan levels. Prepaid expenses decreased $2.3 million as the bank continued to amortize the 3-year FDIC premium prepayment made in 2009. Deferred taxes decreased $3.6 million as the net deferred tax position shifted to a net liability position during 2011.

LIABILITIES AND SHAREHOLDERS' EQUITY

Total deposits increased $135.4 million (7.5%) to **$1.931 billion** as of **December 31, 2011**. Non-interest bearing deposits increased $68.6 million (8.8%) and interest bearing deposits increased $66.8 million (6.6%). The continued low interest yield deposit environment and lack of low risk investment alternatives for businesses and consumers continues to contribute to growth in deposits in the bank where they are insured up to certain limitations.

Securities sold under agreements to repurchase increased $10.1 million to **$483.2 million** as of **December 31, 2011**. These balances are highly subject to seasonal commercial and government customer revenues and to the short-term investment market rates with which these accounts compete. The majority of these accounts are tied to federal fund rates which continue to run at record low levels.

Shareholders' equity increased $21.8 million (5.2%) to **$444.3 million** as of **December 31, 2011**. **Net income** of **$34.8 million** less **dividends** of **$16.6 million** contributed to an increase. **Retirement of common stock** under the stock repurchase program decreased shareholders' equity by **$3.5 million**. **Accumulated other comprehensive income** increased $7.1 million to $15.8 million as an increase in unrealized gains net of unrealized losses , net of tax, contributed further to the increase in shareholders' equity.

TABLE 2 - COMMITMENTS AND CONTINGENCIES (dollars in thousands)

Payments under known contractual obligations as of **December 31, 2011** are as follows:

		PAYMENTS DUE BY PERIOD			
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Time deposits	$139,381	$127,442	$7,394	$4,178	$367
Securities sold under agreements to repurchase	483,198	483,198	—	—	—
Notes payable	1,133	—	1,062	71	—
Capital lease obligations	9	9	—	—	—
Operating leases	307	173	110	24	—
Contractual Obligations By Period	**$624,028**	**$610,822**	**$8,566**	**$4,273**	**$367**

EARNING SUMMARY *(dollars in thousands)*

TABLE 3 - EARNING SUMMARY

	2011	2010	2009
Total interest and loan fee income	$106,992	$114,977	$121,035
Total interest expense	(3,172)	(3,944)	(5,566)
Net interest and loan fee income	103,820	111,033	115,469
Provision for loan losses	(1,242)	521	(6,625)
Noninterest income	36,383	35,957	35,174
Noninterest expense	(87,855)	(86,365)	(89,100)
Provision for income taxes	(16,265)	(20,764)	(17,760)
Net Income	**$34,841**	**$40,382**	**$37,158**
Return on average assets	1.25 %	1.50 %	1.49 %
Return on average equity	8.27 %	9.38 %	8.44 %

NET INTEREST AND LOAN FEE INCOME *(dollars in thousands)*

TABLE 4 - ANALYSIS OF NET INTEREST AND LOAN FEE INCOME

	2011	2010	2009
Total interest and loan fee income	$106,992	$114,977	$121,035
Total interest expense	$3,172	$3,944	$5,566
Net interest and loan fee income	$103,820	$111,033	$115,469
Tax equivalent adjustment	$2,300	$1,722	$2,412
Net interest and loan fee income (taxable equivalent)	$106,120	$112,755	$117,881
Average earning assets	$2,629,474	$2,518,468	$2,311,540
Ratio to earning assets	4.04%	4.48%	5.10%

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

The tax equivalent adjustment is based on the combined Federal and State marginal tax rate of **41.11%** for **2011**, 2010 and 2009, and is adjusted for the disallowed interest expense associated with tax-exempt assets.

The following table provides comparative average balances of interest earning assets, respective yields on a tax equivalent basis, and change analysis for the twelve month periods ended December 31, 2011 and 2010:

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

	AVERAGE BALANCES		AVERAGE YIELD		CHANGE DUE TO	
EARNING ASSETS	2011	2010	2011	2010	RATE	VOLUME
Loans-taxable	$1,132,645	$1,142,036	6.23%	6.51%		
Loans-nontaxable	30,905	19,201	9.66%	10.21%		
Investment securities-taxable	1,264,220	1,134,839	2.10%	2.75%		
Investment securities-nontaxable	55,906	63,800	5.64%	5.80%		
Federal funds sold	421	25	0.24%	—		
Interest bearing cash balances	145,377	158,567	0.23%	0.25%		
Total Earning Assets	**$2,629,474**	**$2,518,468**	**3.94%**	**4.43%**	**(0.79)%**	**0.30%**

Interest and loan fee income for the twelve months ended **December 31, 2011** and 2010 was **$107.0 million** and $115.0 million, respectively, for a decrease of $8.0 million or 7.0%. The tax equivalent yield on the average earning assets decreased 49 basis points, from 4.43% in 2010 to 3.94% in 2011. **Total average earning assets** increased $111.0 million, from $2.518 billion at December 31, 2010 to **$2.629 billion** as of **December 31, 2011**. Average balances of total loans increased $2.3 million and investment securities increased $121.5 million year over year, respectively.

Decreases in yields in both investments and lending assets drove the overall decline in interest and loan fee income. The increased volume of investment securities only partially offset decreasing yields in all earning asset categories.

The following table provides comparative average balances of interest bearing liabilities, respective yields, and change analysis for the twelve months ended **December 31, 2011** and 2010:

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

	AVERAGE BALANCES		AVERAGE YIELD		CHANGE DUE TO	
INTEREST BEARING LIABILITIES	2011	2010	2011	2010	RATE	VOLUME
Savings	$516,106	$445,205	0.26%	0.30%		
NOW	174,436	170,351	0.03%	0.05%		
Money market	191,047	199,175	0.07%	0.09%		
Time	134,791	155,719	0.67%	0.97%		
Federal funds purchased	9,373	20,129	0.13%	0.12%		
Repurchase agreements	514,276	527,710	0.13%	0.13%		
Other debt	1,557	2,063	6.62%	6.54%		
Total Interest Bearing Liabilities	**$1,541,586**	**$1,520,352**	**0.21%**	**0.26%**	**(0.05)%**	**0%**

Interest expense for the twelve months ended **December 31, 2011** and 2010 was **$3.2 million** and $3.9 million, respectively, for a decrease of $0.7 million or 19.6%. Interest expense decreased as interest rates paid for the total average interest bearing liabilities decreased 5 basis points, from 0.26% in 2010 to 0.21% in 2011. **Total average aggregate outstanding interest bearing liabilities** increased $21.2 million from $1.520 billion at 2010 to **$1.542 billion** in **2011**.

PROVISION FOR LOAN LOSSES *(dollars in thousands)*

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

TABLE 7 - DELINQUENT AND NONACCRUAL LOANS

	2011	2010	2009
Delinquent 30-89 days	0.40%	0.56%	1.27%
Delinquent 90 days or more	0.02%	0.01%	0.01%
Total Delinquent Loans (still accruing)	**0.42%**	**0.57%**	**1.28%**
Nonaccrual Loans	**2.75%**	**2.92%**	**4.66%**
Total Loans, Gross	**$1,142,410**	**$1,216,682**	**$1,183,673**

TABLE 8 - ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

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

	DECEMBER 31, 2011		DECEMBER 31, 2010		DECEMBER 31, 2009	
	AMOUNT ($ THOUSANDS)	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT ($ THOUSANDS)	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT ($ THOUSANDS)	PERCENT OF LOANS TO TOTAL LOANS
Commercial and industrial	$2,070	20.26%	$2,541	22.51%	$4,355	19.82%
Real estate	$9,825	77.95%	11,782	73.54%	12,742	76.98%
Consumer and other	$355	1.79%	677	3.95%	903	3.20%
Total Allowance For Loan Losses	**$12,250**	**100.00%**	**$15,000**	**100.00%**	**$18,000**	**100.00%**

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

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

The bank follows a policy of writing off loans where it is confirmed they are uncollectible, while aggressively pursuing collection efforts to recover charged off loans. The **loan loss provision** was **$1.242 million** for **2011** compared to $(0.521) million and $6.625 million for 2010 and 2009, respectively. The provision for loan losses represented 0.11%, (0.04)%, and 0.59% of average loans for each of those years. The allowance for loan losses represented 1.07% and 1.23% of total loans as of December 31, 2011 and 2010, respectively.

The loan loss provision in 2011 increased $1.763 million compared to 2010. The increase was primarily the result of the charge-off of a few significant impaired loans, which were primarily commercial and land development loans.

Delinquent loans (still accruing) totaled **$4.8 million**, $6.9 million, and $15.1 million as of **December 31, 2011**, 2010, and 2009, respectively. **Nonaccrual loans**, net of deferred fees and nonaccrual interest paid, totaled **$31.4 million**, $35.6 million and $55.1 million as of **December 31, 2011**, 2010, and 2009, respectively. The decrease in non-accrual loans during 2011 was primarily the result of the charge-off of a few significant impaired loans, which were primarily commercial and land development loans. The predominant category of non-accrual real estate loans are construction and land development loans in the major population centers of Anchorage and the adjacent Kenai Peninsula.

The **allowance for loan losses** totaled **$12.3 million** as of **December 31, 2011**, a decrease of $2.8 million from $15.0 million as of December 31, 2010. The majority of this decrease occurred in the real estate loan segment. Note 5 – Allowance for loan losses provides an analysis of the changes in the allowance by portfolio segment during 2011. Loans charged-off, net of recoveries, exceeded the new provision for loan losses during 2011 which caused a reduction in the overall allowance level. Loans charged-off totaled $4.0 million during 2011, while additional provision for loan losses totaled $1.2 million.

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

NONINTEREST INCOME *(dollars in thousands)*

TABLE 9 - ANALYSIS OF NONINTEREST INCOME

	2011	INCREASE (DECREASE) %	2010	INCREASE (DECREASE) %	2009
Bankcard fees	$20,399	7.8 %	$18,927	8.6 %	$17,433
Service charges on deposit accounts	4,239	(11.8)%	4,804	(12.4)%	5,484
Gain on sale of mortgage loans	1,850	3.3 %	1,791	(19.0)%	2,210
Mortgage loan servicing income	2,558	(3.6)%	2,653	(1.0)%	2,681
Net gains on investment securities	795	228.5 %	242	175.0 %	88
Trust income	988	(2.8)%	1,016	(8.8)%	1,114
Other noninterest income	5,554	(14.9)%	6,524	5.8 %	6,164
Total Noninterest Income	**$36,383**	**1.2 %**	**$35,957**	**2.2 %**	**$35,174**

Noninterest income for the year ended **December 31, 2011** was **$36.4 million**, an increase of $0.4 million from 2010. As a percentage of average assets, noninterest income was **1.30%**, 1.33%, and 1.41% in **2011**, 2010, and 2009, respectively. Noninterest income as a percentage of total interest and loan fee income was **34.0%**, 31.3% and 29.1% as of **2011**, 2010 and 2009, respectively.

The primary sources of recurring noninterest income continued to be **bankcard fees**, which comprised **56%**, 53%, and 50% of noninterest income, and **service charges on deposit accounts** providing **12%**, 13%, and16% in **2011**, 2010, and 2009, respectively.

Other noninterest income decreased $0.9 million to **$5.6 million** as of **December 31, 2011**. Other noninterest income included escrow fees, wire transfer fees, ATM fees, ACH fees, safe deposit box rentals, merchant equipment rentals, and other miscellaneous income accounts.

NONINTEREST EXPENSE *(dollars in thousands)*

TABLE 10 - ANALYSIS OF NONINTEREST EXPENSE

	2011	INCREASE (DECREASE) %	2010	INCREASE (DECREASE) %	2009
Salaries and employee benefits	$45,007	0.4 %	$44,822	1.9 %	$43,990
Occupancy expense, net	7,213	7.0 %	6,740	(7.0)%	7,245
Furniture and equipment expense	2,411	(26.2)%	3,268	6.6 %	3,065
Bankcard expenses	13,932	1.8 %	13,681	(1.2)%	13,854
Professional services	3,291	36.2 %	2,416	0.4 %	2,407
FDIC insurance	2,594	25.0 %	2,076	(8.9)%	2,278
Printing, stationery and supply expense	878	(31.1)%	1,275	8.3 %	1,177
Postage expense	1,177	(22.7)%	1,523	11.7 %	1,363
Software licensing fees	1,543	1.4 %	1,521	2.4 %	1,485
Other real estate owned valuation (gain) loss	1,924	5,163.2 %	(38)	(100.9)%	4,015
Other operating expense	7,885	(13.2)%	9,081	(10.5)%	8,221
Total Noninterest Expense	**$87,855**	**1.7 %**	**$86,365**	**(3.1)%**	**$89,100**

Noninterest expense for the year ended **December 31, 2011** was **$87.9 million**, an increase of $1.5 million over 2010. As a **percentage of average assets**, noninterest expense was **3.14%**, 3.20%, and 3.57% in **2011**, 2010, and 2009, respectively. Noninterest expense as a **percentage of total interest and loan fee income** was **82.1%,** 75.1%, and 73.6% as of **2011**, 2010, and 2009, respectively.

The primary element of noninterest expense are **salaries and employee benefits** of **$45.0 million**, which comprised **51.2%**, 51.9%, and 49.4% of noninterest expense in **2011**, 2010, and 2009, respectively. The 0.4% increase in 2011 reflects lower average headcount, offset by expected salary and benefit increases over the prior year.

During 2011, **occupancy expenses** increased **$0.5 million (7%)** with repair and maintenance to bank premises and utility cost increases being the main drivers. **Furniture and equipment expense** decreased **$0.9 million** while **professional services** increased **$0.9 million**. Traditional multifunction office equipment on lease arrangements were shifted to managed service agreements accounted for as professional services. **FDIC insurance premiums** increased **$0.5 million (25%)** as a result of increased deposits and higher premium assessments. The **$1.9 million valuation loss** on other **real estate owned** resulted from the write-down on three separate foreclosure properties due to reduced market appraisals.

Included in **other noninterest expense** of **$7.9 million** are advertising costs, donations and community development expenditures, data communication expenses and other miscellaneous expenses.

LIQUIDITY AND CAPITAL RESOURCES *(dollars in thousands)*

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

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

The maintenance of an adequate level of capital to support business growth, is an important element in the bank's ability to add to future earnings. **Equity** increased to **$444,268** at **December 31, 2011** compared to $422,435 at December 31, 2010 and $453,098 at December 31, 2009. The equity-to-asset ratio was 15.5% at year-end 2011. This compares to a ratio of 15.5% and 17.1% at December 31, 2010 and 2009, respectively.

INFLATION AND CHANGING PRICES

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts and other financial instruments with similar characteristics. The bank currently does not enter into futures, swaps or options. The Bank perodically enters into interest rate locks and forward commitments on loans; however, such activity is not material to the financial statements. The bank is also party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of condition. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates and may require collateral from the borrower if deemed necessary by the bank. Standby letters of credit are conditional commitments issued by the bank to guarantee the performance of a customer to a third party up to a stipulated amount and with specified terms and conditions.

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

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

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

ASSET/LIABILITY MANAGEMENT

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

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

Tables 11 and 12 set forth the interest rate sensitivity of the bank's earning assets and interest bearing liabilities at December 31, 2011 and December 31, 2010. One indicator used to measure interest rate risk are the gaps between earning assets and interest bearing liabilities as classified by the timeframe in which the items mature or reprice. Various assumptions are used for presentation of data in the tables. Fixed-rate loans are shown on the basis of contractual amortization adjusted for prepayments at rates estimated by available industry sources. Adjustable-rate loans and investments are determined to reprice at the earlier of maturity, call date or the next contractual repricing date. The allocation of savings, NOW and money market account balances are based on repricing practices. The assumptions used may not be indicative of the actual prepayments and withdrawals which may be experienced by the bank. The data presented in the table represents a static measure of assets and liabilities maturing over various time periods. The tables do not necessarily indicate the impact of general interest rate movements on the bank's net yield because the repricing of certain categories of assets and liabilities is subject to competitive and other pressures beyond the bank's control. As a result, certain assets and liabilities indicated as maturing or otherwise repricing within a stated period may, in fact, mature or reprice at different times or at different volumes.

TABLE 11 - MATURITY/RATE SENSITIVITY AT DECEMBER 31, 2011 *(dollars in thousands)*

ASSETS	2012	2013	2014-2016	THEREAFTER	TOTAL
Loans, net	$267,303	$51,875	$215,701	$606,813	$1,141,692
Investment securities, at amortized cost	705,366	317,831	349,502	154,160	1,526,859
Federal reserve deposits	38,799	—	—	—	38,799
Total Earning Assets	**1,011,468**	**369,706**	**565,203**	**760,973**	**2,707,350**
Nonearning assets	—	—	—	—	162,824
Total Assets	**$1,011,468**	**$369,706**	**$565,203**	**$760,973**	**$2,870,174**

LIABILITIES AND SHAREHOLDERS' EQUITY	2012	2013	2014-2016	THEREAFTER	TOTAL
Savings	$566,960	—	—	—	$566,960
NOW	177,533	—	—	—	177,533
Money market	197,841	—	—	—	197,841
Time	113,222	3,833	7,740	366	125,161
Securities sold under agreements to repurchase	483,198	—	—	—	483,198
Notes payable and capital lease obligations	9	470	551	—	1,030
Total Interest Bearing Liabilities	**1,538,763**	**4,303**	**8,291**	**366**	**1,551,723**
Shareholders' equity and noninterest bearing liabilities	—	—	—	—	1,318,451
Total Liabilities And Shareholders' Equity	**$1,538,763**	**$4,303**	**$8,291**	**$366**	**$2,870,174**

RATE SENSITIVITY GAP AND RATIOS	2012	2013	2014-2016	THEREAFTER	TOTAL
GAP for period (earning assets less interest bearing liabilities)	$(527,295)	$365,403	$556,912	$760,607	$1,155,627
Cumulative GAP	$(527,295)	$(161,892)	$395,020	$1,155,627	—
GAP as a percentage of earning assets	(19.48)%	13.50 %	20.57 %	28.09 %	42.68 %
Cumulative GAP as a percentage of earning assets	**(19.48)%**	**(5.98)%**	**14.59 %**	**42.68 %**	

TABLE 12 - MATURITY/RATE SENSITIVITY AT DECEMBER 31, 2010 *(dollars in thousands)*

ASSETS	2011	2012	2013-2015	THEREAFTER	TOTAL
Loans, net	$348,557	$121,907	$141,075	$597,482	$1,209,021
Investment securities, at amortized cost	372,488	300,700	567,892	67,336	1,308,416
Federal reserve deposits	49,517	—	—	—	49,517
Total Earning Assets	**770,562**	**422,607**	**708,967**	**664,818**	**2,556,954**
Nonearning assets	—	—	—	—	158,655
Total Assets	**$770,562**	**$422,607**	**$708,967**	**$664,818**	**$2,725,609**

LIABILITIES AND SHAREHOLDERS' EQUITY					
Savings	$477,956	—	—	—	$477,956
NOW	176,090	—	—	—	176,090
Money market	201,494	—	—	—	201,494
Time	127,534	10,073	7,236	349	145,192
Federal funds purchased	25,000	—	—	—	25,000
Securities sold under agreements to repurchase	473,136	—	—	—	473,136
Notes payable and capital lease obligations	53	463	1,020	—	1,536
Total Interest Bearing Liabilities	**1,481,263**	**10,536**	**8,256**	**349**	**1,500,404**
Shareholders' equity and noninterest bearing liabilities	—	—	—	—	1,225,205
Total Liabilities And Shareholders' Equity	**$1,481,263**	**$10,536**	**$8,256**	**$349**	**$2,725,609**

RATE SENSITIVITY GAP AND RATIOS					
GAP for period (earning assets less interest bearing liabilities)	$(710,701)	$412,071	$700,711	$664,469	$1,066,550
Cumulative GAP	$(710,701)	$(298,630)	$402,081	$1,066,550	—
GAP as a percentage of earning assets	(27.69)%	16.05 %	27.30 %	25.89 %	41.55 %
Cumulative GAP as a percentage of earning assets	**(27.69)%**	**(11.63)%**	**15.66 %**	**41.55 %**	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

STATEMENTS OF CONDITION *(dollars in thousands except per share amounts)*

ASSETS	DECEMBER 31, 2011	2010
Cash and cash equivalents	$62,129	$74,269
Securities:		
Available-for-sale (amortized cost: 2011 - $1,526,859; 2010 - $1,285,416)	1,553,675	1,300,117
Held-to-maturity (fair value: 2011 - $0; 2010 - $23,232)	—	23,000
Real estate loans to be sold	24,161	20,854
Loans:		
Commercial and industrial	231,438	272,272
Real estate	890,527	926,496
Consumer and other	20,445	17,914
Total Loans, Gross	1,142,410	**1,216,682**
Less: Allowance for loan losses	12,250	15,000
Total Loans, Net	1,130,160	**1,201,682**
Premises and equipment, net	41,961	42,066
Other real estate owned, net	17,910	18,230
Other assets	40,178	45,391
Total Assets	**$2,870,174**	**$2,725,609**

LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$849,410	$780,772
Interest bearing:		
Savings	566,960	477,956
NOW	177,533	176,090
Money market	197,841	201,494
Time	139,381	159,403
Total interest bearing	1,081,715	1,014,943
Total Deposits	**1,931,125**	**1,795,715**
Securities sold under agreements to repurchase	483,198	473,136
Federal funds purchased	—	25,000
Capital lease obligations	9	62
Notes payable, net	1,021	1,474
Other liabilities	10,553	7,787
Total Liabilities	**2,425,906**	**2,303,174**
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, $100 par value (Authorized: 2011 and 2010 - 400,000 shares) (Issued and outstanding: 2011 – 329,809 and 2010 - 332,054 shares)	32,981	33,205
Surplus	40,000	40,000
Retained earnings	355,495	340,573
Accumulated other comprehensive income	15,792	8,657
Total Shareholders' Equity	**444,268**	**422,435**
Total Liabilities And Shareholders' Equity	**$2,870,174**	**$2,725,609**

See accompanying notes to financial statements.

STATEMENTS OF INCOME *(dollars in thousands)*

INTEREST INCOME AND LOAN FEES	2011	FOR YEARS ENDED DECEMBER 31, 2010	2009
Interest and fees on loans:			
Taxable	$76,588	$80,125	$80,370
Nontaxable	1,867	1,214	1,379
Total Interest And Fees On Loans	**78,455**	**81,339**	**81,749**
Interest and dividends on investment securities:			
Taxable	26,509	31,173	36,612
Nontaxable	1,693	2,068	2,372
Total Interest And Dividends On Investment Securities	**28,202**	**33,241**	**38,984**
Interest on cash and cash equivalents	335	397	302
Total Interest And Loan Fee Income	**106,992**	**114,977**	**121,035**
INTEREST EXPENSE			
Interest on deposits	2,404	3,100	4,532
Interest on federal funds purchased and securities sold under agreements to repurchase	665	708	866
Interest on notes payable, capital lease obligations and other	103	136	168
Total Interest Expense	**3,172**	**3,944**	**5,566**
Net Interest And Loan Fee Income	**103,820**	**111,033**	**115,469**
Provision for loan losses	1,242	(521)	6,625
Net Interest And Loan Fee Income After Provision For Loan Losses	**102,578**	**111,554**	**108,844**
NONINTEREST INCOME			
Bankcard fees	20,399	18,927	17,433
Service charges on deposit accounts	4,239	4,804	5,484
Gain on sale of mortgage loans	1,850	1,791	2,210
Mortgage loan servicing income	2,558	2,653	2,681
Net gains on investment securities	795	242	88
Other noninterest income	6,542	7,540	7,278
Total Noninterest Income	**36,383**	**35,957**	**35,174**
NONINTEREST EXPENSE			
Salaries and employee benefits	45,007	44,822	43,990
Occupancy expense, net	7,213	6,740	7,245
Furniture and equipment expense	2,411	3,268	3,065
Bankcard expenses	13,932	13,681	13,854
Other noninterest expense	19,292	17,854	20,946
Total Noninterest Expense	**87,855**	**86,365**	**89,100**
Income Before Taxes	**51,106**	**61,146**	**54,918**
Provision for income taxes	16,265	20,764	17,760
Net Income	**$34,841**	**$40,382**	**$37,158**
EARNINGS PER COMMON SHARE *(not in thousands)*	**$105.17**	**$121.61**	**$111.45**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS *(dollars in thousands)*

OPERATING ACTIVITIES	FOR YEARS ENDED DECEMBER 31, 2011	2010	2009
Net income	$34,841	$40,382	$37,158
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of premium on investment securities, net	9,514	7,839	5,517
Loss from equity method investment	73	859	—
Depreciation, accretion and amortization	5,806	6,135	7,111
Provision for loan losses	1,242	(521)	6,625
Deferred taxes	(41)	145	3,703
Gain on sale of mortgage loans	(1,850)	(1,791)	(2,210)
Net (gain) loss on the sales or impairment of other real estate owned	1,909	(127)	3,812
Net (gain) loss on the sale of premises and equipment	(19)	5	5
Net gain on disposition of investment securities	(795)	(242)	(88)
Real estate loans to be sold-originated	(210,403)	(223,207)	(287,276)
Real estate loans to be sold-shipped	207,096	213,151	284,212
Net (increase) decrease in other assets	1,129	3,980	(8,453)
Net increase (decrease) in other liabilities	1,446	(866)	(3,938)
Net Cash Provided By Operating Activities	**49,948**	**45,742**	**46,178**

INVESTING ACTIVITIES			
Proceeds from calls and maturities of securities, available-for-sale	448,813	412,126	399,332
Proceeds from sales of securities available-for-sale	155,350	40,990	—
Purchase of securities, available-for-sale	(854,325)	(586,580)	(602,595)
Proceeds from calls and maturities of securities, held-to-maturity	23,000	—	—
Net redemptions of Federal Reserve Bank stock	—	—	38
Net (increase) decrease in loans, net of undisbursed portion	69,195	(45,434)	(3,241)
Proceeds from sales of premises and equipment	39	4	2
Purchase of land, premises and equipment	(3,565)	(2,804)	(2,779)
Improvements to other real estate owned	(1,934)	(348)	(44)
Proceeds from sales of other real estate owned	1,659	1,663	1,700
Other investing activity	(40)	—	—
Net Cash Used In Investing Activities	**(161,808)**	**(180,383)**	**(207,587)**

See accompanying notes to financial statements.

FINANCING ACTIVITIES

	FOR YEARS ENDED DECEMBER 31, 2011	2010	2009
Net increase in total deposits	135,410	145,985	189,021
Net increase (decrease) in securities sold under agreements to repurchase	10,062	(64,612)	50,610
Net increase (decrease) in federal funds purchased	(25,000)	25,000	—
Payments on notes and capital leases	(609)	(624)	(2,942)
Dividends paid	(16,558)	(66,411)	(33,270)
Retirement of common stock	(3,585)	—	(10,526)
Net Cash Provided By Financing Activities	**99,720**	**39,338**	**192,893**
Increase (decrease) in cash and cash equivalents	(12,140)	(95,303)	31,484
Cash And Cash Equivalents, January 1,	74,269	169,572	138,088
Cash And Cash Equivalents, December 31,	**$62,129**	**$74,269**	**$169,572**

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest	$3,283	$4,236	$6,304
Cash paid during the year for income taxes	$17,187	$17,762	$17,024

NONCASH INVESTING AND FINANCING ACTIVITIES

Transfer of loans to other real estate owned	$2,477	$12,118	$10,144
Bank financed sales of other real estate owned	$1,357	$2,020	—
Transfer of land held for bank premises to other real estate owned	$165	—	—

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(dollars in thousands, except per share amounts)

	COMMON STOCK ($100 PAR VALUE)	SURPLUS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
Balance, January 1, 2009	**$33,876**	**$40,000**	**$372,569**	**$22,916**	**$469,361**
Net income - 2009	—	—	37,158	—	37,158
Other comprehensive loss, net of tax effect ($6,720):					
Unrealized loss on securities, net of reclassification adjustment*	—	—	—	(9,625)	(9,625)
Comprehensive income					27,533
Dividends declared - $100 per share	—	—	(33,270)	—	(33,270)
Retirement of common stock (6,706 shares)	(671)	—	(9,855)	—	(10,526)
Balance, December 31, 2009	**33,205**	**40,000**	**366,602**	**13,291**	**453,098**
Net income - 2010	—	—	40,382	—	40,382
Other comprehensive loss, net of tax effect ($3,235):					
Unrealized loss on securities, net of reclassification adjustment*	—	—	—	(4,634)	(4,634)
Comprehensive income					35,748
Dividends declared - $200 per share	—	—	(66,411)	—	(66,411)
Balance, December 31, 2010	**33,205**	**40,000**	**340,573**	**8,657**	**422,435**
Net income - 2011	—	—	34,841	—	34,841
Other comprehensive gain, net of tax effect $4,980:					
Unrealized gain on securities, net of reclassification adjustment*	—	—	—	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**

*DISCLOSURE OF RECLASSIFICATION AMOUNT *(dollars in thousands, net of tax)*	FOR YEARS ENDED DECEMBER 31, 2011	2010	2009
Net increase (decrease) in unrealized holding gains on securities arising during period	$7,603	$(4,491)	$(9,573)
Reclassification adjustment for gains included in net income, net of tax effect	(468)	(143)	(52)
Net Unrealized Gains (Losses) On Securities	**$7,135**	**$(4,634)**	**$(9,625)**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 and 2009

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

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

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

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 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 discount 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.

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

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

Loans, the bank grants 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 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. 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. Collected interest on nonaccrual loans is recognized as a reduction of loan principal. Collected or accrued interest on nonaccrual loans is recognized only upon the return of these loans to accrual status, or in the event of loan payoff, whichever occurs first. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of 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 or to provide working capital or meet other financing needs of business enterprises. These loans may be secured by accounts receivable, inventory, equipment or other business assets. At the time of origination, financial information is obtained from the borrower to evaluate ability to repay the loans.

Real Estate loans are considered by loan portfolio class as follows:

Commercial and Construction/Development loans are dependent on the industries tied to these loans as well as the local real estate market. The loans are secured by the real estate, and 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. Multi-family 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 dependant, the loan is reported, net, at the fair value of the collateral.

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

Reserve for unfunded commitments, 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, 2011** and 2010, the recorded liability was **$1.0 million** and $0.5 million.

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

Federal Reserve Bank stock is a required holding of capital stock of the Federal Reserve Bank and is carried in other assets in the accompanying statements of condition at cost and periodically evaluated for impairment based on ultimate recovery of par value, (**$2,196** as of **2011** and 2010). Calculation of the stock requirement is based solely on the capital structure of the bank.

Federal Home Loan Bank stock is a required stock holding of the Federal Home Loan Bank of Seattle (Seattle Bank) and is carried in other assets in the accompanying statements of condition at cost and periodically evaluated for impairment based on ultimate recovery of par value, (**$2,139** as of **2011** and 2010). 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 include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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

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.

Earnings per common share are computed on the basis of the weighted average number of shares outstanding. The weighted average number of shares outstanding were **331,292** as of **December 31, 2011**, 332,054 as of December 31, 2010 and 333,415 for the year ended December 31, 2009. The bank does not have any potentially dilutive securities.

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 reasonable 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 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 have been made to conform 2010 and 2009 financial statement data with the 2011 presentation. Reclassifications had no affect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards

In April 2011, the Financial Accounting Standards Board (FASB) amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring. The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, the Accounting Standards Update clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted. In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. This guidance is effective for interim and annual reporting periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly identified troubled debt restructurings, the amendments should be applied prospectively for the first interim or annual period beginning on or after June 15, 2011. The adoption of this guidance did not have a material effect on the bank's financial statements except for expansion of the bank's disclosures.

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 will 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 will change the presentation of the components of comprehensive income for the bank.

NOTE 2 - CASH AND CASH EQUIVALENTS *(dollars in thousands)*

The bank is required to maintain an average daily reserve balance with the Federal Reserve Bank, or maintain such reserve balance in cash. The average daily reserve balance for the two-week maintenance period which encompassed **December 31, 2011**, 2010 and 2009, was **$8,458**, $7,758 and $6,518, respectively.

NOTE 3 - SECURITIES *(dollars in thousands)*

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

SECURITIES, AVAILABLE-FOR-SALE	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. TREASURY SECURITIES:				
Maturity:				
within one year	$85,632	$335	$ —	$85,967
after 1 but within 5 years	81,340	1,761	—	83,101
after 5 but within 10 years	22,654	1,502	—	24,156
Total U.S. Treasury Securities	**189,626**	**3,598**	**—**	193,224
U.S. GOVERNMENT-SPONSORED ENTERPRISES:				
Maturity:				
within one year	597,417	3,157	9	600,565
after 1 but within 5 years	444,528	10,953	—	455,481
after 5 but within 10 years	112,699	5,694	—	118,393
Total U.S. Government-Sponsored Enterprises	**1,154,644**	**19,804**	**9**	**1,174,439**
STATES AND POLITICAL SUBDIVISIONS:				
Maturity:				
within one year	10,691	180	—	10,871
after 1 but within 5 years	35,103	1,502	—	36,605
after 5 but within 10 years	323	18	—	341
Total States And Political Subdivisions	**46,117**	**1,700**	**—**	**47,817**
CORPORATE BONDS:				
Maturity:				
within one year	11,980	116	—	12,096
after 1 but within 5 years	112,380	1,456	32	113,804
after 5 but within 10 years	12,112	183	—	12,295
Total Corporate Bonds	**136,472**	**1,755**	**32**	**138,195**
Total Securities, Available-For-Sale	**$1,526,859**	**$26,857**	**$41**	**$1,553,675**

Within the state and political subdivisions category, the largest concentrations of available-for-sale securities are held in Alaska with 39%, Washington with 16%, Oregon with 12% and Pennsylvania with 10% of the category.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at **December 31, 2011**, were as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE
Available-for-sale:						
U.S. Treasury Securities	$—	$—	$—	$—	$—	$—
U.S. Government – sponsored enterprises	$9	$29,991	$—	$—	$9	$29,991
States and political subdivisions	$—	$343	$—	$—	$—	$343
Corporate Bonds	$—	$—	$32	$5,226	$32	$5,226
Total	**$9**	**$30,334**	**$32**	**$ 5,226**	**$41**	**$35,560**

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 and corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality (rated AA or higher), 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, 2010**:

SECURITIES, AVAILABLE-FOR-SALE	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
U.S. TREASURY SECURITIES:				
Maturity:				
within one year	$31,020	$361	$ —	$31,381
after 1 but within 5 years	148,565	854	91	149,328
after 5 but within 10 years	43,400	14	359	43,055
Total U.S. Treasury Securities	**222,985**	**1,229**	**450**	**223,764**
U.S. GOVERNMENT-SPONSORED ENTERPRISES:				
Maturity:				
within one year	279,757	3,985	12	283,730
after 1 but within 5 years	581,282	11,355	2,451	590,186
Total U.S. Government-Sponsored Enterprises	**861,039**	**15,340**	**2,463**	**873,916**
STATES AND POLITICAL SUBDIVISIONS:				
Maturity:				
within one year	16,898	214	34	17,078
after 1 but within 5 years	40,016	1,411	42	41,385
after 5 but within 10 years	3,597	154	40	3,771
Total States And Political Subdivisions	**60,511**	**1,779**	**116**	**62,174**
CORPORATE BONDS:				
Maturity:				
within one year	35,080	94	3	35,171
after 1 but within 5 years	100,329	571	1,344	99,556
after 5 but within 10 years	5,472	64	—	5,536
Total Corporate Bonds	**140,881**	**729**	**1,347**	**140,263**
Total Securities, Available-For-Sale	**$1,285,416**	**$19,077**	**$4,376**	**$1,300,117**

Within the state and political subdivisions category, the largest concentrations of available-for-sale securities are held in Washington with 27%, Alaska with 25%, Oregon with 14%, and Pennsylvania with 13% of the category.

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

SECURITIES, HELD-TO-MATURITY	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	FAIR VALUE
CORPORATE BONDS:				
Maturity:				
within one year	$23,000	$232	$ —	$23,232
Total Corporate Bonds Held-to-Maturity	**23,000**	**232**	**—**	**23,232**
Total Securities, Held-to-Maturity	**$23,000**	**$232**	**$ —**	**$23,232**

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, 2010**, were as follows:

	LESS THAN 12 MONTHS		12 MONTHS OR MORE		TOTAL	
	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE
Available-for-sale:						
U.S. Treasury Securities	$450	$62,380	$—	$—	$450	$62,380
U.S. Government – sponsored enterprises	$2,463	$197,063	$—	$—	$2,463	$197,063
States and political subdivisions	$82	$6,689	$ 34	$ 1,647	$116	$8,336
Corporate Bonds	$1,347	$61,754	$—	$—	$1,347	$61,754
Total	**$4,342**	**$327,886**	**$ 34**	**$ 1,647**	**$4,376**	**$329,533**

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 and corporate bonds have not been recognized into income because the issuer(s) bonds are of high credit quality (rated AA or higher), 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 **$677,011** and $717,604 at **December 31, 2011** and 2010, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase, and for other purposes as required or permitted by law.

Gross realized gains on the disposition of investment securities totaled **$795**, $242, and $105 in **2011**, 2010 and 2009, respectively. Realized losses on the disposition of investment securities were **$0**, $0 and $17 for **2011**, 2010, and 2009, respectively.

NOTE 4 - LOANS *(dollars in thousands)*

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

	MATURITY			
	WITHIN 1 YEAR	AFTER 1 BUT WITHIN 5 YEARS	AFTER 5 YEARS	LOANS, GROSS
Commercial and industrial	$59,828	$104,495	$67,115	$231,438
Real estate	41,217	82,573	766,737	890,527
Consumer and other	7,580	9,142	3,723	20,445
Loans, Gross	**$108,625**	**$196,210**	**$837,575**	**$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 **$27** and $73 as of **December 31, 2011** and 2010, respectively.

Net loans origination fees for which recognition has been deferred to future periods as of **December 31, 2011** and 2010, were **$6,926** and $7,457, respectively.

Other real estate, acquired through foreclosure, resulted in a reduction to loans of **$2,477**, $12,118 and $12,345 in 2011, 2010, and 2009, respectively. Loans made to facilitate the sales of other real estate were **$1,357**, $2,020 and $2,201 in **2011**, 2010 and 2009, respectively.

Real estate loans serviced for others as of **December 31, 2011** and 2010, were **$1,306,740** and $1,291,183, respectively. Reserve balances, associated with these loans and held in noninterest bearing demand accounts, amounted to **$10,062** and $10,305 as of **December 31, 2011** and 2010, respectively.

Nonaccrual loans totaled **$31,416**, and $35,578 at **December 31, 2011** and 2010, respectively. The bank has commitments to lend additional funds to debtors whose loans are nonperforming in the amount of **$0** as of **December 31, 2011**.

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

	2011	2010
Commercial and industrial	$231,438	$272,272
Real estate construction	220,610	232,625
Real estate mortgage	194,873	189,061
Real estate commercial	475,044	504,810
Consumer and other	20,445	17,914
Loans, Gross	**$1,142,410**	**$1,216,682**

As of **December 31, 2011** and 2010 the aggregate indebtedness of all related parties (directors and executive officers of the bank and their family members) was **$271** and $199, respectively. The aggregate indebtedness of these parties did not exceed five percent of equity during **2011** or 2010.

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

Activity in the Allowance for Loan and Lease Losses:

The following is an analysis of the changes in the allowance for loan losses by portfolio segment for the period ended **December 31, 2011**:

	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
Allowance for loan losses:				
Beginning balance, January 1, 2011	$2,541	$11,805	$654	$15,000
Provision for loan losses	1,639	(120)	(277)	1,242
Loans charged-off	(2,588)	(1,984)	(162)	(4,734)
Recoveries	478	124	140	742
Total ending allowance for loan losses, December 30, 2011	**$2,070**	**$9,825**	**$355**	**$12,250**

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

	2010	2009
Balance, January 1,	$18,000	$19,000
Loan Charge-Offs:		
Commercial and industrial	728	474
Real estate	2,763	7,632
Consumer and other	209	498
Total Loan Charge-Offs	**3,700**	**8,604**
Loan Recoveries:		
Commercial and industrial	564	377
Real estate	244	334
Consumer and other	413	268
Total Loan Recoveries	**1,221**	**979**
Net Loan Charge-Offs	**2,479**	**7,625**
Provision for loan losses	(521)	6,625
Balance, December 31,	**$15,000**	**$18,000**

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of **December 31, 2011** and 2010:

DECEMBER 31, 2011	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
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**

DECEMBER 31, 2010	COMMERCIAL & INDUSTRIAL	REAL ESTATE	CONSUMER & OTHER	TOTAL
Allowance for loan losses:				
Ending allowance balance attributable to loans:				
Individually evaluated for impairment	$1,000	$4,000	$—	$5,000
Collectively evaluated for impairment	1,541	7,805	654	10,000
Total ending allowance balance	**$2,541**	**$11,805**	**$654**	**$15,000**
Loans:				
Individually evaluated for impairment	$4,638	$33,327	$—	$37,965
Collectively evaluated for impairment	281,840	886,412	17,922	1,186,174
Total loans outstanding balance	**$286,478**	**$919,739**	**$17,922**	**$1,224,139**
Deferred loan fees, net				$(7,457)
Total loans				**$1,216,682**

The following table summarizes our nonaccrual loans and loans past due by loan class as of **December 31**, 2011 and 2010:

DECEMBER 31, 2011

	30–89 DAYS PAST DUE	GREATER THAN 89 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS	NONACCRUAL
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**

DECEMBER 31, 2010

	30–89 DAYS PAST DUE	GREATER THAN 89 DAYS PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS	NONACCRUAL
Commercial and industrial	$1,048	$538	$1,586	$284,892	$286,478	$3,224
Real Estate						
Construction and development	1,466	3,983	5,449	227,233	232,682	18,481
1—4 and multifamily residential	2,053	195	2,248	189,025	191,273	1,764
Commercial real estate	4,197	5,720	9,917	485,867	495,784	12,220
Consumer and other	123	—	123	17,799	17,922	—
Total	**$8,887**	**$10,436**	**$19,323**	**$1,204,816**	**$1,224,139**	**$35,689**
Deferred loan fees, net					$(7,457)	$(111)
Total loans					**$1,216,682**	**$35,578**

Loans greater than 89 days and accruing are $189 and $100 at December 31, 2011 and 2010, respectively.

The following table presents information related to impaired loans by class of loans as of **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
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	—	—
Total						
Commercial and Industrial	**$4,334**	**$2,956**	**$300**	**$3,432**	**$69**	**$71**
Real Estate	**48,088**	**40,393**	**3,345**	**42,881**	**598**	**599**
Consumer and other	**20**	**20**	**5**	**30**	**12**	**13**
Total	**$52,442**	**$43,369**	**$3,650**	**$46,343**	**$679**	**$683**

The following table summarizes impaired loans by class of loans as of **December 31**, 2010:

	UNPAID PRINCIPAL BALANCE	RECORDED INVESTMENT	ALLOWANCE FOR LOAN LOSSES ALLOCATED
With no allowance recorded			
Commercial and Industrial	$2,556	$2,323	$—
Real Estate			
Construction and other	5,112	4,289	—
1-4 and multifamily residential	2,346	2,122	—
Commercial real estate	13,805	11,309	—
Consumer and other	—	—	—
With an allowance recorded			
Commercial and Industrial	2,777	2,315	1,000
Real Estate			
Construction and other	17,572	14,328	3,785
1-4 and multifamily residential	729	729	200
Commercial real estate	597	550	15
Consumer and other	—	—	—
Total			
Commercial and Industrial	**5,333**	**4,638**	**1,000**
Real Estate	**40,161**	**33,327**	**4,000**
Consumer and other	—	—	—
Total	**$45,494**	**$37,965**	**$5,000**

The average recorded investment in impaired loans was $44,988 and $73,083 during 2010 and 2009, respectively. The amount of interest income recognized on impaired loans during 2010 and 2009 was $69 and $375, respectively.

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**, 2011 and 2010:

DECEMBER 31, 2011

	PASS/ WATCH	SPECIAL MENTION	SUB-STANDARD	DOUBTFUL /LOSS	TOTAL
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**

DECEMBER 31, 2010

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

Troubled Debt Restructurings:

At **December 31, 2011** and 2010, the bank had loans of **$29.9 million** and $9.1 million classified as troubled debt restructurings, respectively, which are included in impaired loans. These loans had allocated specific reserves of **$3.0 million** and $2.4 million at **December 31, 2011** and 2010, respectively. The Company has committed to lend no additional amounts and amounts totaling up to **$0.5 million** as of **December 31, 2011** and 2010, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

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 scheduled principal payments were for periods ranging from 2 months to 8 years. **Construction 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 from 4 months to 14 years. **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. **Commercial real estate loans:** No restructurings of commercial real estate loans 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. **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, 2011**:

	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Troubled Debt Restructurings:			
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 following table presents loans by class modified as troubled debt restructurings for which there was a payment default (60 days past due) within 12 months following the modification during the year ending December 31, 2011:

	NUMBER OF CONTRACTS	RECORDED INVESTMENT
Troubled Debt Restructurings That Subsequently Defaulted:		
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**

The troubled debt restructurings that subsequently defaulted described in the above table resulted in charge-offs of $1.8 million during the year ended December 31, 2011.

As of **December 31, 2011**, $2 thousand in reserves was allocated to loans modified as troubled debt restructurings during the year ended **December 31, 2011** for which there was a payment default within the subsequent 12 months. The reserves allocated to these loans are estimated using the same method that is used to estimate the reserves allocated to all loans individually evaluated for impairment.

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 company's internal underwriting policy.

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

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

	2011	2010
Land	$12,981	$12,991
Bank premises	66,129	63,773
Leasehold improvements	729	638
Furniture and equipment	34,125	33,451
Total Premises And Equipment	**113,964**	**110,853**
Accumulated depreciation and amortization	72,003	68,787
Premises And Equipment, Net	**$41,961**	**$42,066**

Depreciation and amortization expense on premises and equipment for the year ended **December 31, 2011**, 2010 and 2009 totaled **$3,485**, $3,715 and $3,470, respectively.

NOTE 7 - OTHER REAL ESTATE OWNED *(dollars in thousands)*

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

	2011	2010
Balance, January 1,	**$22,653**	**$13,572**
Acquired upon foreclosure	2,477	12,118
Transfers from bank premises	165	—
Capitalized improvements	1,934	348
Dispositions	(3,276)	(3,385)
Balance, December 31,	**23,953**	**22,653**
Less Devaluation Reserves:		
Balance, January 1,	**(4,423)**	**(4,240)**
Impairments subsequent to foreclosure	(1,924)	38
Dispositions	304	(221)
Balance, December 31,	**(6,043)**	**(4,423)**
Other Real Estate Owned, Net	**$17,910**	**$18,230**

Net (gains) losses on sales of other real estate owned included in other noninterest expense for the years ended **December 31, 2011**, 2010 and 2009, totaled **$1,909**, $(127) and $3,812, respectively. Impairments recorded subsequent to foreclosure in the amounts of **$1,924**, $(38), and $4,015 for the years ended **December 31, 2011**, 2010 and 2009, respectively.

NOTE 8 - MORTGAGE SERVICING RIGHTS *(dollars in thousands)*

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

	2011	2010
Balance, January 1,	**$3,389**	**$3,535**
Additions:		
Capitalization of servicing assets	1,850	1,791
Purchases of servicing assets	52	—
Subtractions:		
Amortization	(1,581)	(1,699)
Accelerated amortization due to early payoffs	(181)	(238)
Balance, December 31,	**$3,529**	**$3,389**

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 payoff or refinance at lower levels during the first 30 months and at a constant level over the remaining 54 months. Accordingly, MSRs are amortized against mortgage loan servicing income at higher levels during the initial 30 months. If actual payments received exceed the prepayment assumptions, an impairment is recorded.

NOTE 9 - DEPOSITS *(dollars in thousands)*

Total deposits by type of depositor as of **December 31**,

	2011	2010
Deposits of individuals, partnerships, and corporations	$1,904,306	$1,787,977
Deposits of U.S. Government	949	348
Deposits of states and political subdivisions	25,486	7,202
Other deposits	384	188
Total Deposits	**$1,931,125**	**$1,795,715**

As of **December 31, 2011** and 2010, the aggregate deposit overdrafts of **$175** and $218, respectively, have been reclassified as loan balances.

As of **December 31, 2011** and 2010 the aggregate deposits of related parties (directors and executive officers of the bank and their family members) were **$46,450** and $60,230, respectively.

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

	2011
Maturity:	
2012	$127,442
2013	3,833
2014	3,561
2015	1,568
2016	2,610
Thereafter	367
Total Time Deposits	**$139,381**

Included in time deposits are certificates of deposit in amounts of $100 or more in the amount of **$68,069** and $81,775 as of **December 31, 2011** and 2010, respectively.

Interest expense on deposits was as follows:

	FOR YEARS ENDED DECEMBER 31,		
	2011	2010	2009
Savings	$1,322	$1,317	$1,245
NOW	50	89	97
Money market	126	182	276
Time - less than $100	344	574	1,153
Time - $100 or more	562	938	1,761
Total Interest Expense On Deposits	**$2,404**	**$3,100**	**$4,532**

NOTE 10 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE *(dollars in thousands)*

Selected balances and rates are as follows:	2011	2010	2009
Maximum monthly average balance	$559,414	$542,438	$559,126
Average daily balance	$514,276	$527,710	$502,397
Average rate during year	0.13%	0.13%	0.17%
Average rate at December 31,	**0.13%**	**0.13%**	**0.13%**

Investment securities with carrying amounts of **$527,515** and $556,861 at **December 31, 2011** and 2010, respectively, were pledged to secure securities sold under agreements to repurchase. As of December 31, 2011 all repurchase agreements matured within 1 business day.

As of **December 31, 2011** and 2010, aggregate repurchase agreement balances of related parties (directors and executive officers of the bank and their family members) were **$4,751** and $431, respectively.

NOTE 11 - NOTES PAYABLE *(dollars in thousands)*

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:

	2011	2010
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2014, secured by a limited partnership interest	$395	$612
Face value Promissory Note payable in ten annual installments, with final payment due January 1, 2015, secured by a limited partnership interest	738	1,076
Total Face Value Before Discounts	**1,133**	**1,688**
Discount on notes payable with imputed interest rates of 6.61% to 7.02%	(112)	(214)
Notes Payable, Net Of Discount	**$1,021**	**$1,474**

Aggregate maturities of notes payable for each of the five years subsequent to **December 31, 2011** and thereafter are:

2012	$—
2013	540
2014	522
2015	71
2016	—
Thereafter	—
Total	**$1,133**

NOTE 12 - LEASES *(dollars in thousands)*

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**,

	2011	2010
Furniture and equipment	$942	$942
Accumulated amortization	(936)	(912)
Capitalized Lease Equipment, Net	**$6**	**$30**

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

The bank is party to various operating leases for the rental of premises and equipment. Total rental expenses for bank premises and equipment were **$265**, $798 and $812 as of **December 31, 2011**, 2010 and 2009, 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, 2011** were:

	CAPITAL LEASES	OPERATING LEASES
Year ended December 31:		
2012	$9	$173
2013	—	63
2014	—	47
2015	—	24
2016 and Thereafter	—	—
Total Minimum Lease Payments	**$9**	**$307**

NOTE 13 - SHAREHOLDERS' EQUITY

Since November 2008 the bank has been authorized to repurchase up to a value of $100 million 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 March 23, 2012.

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, 2011** and 2010 which is maintained to comply with regulatory requirements. Changes to surplus require regulatory approval.

During 2011 the bank repurchased a total of 2,245 shares of common stock representing an aggregate purchase value of $3.6 million, at an average price per share of $1,598. Cumulative shares of 14,950 have been repurchased under the program since inception for a combined purchase total of $24.1million. No shares were repurchased during 2010.

At the January 26, 2012 Board of Directors meeting, cash dividends of $12.50 per share were declared, payable March 15, 2012 to shareholders of record as of March 1, 2012. The dividend is subject to regulatory approval prior to payment.

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 re-organization, the Visa U.S.A. by-laws were amended and included an indemnification provision whereby the bank, as a member of Visa U.S.A., is required to indemnify Visa for acts and omissions of the bank related to the Visa network and for certain specified litigation involving Visa U.S.A. An escrow arrangement was established anticipating the use of escrowed funds to pay the amount of certain Visa U.S.A. litigation expenses and settlements, including the Discover and American Express cases discussed above. Consequently, under 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 billion and some $1.888 billion to Discover Financial Services. The bank's membership proportion according to the number of shares it was issued upon restructuring was 0.034121% and is currently 0.034125% 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 **$1.1 million** and $1.2 million as of **December 31, 2011** and 2010 respectively, and was recorded through charges to noninterest expense in 2007 and 2008. The bank has not recorded in its financial statements any value for its membership interest in Visa Inc.

The bank has **$1.0 million** and $0.9 million escrow receivable included in other assets as of **December 31, 2011** and December 31, 2010 respectively, representing the bank's proportionate share of remaining escrowed funds Visa set aside to the purpose of settling these litigation claims. During **2011**, 2010 and 2009, the bank recorded **$0.1 million**, $0.4 million, and $0.2 million in noninterest income reflecting the value of its proportionate common shares attributed to the bank in escrow funds.

The specified litigation discussed above includes outstanding unresolved claims against Visa 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, 2011 financial statements.

NOTE 15 - MORTGAGE LOAN SERVICING INCOME *(dollars in thousands)*

Mortgage loan servicing income is comprised of the following:

	2011	2010	2009
Mortgage loan servicing fees	$4,320	$4,590	$4,850
Amortization of costs	(1,581)	(1,699)	(1,788)
Accelerated amortization due to early payoffs	(181)	(238)	(381)
Mortgage Loan Servicing Income	**$2,558**	**$2,653**	**$2,681**

NOTE 16 - EMPLOYEE BENEFIT PLANS *(dollars in thousands)*

The bank has a qualified non-contributory profit sharing plan for all employees. Vesting begins at 20% after completion of two full years of service, increasing 20% per year until fully vested at the completion of six years of service. The 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 2011, the maximum amount that may be deferred by participant is $16,500. 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 $5,500.

The bank will make matching contributions equal to 50% of the portion of each participant's before-tax contributions (exluding "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 2011 combined limit of all employee and employer contributions to an individual participant's account is $49,000.

The contribution to the profit sharing and 401(k) plan was **$1,500** for each of the years ended **December 31, 2011**, 2010 and 2009.

NOTE 17 - OTHER NONINTEREST EXPENSE *(dollars in thousands)*

Other operating expense is comprised of the following:

	2011	2010	2009
Professional services	$3,291	$2,416	$2,407
FDIC insurance	2,594	2,076	2,278
Valuation (gain) loss on other real estate owned	1,924	(38)	4,015
Software licensing fees	1,543	1,521	1,485
Postage, freight and express	1,177	1,523	1,363
Other general expense	8,763	10,356	9,398
Other Noninterest Expense	**$19,292**	**$17,854**	**$20,946**

NOTE 18 - PROVISION FOR INCOME TAXES *(dollars in thousands)*

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

	2011	2010	2009
Current:			
Federal	$14,911	$17,944	$13,186
State	1,395	2,675	871
Total Current	**16,306**	**20,619**	**14,057**
Deferred:			
Federal	(35)	123	3,153
State	(6)	22	550
Total Deferred	**(41)**	**145**	**3,703**
Provision For Income Taxes	**$16,265**	**$20,764**	**$17,760**

Income tax expense differed from the Federal statutory rate of 35% for **2011**, 2010 and 2009 for the following reasons:

	2011	%	2010	%	2009	%
Tax expense at Federal statutory rate	$17,887	35.00%	$21,400	35.00 %	$19,221	35.00 %
Increase (decrease) resulting from:						
State tax, net of Federal tax effect	1,088	2.13 %	1,727	2.82 %	1,066	1.94 %
Disallowed interest expense	28	0.05 %	20	0.03 %	32	0.06 %
Interest exempt from Federal taxation	(1,221)	(2.39)%	(1,128)	(1.85)%	(1,283)	(2.34)%
Low Income Housing Tax Credits	(1,402)	(2.74)%	(1,418)	(2.32)%	(1,227)	(2.23)%
Other items, net	(115)	(0.22)%	163	0.27 %	(49)	(0.09)%
Provision For Income Taxes	**$16,265**	**31.83 %**	**$20,764**	**33.95 %**	**$17,760**	**32.34 %**

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:

	2011	2010
Deferred Tax Assets:		
Allowance for loan losses	$5,036	$6,167
Mortgage servicing rights	594	857
Interest collected on nonperforming loans	2,914	2,277
Vacation accrual	1,164	1,165
Accumulated depreciation and amortization	551	1,102
Other real estate owned valuation reserve	2,970	1,904
Other	957	608
Total Deferred Tax Assets	**14,186**	**14,080**
Deferred Tax Liabilities:		
Net unrealized holding gain on securities, available-for-sale	11,023	6,043
Net deferred loan fees	2,468	2,287
Low income housing projects	848	761
Deferred loan costs	457	460
Other	681	880
Total Deferred Tax Liabilities	**15,477**	**10,431**
Net Deferred Tax (Liabilities) Assets	**$(1,291)**	**$3,649**

Net deferred tax assets and net liabilities are included in other assets and other liabilities, respectively, 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, 2011, 2010 and 2009 were immaterial and no amounts are accrued for interest and penalties at December 31, 2011 or 2010.

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 2008.

During 2011, the bank purchased at a discount approximately $5.0 million in tax credits under the Alaska Film Production Incentive Program, which awards transferable tax credits to film producers who choose to film in Alaska. These credits can be used towards the bank's State of Alaska tax liability and are fully negotiable and assignable for up to three years from the date of issuance. The bank anticipates fully utilizing the credits against a portion of its State of Alaska tax liability. The bank used $1.8 million and $2.0 million of the Alaska film tax credits as of December 31, 2011 and 2010, 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 *(dollars in thousands)*

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, 2011 and 2010

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

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

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

Loans: The fair value is estimated by discounting the future scheduled cash flows using the current rates at which similar loans with similar maturities would be made to similar borrowers plus unearned income. The fair value of delinquent and 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 estimated fair value of demand deposits, savings accounts, NOW accounts and money market accounts is the amount payable upon demand as of the reporting date.

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

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

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

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

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

Subscriptions to purchase Federal Reserve Bank stock: 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, 2011** and 2010. 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.

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

FINANCIAL ASSETS	2011 CARRYING AMOUNT	2011 ESTIMATED FAIR VALUE	2010 CARRYING AMOUNT	2010 ESTIMATED FAIR VALUE
Cash and cash equivalents	$62,129	$62,129	$74,269	$74,269
Securities:				
Available-for-sale	$1,553,675	$1,553,675	$1,300,117	$1,300,117
Held-to-maturity	—	—	$23,000	$23,232
Real estate loans to be sold	$24,161	$24,643	$20,854	$20,898
Loans:				
Commercial and industrial	$231,438	$230,302	$269,723	$270,762
Real estate	890,527	885,416	914,699	926,631
Consumer and other	20,445	19,938	17,260	17,076
Total Loans	**$1,142,410**	**$1,135,656**	**$1,201,682**	**$1,214,469**
Federal Reserve Bank stock	$2,196	N/A	$2,196	N/A
Federal Home Loan Bank stock	$2,139	N/A	$2,139	N/A
Interest receivable	$13,573	$13,573	$14,486	$14,486

FINANCIAL LIABILITIES	2011 CARRYING AMOUNT	2011 ESTIMATED FAIR VALUE	2010 CARRYING AMOUNT	2010 ESTIMATED FAIR VALUE
Deposits:				
Non-interest bearing	$849,410	$849,410	$780,772	$780,772
Interest bearing:				
Savings	566,960	566,960	477,956	477,956
NOW	177,533	177,533	176,090	176,090
Money market	197,841	197,841	201,494	201,494
Time	139,381	141,195	159,403	161,602
Total Interest Bearing	**1,081,715**	**1,083,529**	**1,014,943**	**1,017,142**
Total Deposits	**$1,931,125**	**$1,932,939**	**$1,795,715**	**$1,797,914**
Securities sold under agreements to repurchase	$483,198	$483,198	$473,136	$473,136
Federal funds purchased	—	—	$25,000	$25,000
Notes payable and capital lease obligations	$1,030	$1,030	$1,536	$1,536
Interest payable	$168	$168	$279	$279

OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

	2011		2010	
	CONTRACTUAL AMOUNT	ESTIMATED FAIR VALUE	CONTRACTUAL AMOUNT	ESTIMATED FAIR VALUE
Assets:				
Loan commitments	$361,996	$1,962	$322,934	$1,688
Bankcard commitments	$73,606	—	$76,111	—
Standby and commercial letters of credit	$19,694	$150	$20,488	$176
Liabilities:				
Subscriptions to purchase Federal Reserve Bank stock	$2,196	—	$2,196	—

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 *(dollars in thousands)*

DESCRIPTION	DECEMBER 31, 2011	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL3)
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**	**—**

DESCRIPTION	DECEMBER 31, 2010	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL3)
Securities:				
U.S. Treasury securities	$223,764	$223,764	$—	—
U.S. Government – sponsored enterprises	873,916	—	873,916	—
States and political subdivisions	62,174	—	62,174	—
Corporate bonds	140,263	—	140,263	—
Securities Total	**$1,300,117**	**$223,764**	**$1,076,353**	**—**

For investment securities, where quoted prices are available in an active market for identical securities they are classified within Level 1 of the 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 2011 and 2010.

The following transfers between Level 1 and Level 2 occurred during 2011 and 2010:

	2011	2010
Transfer from Level 1 to Level 2	$—	$—
Transfer from Level 2 to Level 1	$—	$223,764

The bank transferred U.S. Treasury securities out of Level 2 to Level 1 as they are traded in active exchange markets.

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, 2011 the bank had no investments in Fannie Mae or Freddie Mac common or preferred stock or mortgage -backed securites.

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

DESCRIPTION	DECEMBER 31, 2011	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL GAINS (LOSSES) FOR YEAR ENDED DECEMBER 31, 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)**

DESCRIPTION	DECEMBER 31, 2010	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL GAINS (LOSSES) FOR YEAR ENDED DECEMBER 31, 2010
Impaired loans:					
Commercial and Industrial	$1,315	—	—	$1,315	$(244)
Real Estate	11,607	—	—	11,607	(1,336)
Other real estate owned:					
Construction and development	6,031	—	—	6,031	(165)
Commercial	2,522	—	—	2,522	(62)
Bank premise	784	—	—	784	(67)
Total	**$22,259**	**—**	**—**	**$22,259**	**$(1,874)**

Certain impaired loans are evaluated based on the fair value of collateral, which is derived from appraisals that take into consideration prices in observed transactions involving similar assets in similar locations, in accordance with provisions of ASC Topic 310. The bank may apply management-determined discount factors to appraisal valuations to take into consideration changing market conditions. Gains and losses on the fair value of impaired loans are included in the provision for loan losses.

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

ASC Topic 825 provides an option to selectively report financial assets and financial liabilities at fair value and establishes presentation and disclosure requirements. The bank did not elect the fair value option for any additional financial assets or liabilities as of December 31, 2011. The bank may adopt this guidance for financial assets and liabilities in the future as permitted under the guidance.

NOTE 20 - CREDIT ARRANGEMENTS *(dollars in thousands)*

The bank had a committed line of credit, secured by investment securities, of **$84,650** and $104,293 from the Federal Reserve Bank at a rate of **0.75%** as of **December 31, 2011** and 2010. The bank also had a committed line of credit, secured by multifamily and first lien single family mortgages, of $89,927 at a rate of 0.75% from the Federal Home Loan Bank Seattle as of December 31, 2010. The line of credit with the Federal Home Lome Loan Bank Seattle was terminated during 2011. In addition, the bank also had federal funds arrangements available from an unaffiliated bank of **$30,000** and $20,000, at a rate estimated at **0.25%** as of **December 31, 2011** and 2010. There were no outstanding balances against these lines of credit as of **December 31, 2011** or 2010.

NOTE 21 - COMMITMENTS AND CONTINGENCIES *(dollars in thousands)*

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

To reduce credit risk, related to the use of credit-related financial instruments, the bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the bank's credit evaluation of the customer. Collateral varies but may include cash, securities, accounts receivable, inventory, premises and equipment, and real estate.

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

	2011	2010
Loan commitments	$361,996	$322,934
Bankcard commitments	73,606	76,111
Commitments to fund mortgage loans to be sold	66,750	46,601
Total Loan Commitments	**$502,352**	**$445,646**
Commitments at fixed interest rates	$199,617	$146,569
Commitments at variable interest rates	302,735	299,077
Total Loan Commitments	**$502,352**	**$445,646**
Standby and commercial letters of credit	$19,694	$20,488
Subscriptions to purchase Federal Reserve Bank stock	$2,196	$2,196

Commitments to make loans are generally made for periods of 90 days or less. At December 31, 2011, the fixed rate loan commitments have interest rates ranging from 2.75% to 16.5%.

As of **December 31, 2011** the bank held **$2,139** of Federal Home Loan Bank Seattle (Seattle Bank) Class B stock that is included in other assets. As of December 31, 2011, the Seattle Bank continued to meet all of its regulatory capital requirements but remains classified as "undercapitalized" by the Federal Housing Finance Agency. They have not repurchased Class B stock since 2004 and did not pay a dividend in 2011. The bank has conducted an assessment and has concluded that an impairment is not necessary as of December 31, 2011.

NOTE 22 - REGULATORY MATTERS *(dollars in thousands)*

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

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

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the bank must meet specific capital guidelines that involve quantitative measures of the bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The bank's capital amounts and classification are also subject to qualitative 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, 2011**, that the bank meets all capital adequacy requirements to which it is subject.

As of **December 31, 2011**, 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 **2011** and 2010. 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, 2011** and 2010 are as follows:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 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%
As of December 31, 2010:						
Total Capital (*to Risk-weighted Assets*)	$428,939	23.67%	$144,960	8.00%	$181,200	10.00%
Tier I Capital (*to Risk-weighted Assets*)	$413,439	22.82%	$72,480	4.00%	$108,720	6.00%
Tier I Capital (*to Average Assets*)	$413,439	14.78%	$111,860	4.00%	$139,826	5.00%

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.

During 2010, the bank required OCC approval for the $100 per share (not in thousands) special cash dividend paid in December and consequently we anticipate the bank will require continued prior approval from the OCC for dividends until the earnings test can be met.

NOTE 23 - QUARTERLY FINANCIAL SUMMARY (UNAUDITED) *(dollars in thousands)*

The following table presents the summary results for the four quarters during the years ended 2011 and 2010:

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

	2011			
Summary Of Operations	FIRST	SECOND	THIRD	FOURTH
Interest and loan fee income	$26,980	$26,410	$26,689	$26,913
Interest expense	879	818	766	709
Net interest and fee income	26,101	25,592	25,923	26,204
Provision for loan losses	816	760	54	(388)
Net interest and fee income after provision for loan losses	25,285	24,832	25,869	26,592
Noninterest income	8,150	9,270	10,073	8,890
Noninterest expense	20,965	21,497	21,900	23,493
Income before taxes	12,470	12,605	14,042	11,989
Provision for income taxes	3,895	4,145	4,492	3,733
Net Income	**$8,575**	**$8,460**	**$9,550**	**$8,256**
Earnings Per Common Share	**$25.82**	**$25.48**	**$28.85**	**$25.02**

	2010			
Summary Of Operations	FIRST	SECOND	THIRD	FOURTH
Interest and loan fee income	$28,594	$28,543	$29,015	$28,825
Interest expense	1,037	1,049	972	886
Net interest and fee income	27,557	27,494	28,043	27,939
Provision for loan losses	751	(226)	(45)	(1,001)
Net interest and fee income after provision for loan losses	26,806	27,720	28,088	28,940
Noninterest income	7,988	8,761	9,861	9,347
Noninterest expense	20,739	21,838	21,735	22,053
Income before taxes	14,055	14,643	16,214	16,234
Provision for income taxes	4,651	4,879	5,640	5,594
Net Income	**$9,404**	**$9,764**	**$10,574**	**$10,640**
Earnings Per Common Share	**$28.32**	**$29.41**	**$31.84**	**$32.04**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying Statements of Condition of First National Bank Alaska ("the Bank") as of December 31, 2011 and 2010, and the related statements of income, changes in shareholders' equity and comprehensive income, and cash flows for the years ended December 31, 2011 and 2010. We also have audited First National Bank Alaska's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Bank's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Bank's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First National Bank Alaska as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years ended December 31, 2011, and 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, First National Bank Alaska maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Horwath LLP

Oak Brook, Illinois
March 8, 2012

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying statements of income, changes in shareholders' equity and comprehensive income, and cash flows for the year ended December 31, 2009. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of its operations and its cash flows for the year ended December 31, 2009 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Anchorage, Alaska
March 8, 2012

MANAGEMENT'S REPORT

March 8, 2012
To the Shareholders:

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

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

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

Management assessed the bank's internal control over financial reporting, including safeguarding of assets, presented in conformity with both U.S. generally accepted accounting principles and call report instructions as of December 31, 2011. This assessment was based on criteria for effective internal control over financial reporting, including safeguarding of assets, established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management believes that as of December 31, 2011, the bank maintained effective internal control over financial reporting, including safeguarding of assets, presented in conformity with both U.S. generally accepted accounting principles and call report instructions.

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

Crowe Horwath LLP has also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First National Bank Alaska's internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and their report dated March 8, 2012 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ **D.H. Cuddy**

D.H. Cuddy,
Chairman and President

/s/ **Betsy Lawer**

Betsy Lawer,
Vice Chair

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The bank's Principal Executive Officer and Principal Financial Officer have reviewed and evaluated the effectiveness of the bank's disclosure controls and procedures (as defined in Exchange Act Rules 240.13a-15 (e) and 15d-15(e) under the Securities Exchange Act of 1934) for the quarter ended December 31, 2011. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer have concluded that the bank's current disclosure controls and procedures are effective, providing them with material information relating to the bank as required to be disclosed in the reports the bank files or submits under the Exchange Act on a timely basis.

Internal control over financial reporting. There were no significant changes in the bank's internal controls over financial reporting or in other factors that could significantly affect those controls subsequent to December 31, 2011.

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

Additional information required by Item 9A is included in Item 8 on pages 59 and 61.

ITEM 9B. OTHER INFORMATION

None.

Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The response to this item is incorporated by reference to First National Bank Alaska's Proxy Statement for the 2012 annual meeting of shareholders, pages 2 through 19.

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

NAME	AGE	DATE FIRST BECAME AN EXECUTIVE OFFICER	POSITIONS HELD DURING PRECEDING 5 YEARS
D. H. Cuddy	90	September 1, 1951	Chairman and President
Betsy Lawer	62	October 15, 1982	Vice Chair, Acting Chief Financial Officer and Chief Operating Officer through December 1, 2008
William Renfrew	64	January 1, 1989	Senior Vice President and Regional Manager, Interior Alaska
Sue Foley	63	May 1, 1992	Senior Vice President, Central Support Division
Doug Longacre	59	January 1, 1993	Senior Vice President, Branch Administration and Loan Division
David Lawer	61	April 19, 1993	Senior Vice President, Corporate Systems Division and General Counsel
David Stringer	63	January 1, 1996	Senior Vice President, Loan Servicing Division
Charles Weimer	51	January 1, 1999	Senior Vice President and Regional Manager, Kenai Peninsula
William Inscho	60	January 1, 2004	Senior Vice President, Commercial Lending
Craig Thorn	51	January 1, 2004	Senior Vice President and Regional Manager, Mat-Su Region
Cheri Gillian	53	October 1, 2011	Senior Vice President, Corporate Communications and External Affairs
John Hoyt	49	October 1, 2011	Senior Vice President, Deposit, Consumer Credit and Card Services
Ryan Strong	38	October 1, 2011	Senior Vice President, Mortgage Lending

ITEM 11. EXECUTIVE COMPENSATION

The response to this item is incorporated by reference to the Proxy Statement, under the captions "Remuneration, Security Ownership of Management and Other Transactions With Management and Others".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The response to this item is incorporated by reference to the Proxy Statement, under the caption "Security Ownership of Certain Beneficial Owners".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The response to this item is incorporated by reference to the Proxy Statement, pages 2 through 19.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The response to this item is incorporated by reference to the Proxy Statement, under the caption "Relationship With Independent Public Accountants".

The Audit Committee annually approves at its January meeting, accounting fee limits for services to be provided by independent accountants for the calendar year.

All of the independent accountant services for the years ended December 31, 2011 and 2010 were pre-approved by the Audit Committee.

Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

   The financial statements are included as Item 8 of this Form 10-K.

2. Financial Statement Schedules

   All schedules have been omitted because the information is not required, not applicable, not present in amounts sufficient to require submission, or is included in the financial statements or notes thereto.

3. Page number references are to the First National Bank Alaska's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.

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

SIGNATURES

Pursuant to the requirements of Section 13, or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST NATIONAL BANK ALASKA

By: /s/ **D.H. Cuddy**

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

DATE	
March 8, 2012	/s/ **D.H. Cuddy** D. H. Cuddy Chairman and President, (Principal Executive Officer)
March 8, 2012	/s/ **Betsy Lawer** Betsy Lawer, Vice Chair (Acting Principal Financial Officer)
March 8, 2012	/s/ **Michele M. Schuh** Michele M. Schuh Finance Director, (Principal Accounting Officer)
March 8, 2012	/s/ **Loren H. Lounsbury** Loren H. Lounsbury, Director
March 8, 2012	/s/ **Maurice J. Coyle** Maurice J. Coyle, M.D., Director
March 8, 2012	/s/ **Margy K. Johnson** Margy K. Johnson, Director
March 8, 2012	/s/ **George E. Gordon** George E. Gordon, Director
March 8, 2012	/s/ **Jane Klopfer** Jane Klopfer, Director

EXHIBIT 31.1

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

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

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

March 8, 2012	/s/ **D.H. Cuddy**
Date:	D. H. Cuddy Chairman and President, (Principal Executive Officer)

EXHIBIT 31.2

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

I, Betsy Lawer, Vice Chair, certify that:

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

March 8, 2012	/s/ **Betsy Lawer**
Date:	Betsy Lawer Vice Chair, (Acting Principal Financial Officer)

EXHIBIT 32

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

In connection with the First National Bank Alaska's ("bank") Annual Report on Form 10-K ("Report") for the period ending December 31, 2011, each of the undersigned hereby certifies, that:

(1) To the best of my knowledge, the Report fully complies with the requirements of section 13(a) or 15(d) of the Exchange Act of 1934; and

(2) To the best of my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the bank.

March 8, 2012	/s/ **D.H. Cuddy**
Date:	D.H. Cuddy Chairman and President, (Principal Executive Officer)
March 8, 2012	/s/ **Betsy Lawer**
Date:	Betsy Lawer Vice Chair (Acting Principal Financial Officer)