



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

October 29, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Alaska Pacific Bank
Charter Number 704202

2094 Jordan Avenue
Juneau, AK 99801-8046

Office of the Comptroller of the Currency

Seattle Field Office
101 Stewart Street, Suite 1010
Seattle, WA 98101-2419

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory

The Lending Test is rated: Satisfactory.

The major factors supporting the institution's rating include:

- Alaska Pacific's loan-to-deposit ratio is more than reasonable given the institution's size and assessment area needs.
- The bank originated a substantial majority of its loans within its CRA assessment area.
- Lending to borrowers of different incomes meets the standard for satisfactory performance.
- The geographic distribution of Alaska Pacific's mortgage loans reflects reasonable distribution throughout the assessment area.
- Alaska Pacific did not receive any complaints regarding discrimination or its record of meeting the community's credit needs during the review period

SCOPE OF EXAMINATION

This examination evaluates Alaska Pacific Bank's CRA performance. Formerly regulated by the Office of Thrift Supervision (OTS), this is the bank's first CRA examination by the Office of the Comptroller of the Currency. We used "small bank" CRA procedures. This process includes an evaluation of CRA activity under the Lending Test criteria. We evaluated the bank's performance based on loans originated from January 1, 2009 to December 31, 2011. This examination included the review and analysis of loans originated for the purchase and refinance of 1-4 family residential properties. We evaluated a sample of 20 consumer loans secured by 1-4 family residences.

DESCRIPTION OF INSTITUTION

Alaska Pacific Bank is a federally chartered stock saving bank, headquartered in Juneau, Alaska. The institution was formerly known as Alaska Federal Savings Bank and was a federally chartered mutual savings bank until it converted to a stock savings bank on July 1, 1999. At that time it was acquired by Alaska Pacific Bancshares, Inc. The bank has been operating since 1935. As of September 30, 2012, Alaska Pacific reported total assets of \$179.1 million, total liabilities of \$158.6 million, and net worth of \$20.4 million. The major categories of assets were as follows:

Major Components of Total Assets			
As of September 30, 2012			
Asset Type	Amount (\$000s)	% of Total Loans	% of Total Assets
- Single Family Residential (mortgage)	20,501	13.6%	11.5%
- Commercial Real Estate (permanent & construction)(CRE)	36,347	24.1%	20.3%
- Owner Occupied Real Estate (commercial)	41,760	27.7%	23.3%
- Other Commercial (secured by other than real estate)	24,598	16.3%	13.7%
- Land Loans (CRE)	6,412	4.2%	3.6%
- Consumer Loans	18,341	12.3%	10.2%
- Multifamily Residential (permanent & construction)(CRE)	3,039	2.0%	1.7%
Investments			
- Cash/Non-Interest Earning Deposits	15,157	10.0%	8.5%
- U.S. Govt. or Agency mortgage backed securities	1,581	1.0%	0.9%

Alaska Pacific maintains a diverse balance sheet of residential, nonresidential mortgage loans, nonmortgage commercial and consumer loans. The following table gives a breakdown of the total mortgage originations as a percentage of total assets.

Loan Origination Activity As a Percent of Total Assets			
Loan Type	2011	2010	2009
1-4 Unit Residential Mortgages: internally originated-permanent	20.8	17.7	26.1
1-4 Unit Residential Mortgages: purchased	0	0	0
Construction	9.2	1.8	3.5
Commercial Real Estate loans (purchased or internally originated)	11.4	3.3	6.3
Land Loans	3.7	0.8	0.4
Multifamily Residential Loans (purchased or internally originated)	1.2	1.0	0
Total Real Estate	46.3	24.6	36.3
Non-Real Estate Commercial Loans (purchased or internally originated)	5.8	3.9	2.2
Consumer Loans	5.3	2.2	3.6

Alaska Pacific Bank sells the majority of mortgage loans that it originates. During the review period, the bank sold approximately \$92.2 million in mortgage loans secured by residential properties representing 97 percent (169 total by #) of all mortgage loans. The bank did not sell any other types of loans.

Alaska Pacific Bank operates five full service branches throughout southeast Alaska. Two branches each are located in the cities of Juneau and Ketchikan and one branch is located in the city of Sitka. The bank has nine Automated Teller Machines (ATMs), along with ATM cards with the VISA “debit card” feature. The bank offers a full range of products and services, as well as 24-hour telephone banking and on-line banking and bill payment services via its website. New products include PopMoney, a person to person payment system through on-line banking and Remote Deposit Capture (RDC).

Alaska Pacific did not open or close any branches during the review period. There are no financial or legal factors that impede the bank's ability to meet the credit needs of the communities it serves. Alaska Pacific received a "Satisfactory" rating from the Office of Thrift Supervision under the "Small Retail Institution" rating criteria at the prior CRA examination, dated January 10, 2007.

DESCRIPTION OF ASSESSMENT AREA

Alaska Pacific Bank’s Non-MSA Assessment Area includes the Juneau, Ketchikan/Gateway, and Sitka Boroughs, where it has branches, as well as the Yakutat Borough, the Haines Borough, the Skagway-Hoonah-Angoon Census Area, and Wrangell-Petersburg Borough. The assessment area covers most the panhandle of Southeastern Alaska. This region is bordered by Canada to the northeast and east, the Pacific Ocean to the south and west, and ice fields and Alaska’s Wrangell-Saint Elias National Park and Preserve to the northwest. Largely cutoff from Canada by the Coast Mountains, and the rest of the state of Alaska by Wrangell-Saint Elias National Park, this area is fairly isolated. Even the individual boroughs/census areas within the assessment area are cutoff from each other by water. Boats and planes are the only way to travel from one borough to another. The population of this assessment area, as published by the U.S. Census Bureau for 2010, is approximately 71,664. This is an increase of 7.1 percent from 2006. The southeast region’s population is 10.9 percent of the state’s population.

Unemployment in the assessment area continues to be better than the state as a whole and the trend continues downward from 2008. While unemployment rates and trends vary from borough to borough, all of the boroughs and census areas experience similar seasonal employment cycles. During the winter months and early spring, unemployment rates peak to the highest levels in the year.

The primary employment sectors in 2012 and 2011(the review period) include government and government enterprises, tourism, retail trade, health care, social assistance, accommodation and food services. The median family income for the assessment area, as updated by the Department of Housing and Urban Development (HUD) for 2011, is \$70,100, an increase of \$7,227 or 11.5 percent, since the 2000 Census (\$62,874).

Area Median Income			
	2009	2011 HUD	2012 Estimate
Juneau Borough	\$88,429	\$92,900	\$94,200
Ketchikan-Gateway Borough	\$73,288	\$77,000	\$78,000
Sitka Borough	\$71,068	\$74,700	\$75,700
Skagway-Hoonah-Angoon Census Area	\$83,036	\$87,200	\$88,400
Haines Borough	\$58,906	\$70,100	\$62,700
Wrangell Borough	\$52,500	\$70,100	\$55,900
Yakutat Borough	\$84,375	\$88,600	\$89,900

Within the bank’s assessment area, economic conditions vary by individual borough. The Juneau area is diverse and active in terms of sources of employment. Juneau is the capital of Alaska, with a population of 32,290 as of 2011. Juneau continues to be dominated by tourism, retail, mining, construction, and government. The retail sector has been expanding and the construction sector has benefited by the housing shortage and new commercial development. Government jobs continue to be the largest permanent employment segment in the Juneau area, while tourism still dominates the economy on a seasonal basis. This area and Southeast Alaska in general has continued to have moderate economic growth.

Ketchikan is the second largest city in Southeast Alaska with a population of 13,666 in 2011. The Ketchikan area has transitioned from a timber dependent economy to tourism. The full extent of the loss of timber has not been overcome but the effects have diminished over time. Ketchikan is the “First City” on the Alaska segment of the inside passage from British Columbia. Ketchikan serves as a hub for business on Prince of Wales Island which includes many small communities. The shipyard has expanded in recent years to service larger ships and the commercial fishing fleet. With tourism, Prince of Wales business, and the shipyard, Ketchikan has a unique economy, but it is not as diverse as Juneau. Cruise ship docks facilitate the majority of the tourism in the area with over 650,000 visiting in 2011.

The Sitka community is the smallest area of the three cities, with an economy similar to that of the Juneau and Ketchikan areas. Sitka’s economy is dependent on tourism, fishing, and construction. The local politics over the last several years has had a non-tourism dynamic. This has slowed the growth of tourism in Sitka and thus the economy. Sitka has one deep water dock that is private and is five miles from downtown. Currently, none of the cruise ships make port at the facility due to an additional cost above already high passenger head tax and the need to transport passengers to town. When the Panamax ships start ferrying passengers in the Southeast Alaskan waters (in the near future), Sitka maybe placed even farther behind in cruise ship destinations due to the port facility limitations and local politics.

Area Demographic and Housing Information Alaska Pacific Bank’s Combined Assessment Area							
Income Level							
		Low	Moderate	Middle	Upper	N/A	Total
Census Tracts	#	0	2	17	4		23
	%	0	8.7	73.9	17.4		100.0
Population By Location	#	0	268	51,098	20,854		72,220
	%	0	0.37	70.75	28.88		100.0
Families by Income Level	#	0	2,615	3,748	8,178		17,114
	%	15.9	15.7	22.2	46.2		100.0
Housing Units by Census Tract	#	0	103	18,980	8,228		27,311
	%	0	0.4	69.5	30.1		100.0

Area Demographic and Housing Information Alaska Pacific Bank's Combined Assessment Area (continued)							
		Income Level				N/A	Total
		Low	Moderate	Middle	Upper		
Owner-occupied Units (a)	%	0	24.81	52.58	60.2		55.0
Multifamily Units (b)	%	0	0.0	9.8	20.5		13.0
Vacant Units (c)	%	0	60	17.29	6.7		14.0
Median Housing Value (2011)	\$		\$73,300	\$141,806	\$193,259		\$155,413

(a) This row provides the percentage of owner-occupied residential housing units within the total count of housing units for each census tract income designation and, in the total column, the percentage of owner-occupancy units for the assessment area as a whole, based upon 2000 Census data.

(b) This row provides the percentage of multifamily units within the total count of housing units for each census tract income designation and, in the total column, the percentage of multifamily units for the assessment area as a whole, based upon 2000 census data.

(c) This row discloses the percentage of vacant units contained within the total count of housing units for each census tract income designation and, in the total column, the percentage of vacant units contained within the total housing stock of the assessment area, based upon 2000 Census data.

The 2012 FFIEC List of Middle-Income Nonmetropolitan Distressed or Underserved Geographies includes several areas within Alaska Pacific's assessment area. For Southeast Alaska, the following areas were identified and thus eligible for CRA credit:

County	Distress		Underserved Remote Rural	County Code	Tract Code
	Unemployment	Population Loss			
Haines			X	100	0001.00
Hoonah-Angoon	X	X	X	105	0002.00
Sitka			X	220	0001.00
Sitka			X	220	0002.00

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Also, refer to the "Institution's CRA Rating" section of this report for summary conclusions regarding Alaska Pacific's performance under each test. The following sections of this evaluation present the data that support our conclusions under the Lending Test.

LENDING TEST

Alaska Pacific Bank's performance is satisfactory overall under the CRA Lending Test.

Loan-to-Deposit Ratio

Alaska Pacific's loan-to-deposit (LTD) ratio is more than reasonable and exceeds the standard of satisfactory performance.

We evaluated the bank's quarterly average net LTD ratio for the past 20 quarters, following the bank's previous CRA examination, through September 2012. During this period, the bank's LTD ratio averaged 103.8 percent. We compared the bank's average

LTD ratio with that of peer banks that are similar in asset size and demographics. The combined average quarterly LTD ratio of peer banks was 65.6 percent over the same period. Alaska Pacific's average LTD ratio well exceeds the peer average and reflects a strong level of lending.

Lending in Assessment Area

Alaska Pacific granted a substantial majority of the number and dollar volume of sampled loans inside its AAs and exceeds the standard for satisfactory performance. The bank granted 90 percent of the number of loans and 94 percent of the dollar volume within its AA.

The following chart reflects the volume of the bank's mortgage loan originations granted inside and outside its assessment area.

Table 1 - Lending in Alaska Non-MSA Assessment Area										
Alaska Pacific Bank										
January 1, 2009 through December 31, 2011										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Mortgage Loans	18	90%	2	10%	20	4,552	94.38	271	5.62	4,823

Source: Bank Data

Lending to Borrowers of Different Incomes

The bank's distribution of loans to consumers of different income levels reflects reasonable distribution in the AA, given the demographic and economic data in the AA. The bank's performance of lending to low and moderate-income individuals is adversely affected by the high cost of living in Alaska. The maximum annual income of low and moderate-income individuals is \$35 thousand and \$56 thousand, respectively. Income at either of these levels is generally not sufficient to qualify for traditional residential loans, based on the current market values in the AA. Income information is based on the median family income for each year. Refer to Table 2 for details.

Table 2 - Borrower Distribution of Consumer Mortgage Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Mortgage Loans	16%	5%	16%	5%	22%	40%	46%	50%

Source: 2000 Census Data and Bank Data

Geographic Distribution of Loans

The overall geographic distribution of Alaska Pacific’s residential mortgage loans reflects a reasonable percentage throughout the assessment area.

The bank’s assessment area consists of 23 tracts, two moderate-income, 17 middle-income, and four upper-income. There are no low-income tracts. Also, one of the moderate-income tracts is very sparsely populated (139 persons and 75 dwelling units per the 2000 Census). Thus, the institution’s lending opportunities, for the most part, are limited to middle and upper-income demographic.

Table 3 - Geographic Distribution of Consumer Mortgage Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Mortgage Loans	0%	0%	0.4%	0%	69.1%	60%	30.5%	40%

Source: Percentage of Demographic Data by Income Level of Tract and Bank Data

Responses to Complaints

The bank has not received any complaints associated with its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices.