

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

(Mark One)

☒ Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2004

☐ Transition report under Section 13 or 15(d) of the Exchange Act  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-26003

ALASKA PACIFIC BANCSHARES, INC.  
(Exact Name of Small Business Issuer as Specified in Its Charter)

Alaska 92-0167101  
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)

2094 Jordan Avenue, Juneau, Alaska 99801  
(Address of Principal Executive Offices)

(907) 789-4844  
(Issuer's Telephone Number, Including Area Code)

NA  
(Former Name, Former Address and Former Fiscal Year,  
If Changed Since Last Report)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 ☐ No

State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

626,132 shares outstanding on April 30, 2004

Transitional Small Business Disclosure Format (check one):

☐ Yes ☒ No

**Alaska Pacific Bancshares, Inc. and Subsidiary  
Juneau, Alaska**

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Item 1. Financial Statements

**Alaska Pacific Bancshares, Inc. and Subsidiary**  
Consolidated Balance Sheets

<i>(dollars in thousands)</i>	March 31, 2004	December 31, 2003
<b>Assets</b>	(Unaudited)	
Cash and due from banks	\$ 5,467	\$ 6,127
Interest-earning deposits in banks	7,232	12,999
Total cash and cash equivalents	12,699	19,126
Investment securities available for sale, at fair value (amortized cost: March 31, 2004 - \$10,576; December 31, 2003 - \$11,332)	10,614	11,292
Federal Home Loan Bank stock	1,747	1,732
Loans held for sale	2,069	2,938
Loans	133,400	125,282
Less allowance for loan losses	1,311	1,159
Loans, net	132,089	124,123
Accrued interest receivable	627	576
Premises and equipment	2,093	2,095
Reposessed assets	310	303
Other assets	2,000	2,374
<b>Total Assets</b>	<b>\$164,248</b>	<b>\$164,559</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Noninterest-bearing demand	\$ 19,123	\$ 20,043
Interest-bearing demand	31,509	32,220
Money market	26,255	24,973
Savings	24,108	24,225
Certificates of deposit	36,836	37,151
Total deposits	137,831	138,612
Federal Home Loan Bank advances	8,998	9,219
Advances from borrowers for taxes and insurance	1,264	686
Accounts payable and accrued expenses	311	292
Accrued interest payable	270	227
Other liabilities	131	266
Total liabilities	148,805	149,302
Shareholders' Equity:		
Common stock (\$0.01 par value; 20,000,000 shares authorized; 655,415 shares issued; 626,132 shares outstanding at March 31, 2004 and December 31, 2003)	7	7
Additional paid-in capital	5,857	5,857
Treasury stock	(362)	(362)
Unearned ESOP shares	(233)	(233)
Unvested shares in stock award plan	(68)	(80)
Retained earnings	10,220	10,092
Accumulated other comprehensive income	22	(24)
Total shareholders' equity	15,443	15,257
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$164,248</b>	<b>\$164,559</b>

*See notes to consolidated interim financial statements.*

**Alaska Pacific Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Income**  
(Unaudited)

	Three Months Ended March 31,	
<i>(in thousands, except per share)</i>	2004	2003
<b>Interest Income</b>		
Loans	\$2,096	\$1,912
Investment securities	107	205
Interest-bearing deposits with banks	20	58
Total interest income	2,223	2,175
<b>Interest Expense</b>		
Deposits	291	410
Federal Home Loan Bank advances	111	111
Total interest expense	402	521
<b>Net Interest Income</b>	1,821	1,654
Provision for loan losses	75	75
Net interest income after provision for loan losses	1,746	1,579
<b>Noninterest Income</b>		
Mortgage servicing income	39	47
Service charges on deposit accounts	157	154
Other service charges and fees	43	43
Gain on sale of mortgage loans	56	182
Total noninterest income	295	426
<b>Noninterest Expense</b>		
Compensation and benefits	1,060	977
Occupancy and equipment	375	334
Data processing	72	87
Professional and consulting fees	58	70
Marketing and public relations	65	52
Reposessed property expense (recovery), net	(90)	51
Loss on sale of office building	-	85
Other	216	207
Total noninterest expense	1,756	1,863
Income before income tax	285	142
Income tax	114	57
<b>Net Income</b>	\$ 171	\$ 85
 Earnings per share:		
Basic	\$ .29	\$ .15
Diluted	.27	.14
Cash dividends per share	.07	.06

*See notes to consolidated interim financial statements.*

**Alaska Pacific Bancshares, Inc. and Subsidiary**  
Consolidated Statements of Cash Flows  
(Unaudited)

<i>(in thousands)</i>	Three Months Ended March 31,	
	2004	2003
<b>Operating Activities</b>		
Net income	\$ 171	\$ 85
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	75	75
Depreciation and amortization	89	98
Gain on sale of mortgage loans	(56)	(182)
Federal Home Loan Bank stock dividends	(15)	(24)
Amortization of fees, discounts, and premiums, net	(32)	(50)
Stock award plan expense	12	13
Loss on sale of repossessed assets	-	13
Loss on sale of building	-	85
Deferred income tax expense	114	57
Cash provided by (used in) changes in operating assets and liabilities:		
Accrued interest receivable	(51)	(4)
Other assets	229	(892)
Advances from borrowers for taxes and insurance	578	555
Accrued interest payable	43	73
Accounts payable and accrued expenses	19	(115)
Other liabilities	(135)	(65)
Net cash provided by (used in) operating activities	1,041	(278)
<b>Investing Activities</b>		
Purchase of investment securities available for sale	-	(10,316)
Maturities and principal repayments of investment securities available for sale	714	1,245
Loan originations, net of principal repayments	(12,852)	(9,725)
Sale of mortgage loans	5,802	15,493
Proceeds from sale of repossessed assets	-	176
Proceeds from sale of building	-	1,297
Purchase of premises and equipment	(87)	(79)
Net cash used in investing activities	(6,423)	(1,909)
<b>Financing Activities</b>		
Net increase (decrease) in Federal Home Loan Bank advances	(221)	4,883
Net increase (decrease) in demand and savings deposits	(466)	(3,151)
Net decrease in certificates of deposit	(315)	223
Cash dividends paid	(43)	(36)
Net cash provided by (used in) financing activities	(1,045)	1,919
<b>Decrease in cash and cash equivalents</b>	(6,427)	(268)
Cash and cash equivalents at beginning of period	19,126	28,229
<b>Cash and cash equivalents at end of period</b>	\$12,699	\$27,961
Supplemental information:		
Cash paid for interest	\$ 359	\$ 488
Loan repossessions	7	290
Net change in unrealized gain on securities available for sale, net of tax	46	(144)

*See notes to consolidated interim financial statements.*

**Alaska Pacific Bancshares, Inc.**  
Notes to Consolidated Interim Financial Statements  
(Unaudited)

**Note 1 - Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of Alaska Pacific Bancshares, Inc. (the “Company”) and its wholly owned subsidiary, Alaska Pacific Bank (the “Bank”), and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. They should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2003, filed as part of its annual report on Form 10-KSB. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results of operations for the interim periods ended March 31, 2004 and 2003, are not necessarily indicative of the results which may be expected for an entire year or any other period.

Certain amounts in prior-period financial statements have been reclassified to conform with the current-period presentation. These reclassifications had no effect on net income.

**Note 2 - Capital Compliance**

At March 31, 2004, the Bank exceeded each of the three current minimum regulatory capital requirements and was categorized as “well capitalized” under the “prompt corrective action” regulatory framework. The following table summarizes the Bank's regulatory capital position and minimum requirements at March 31, 2004:

<i>(dollars in thousands)</i>		
Tangible Capital:		
Actual	\$14,605	8.97%
Required	2,441	1.50
Excess	\$12,164	7.47%
Core Capital:		
Actual	\$14,605	8.97%
Required	6,510	4.00
Excess	\$ 8,095	4.97%
Total Risk-Based Capital:		
Actual	\$15,917	13.55%
Required	9,401	8.00
Excess	\$ 6,516	5.55%

### Note 3 – Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted-average number of common shares outstanding during the period less treasury stock, unvested stock awards under the Management Recognition Plan (“unvested stock awards”), and unallocated and not yet committed to be released Employee Stock Ownership Plan shares (“unearned ESOP shares”). Diluted EPS is calculated by dividing net income by the weighted-average number of common shares used to compute basic EPS plus the incremental amount of potential common stock from unvested stock awards and stock options, determined by the treasury stock method.

Three Months Ended March 31,	2004			2003		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	\$171,000	655,415		\$85,000	655,415	
Treasury stock		(29,283)			(32,283)	
Unvested stock awards		(7,618)			(12,889)	
Unearned ESOP shares		(23,252)			(28,789)	
Basic EPS	171,000	595,262	\$0.29	85,000	581,454	\$0.15
Incremental shares under stock plans:						
Stock awards		4,464			5,864	
Stock options		35,536			28,295	
Diluted EPS	\$171,000	635,262	\$0.27	\$85,000	615,613	\$0.14

### Note 4 – Comprehensive Income

The Company’s only item of “other comprehensive income” is net unrealized gains or losses on investment securities available for sale. Comprehensive income is calculated in the following table:

(in thousands)	Three Months Ended March 31,	
	2004	2003
Net income	\$171	\$ 85
Other comprehensive income (loss)	46	(143)
Comprehensive income	\$217	\$ (58)

## Note 5 – Impaired Loans

Impaired loans were \$426,000 and \$331,000 at March 31, 2004 and December 31, 2003, respectively. Estimated impairments of \$104,000 and \$136,000, respectively, were recognized on these loans in assessing the adequacy of the allowance for loan losses.

## Note 6 – Stock-Based Compensation

The Company has adopted Statement of Financial Accounting Standards (“SFAS”) No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We have elected to continue to apply the provisions of Accounting Principles Board (“APB”) Opinion No. 25 and provide the pro forma disclosure as required by SFAS 148.

For purposes of pro forma disclosures, the estimated fair value of options at the time they are granted is amortized to expense over the options’ vesting period of five years. The fair value of options granted, primarily in 2000, has been estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 6.17%, a dividend yield of 2%, a stock price volatility factor of 0.19, and a weighted-average expected life of seven years. The following table illustrates the effect on compensation expense, net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 148 to its stock option plan.

Three months ended March 31,	2004	2003
Net income, as reported	\$171,000	\$85,000
Total stock option employee compensation expense determined under fair value based method, net of tax effect	(6,000)	(6,000)
Pro forma net income	\$165,000	\$79,000
Earnings per share:		
Basic – as reported	\$.29	\$.15
Basic – pro forma	.28	.14
Diluted – as reported	.27	.14
Diluted – pro forma	.26	.13

## Note 7 – Sale of Building

In February 2003, the Bank sold its office building in Ketchikan, Alaska for \$1,400,000 in cash. A loss of \$85,000, including transaction and related costs, was recorded in the first quarter of 2003. The Bank has leased back a portion of the premises for continued use as a banking office.



## **Note 8 – Commitments**

Commitments to extend credit, including lines of credit, total \$11,185,000 and \$11,318,000 at March 31, 2004 and December 31, 2003, respectively. Commitments to extend credit are arrangements 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 or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates creditworthiness for commitments on an individual customer basis.

Undisbursed loan proceeds, primarily for real estate construction loans, total \$1,116,000 and \$1,640,000 at March 31, 2004 and December 31, 2003, respectively. These amounts are excluded from loan balances.

## ITEM 2. Management's Discussion and Analysis or Plan of Operation

### **Forward-Looking Statements**

This discussion contains forward-looking statements which are based on assumptions and describe future plans, strategies and expectations of the Company. These forward-looking statements are generally identified by use of the word “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” or similar words. The Company’s ability to predict results or the actual effect of future plans or strategies is uncertain. Factors which could have a material adverse effect on operations include, but are not limited to, changes in interest rates, general economic conditions, legislative/regulatory changes (including the initiative to move the state legislature from Juneau discussed below), monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market areas and accounting principles and guidelines. You should consider these risks and uncertainties in evaluating forward-looking statements and you should not rely too much on these statements.

### **Financial Condition**

Total assets of the Company at March 31, 2004 were \$164.2 million, down slightly from \$164.6 million at December 31, 2003. An increase in loans was funded primarily by cash and cash equivalents as well as reductions in loans held for sale, investment securities and other assets.

Loans (excluding loans held for sale) were \$133.4 million at March 31, 2004, compared to \$125.3 million at December 31, 2003, an \$8.1 million (6.5%) increase. The increase was attributable to strong loan demand resulting from continuing business development efforts, particularly in small businesses. Loans to businesses, including real estate and construction, increased 9.4% to \$63.7 million at March 31, 2004, compared with \$58.2 million at December 31, 2003. Among consumer loans, home equity loans exhibited the strongest growth, increasing 9.8% to \$10.3 million at March 31, 2004 from \$9.4 million at December 31, 2003. Home equity loans had declined earlier in the mortgage refinance boom, but have grown steadily over the last three quarters, increasing 25.6% to \$10.3 million at March 31, 2004 from \$8.2 million at June 30, 2003.

Loans are summarized by category as follows:

<i>(in thousands)</i>	March 31, 2004	December 31, 2003
Real estate:		
Permanent:		
One- to four-family	\$48,452	\$46,381
Multifamily	1,076	1,108
Commercial nonresidential	40,093	39,293
Land	3,543	3,425
Construction:		
One- to four-family	1,897	2,330
Commercial nonresidential	2,179	-
Commercial business	20,352	17,817
Consumer:		
Home equity	10,277	9,361
Boat	4,315	4,326
Automobile	566	642
Other	650	599
Loans	\$133,400	\$125,282
Loans held for sale	\$2,069	\$2,938

Deposits decreased seasonally by 0.6% to \$137.8 million at March 31, 2004, compared with \$138.6 million at December 31, 2003. While there are often seasonal variations, an analysis of the year-to-year (*i.e.*, March-to-March) trend indicates continuing growth in all categories of deposits except certificates of deposit, as illustrated in the following table:

<i>(dollars in thousands)</i>	At March 31,				
	2004	Percent Change	2003	Percent Change	2002
Non-interest bearing demand	\$ 19,123	24.3%	\$ 15,387	41.8%	\$ 10,851
Interest-bearing demand	31,509	4.1	30,272	7.2	28,226
Total demand	50,632	10.9	45,659	16.8	39,077
Money market	26,255	17.8	22,283	7.4	20,745
Savings	24,108	5.6	22,834	13.6	20,095
Subtotal	100,995	11.3	90,777	13.6	79,917
Certificates of deposit	36,836	(6.5)	38,977	(4.5)	40,794
Total	\$137,831	6.2%	\$129,753	7.5%	\$120,711

The strong increases in non-interest checking and money market accounts reflect successful efforts to add small business customers as well as a marketing effort emphasizing

these components of the Bank's core deposits. The decreases in certificates of deposit reflects less aggressive pricing for shorter-term deposits as the need for funds has been low.

## Results of Operations

**Net Income.** Net income for the first quarter of 2004 was \$171,000 (\$.27 per diluted share) compared to \$85,000 (\$.14 per diluted share) for the first quarter of 2003, an increase of \$86,000. The first quarter of 2003 included a nonrecurring loss of \$85,000 (\$51,000 net of tax effect) on the sale of the Bank's office building in Ketchikan.

For purposes of comparison, income might be separated into major components as follows:

<i>(in thousands)</i>	Three Months Ended March 31,		Income Incr. (Decr.)
	2004	2003	
Net interest income	\$1,821	\$1,654	\$167
Noninterest income, excluding mortgage gains	239	244	(5)
Gain on sale of mortgage loans	56	182	(126)
Provision for loan losses	(75)	(75)	-
Noninterest expense, excluding loss on sale of building	(1,756)	(1,778)	22
Pre-tax income before loss on sale of building	285	227	58
Income tax	(114)	(91)	(23)
Income before loss on sale of building	171	136	35
Loss on sale of building, net of tax	-	(51)	51
Net income	\$ 171	\$ 85	86

**Net Interest Income.** Net interest income for the third quarter of 2004 increased \$167,000 (10.1%) compared with the first quarter of 2003. The net increase is primarily attributable to three factors:

- Average loans (including held-for-sale) increased \$24.5 million, or 22.9%.
- The mix of interest-earning assets shifted to loans from relatively lower yielding assets such as investment securities and particularly interest-earning deposits in banks. The average balance of interest-earning deposits in banks decreased \$10.1 million, or 52.9%.

- Interest income in the first quarter of 2004 included \$25,000 interest recovery from a government guarantee.

As a result of these factors, the net interest margin on total assets increased to 4.52% in the first quarter of 2004 from 4.29% in the first quarter of 2003.

**Provision for Loan Losses.** The provision for loan losses for the first quarter of 2004 was unchanged from the first quarter of 2003 at \$75,000. The provisions in both periods reflect management's assessment of asset quality and estimated loan impairments and were considered appropriate in order to maintain the allowance for loan losses at a level adequate to absorb losses inherent in the loan portfolio.

Loan chargeoffs of \$12,000 and a loan recovery of \$89,000 resulted in a net recovery of \$77,000 in the first quarter of 2004, compared with net chargeoffs of \$27,000 in the first quarter of 2003. The \$89,000 recovery in the first quarter of 2004 resulted from the government guarantee of a loan previously charged off.

**Noninterest Income.** Excluding gains on sale of mortgages, noninterest income decreased \$5,000 (2.0%) to \$239,000 in the first quarter of 2004, compared with \$244,000 in the first quarter of 2003. The decrease was attributable to lower income from mortgage loan servicing, which declined \$8,000 in the first quarter of 2004 compared with 2003. Servicing income has been unfavorably impacted by rapid prepayments during the mortgage refinance boom.

Gains on sale of mortgage loans decreased \$126,000 to \$56,000 for the first quarter of 2004 compared with \$182,000 for the first quarter of 2003. Mortgage gains are an integral part of the Bank's operations, but tend to be much more variable than other types of revenue because of changes in interest rates and other market conditions and because of management's decision to retain a greater or lesser portion of the Bank's mortgage production in the portfolio, versus selling such production in the secondary market. Mortgage gains in the first quarter of 2003 were much higher than in the first quarter of 2004 as a result of very strong refinancing activity in the market in 2003.

**Noninterest Expense.** Noninterest expense, excluding the loss on sale of the Ketchikan building in 2003, decreased \$22,000 (1.2%) in the first quarter of 2004 compared with 2003. The primary contributor to this decrease was repossessed property expense, which was a net recovery of \$90,000 in 2004, compared with net expense of \$51,000 in 2003. The first quarter of 2004 included a recovery of \$80,000 of expenses incurred in previous quarters, resulting from a government guarantee.

Excluding repossessed property expenses and recoveries in both periods and excluding the loss on sale of building in the first quarter of 2003, noninterest expense increased \$119,000 (6.9%) as summarized in the following table:

<i>(dollars in thousands)</i>		Increase (Decrease)		
Three months ended March 31,	2004	2003	Amount	Percent
Compensation and benefits	\$1,060	\$ 977	\$ 83	8.5%
Occupancy and equipment	375	334	41	12.3
Data processing	72	87	(15)	(17.2)
Professional and consulting fees	58	70	(12)	(17.1)
Marketing and public relations	65	52	13	25.0
Other	216	207	9	4.3
Total noninterest expense, excluding repossessed property expense (recovery) and loss on sale of building	\$1,846	\$1,727	\$119	6.9%

The most significant increase was in compensation and benefits, which increased \$83,000, or 8.5%, due to normal pay increases, new positions, and filling of vacant positions. The \$41,000 increase in occupancy and equipment expense was the result of a variety of improvements to systems and equipment, including more expensive data communications lines. Cost increases were partially offset by lower costs resulting from negotiating a new contract with the Bank's data processing provider and by a decrease in legal fees related to loans.

### **Asset Quality**

Nonaccrual loans were approximately \$371,000 at March 31, 2004, compared with \$313,000 at December 31, 2003. The largest loan at March 31, 2004 had a balance of \$201,000, which was secured by a fishing vessel and other equipment.

Loans with balances totaling \$426,000 and \$331,000 at March 31, 2004 and December 31, 2003, respectively, were considered to be impaired. Total estimated impairments of \$104,000 and \$136,000, respectively, were recognized on these loans in evaluating the adequacy of the allowance for loan losses.

Repossessed assets were \$310,000 at March 31, 2004, compared with \$303,000 at December 31, 2003.

### **Liquidity and Capital Resources**

The Company's primary sources of funds are deposits and principal and interest payments on loans. While maturities and scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions, and competition. The Company's primary investing activity is loan

originations. The Company maintains liquidity levels believed to be adequate to fund loan commitments, investment opportunities, deposit withdrawals and other financial commitments. In addition, the Bank has available a line of credit generally equal to 25% of the Bank's total assets, or approximately \$41 million at March 31, 2004, of which \$32 million was unused.

At March 31, 2004, management had no knowledge of any trends, events or uncertainties that may have material effects on the liquidity, capital resources, or operations of the Company.

The Company is not subject to any regulatory capital requirements separate from its banking subsidiary. The Bank exceeded all of its regulatory capital requirements at March 31, 2004. See Note 2 of the Notes to Consolidated Interim Financial Statements contained herein for information regarding the Bank's regulatory capital position at March 31, 2004.

### **Recent Accounting Pronouncements**

Significant recent Statements of Financial Accounting Standards ("SFAS"), Financial Accounting Standards Board Interpretations ("FIN"), and an Emerging Issues Task Force ("EITF") consensus and the impact of their adoption are described below.

FIN 46-R, *Consolidation of Variable Interest Entities*, issued in January 2003, provides guidance on the decision to consolidate certain "variable interest entities" in consolidated financial statements.

SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, issued in April 2003, clarifies when a contract meets the characteristic of a derivative, clarifies when a derivative contains a financing component and amends certain other existing pronouncements. The amendment is effective for contracts entered into or modified after September 30, 2003.

SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, issued in May 2003, requires the classification as a liability of any financial instrument with a mandatory redemption feature, an obligation to repurchase equity shares, or a conditional obligation based on the issuance of a variable number of its equity shares. The Company does not have any preferred shares or other financial instruments with a mandatory redemption feature. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective in the third quarter of 2003.

EITF 03-01, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, requires certain quantitative and qualitative disclosures for debt and marketable equity securities, classified as available-for-sale or held-to-maturity under SFAS 115 and SFAS 124, that are impaired at the balance sheet date but for which an other-than-temporary impairment has not been recognized. The consensus is effective in 2003. The Company included the required disclosures in its annual consolidated financial statements for the year ended December 31, 2003.

Management believes that these new accounting pronouncements will not have a significant impact on the Company's financial position, results of operations, or liquidity.

Item 3. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the registrant's disclosure controls and procedures (as defined in Section 13(a)-15(e) or 15(d)-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out under the supervision and with the participation of the registrant's Chief Executive Officer, Chief Financial Officer and other members of the registrant's senior management. The registrant's Chief Executive Officer and Chief Financial Officer concluded that the registrant's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the registrant in the reports it files or submits under the Act is (i) accumulated and communicated to the registrant's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls: In the quarter ended March 31, 2004, the registrant did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, the Company and its subsidiary may be a party to various legal proceedings incident to its or their business. At March 31, 2004, there were no legal proceedings to which the Company or any subsidiary was a party, or to which any of their property was subject, which were expected by management to result in a material loss.

Item 2. Changes in Securities and Small Business Issuer Purchases of Equity Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information



None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Articles of Incorporation of Alaska Pacific Bancshares, Inc. (1)
- 3.2 Bylaws of Alaska Pacific Bancshares, Inc. (2)
- 10.1 Employment Agreement with Craig E. Dahl (3)
- 10.2 Severance Agreement with Roger K. White (3)
- 10.3 Severance Agreement with Lisa Corrigan Bell (3)
- 10.4 Severance Agreement with Thomas Sullivan (3)
- 10.5 Severance Agreement with Cheryl Crawford (3)
- 10.6 Severance Agreement with Tammi L. Knight (3)
- 10.7 Severance Agreement with John E. Robertson (5)
- 10.8 Severance Agreement with Leslie D. Dahl (5)
- 10.9 Alaska Federal Savings Bank 401(k) Plan (1)
- 10.10 Alaska Pacific Bancshares, Inc. Employee Stock Ownership Plan (3)
- 10.11 Alaska Pacific Bancshares, Inc. Employee Severance Compensation Plan (3)
- 10.12 Alaska Pacific Bancshares, Inc. 2000 Stock Option Plan (4)
- 10.13 Alaska Pacific Bancshares, Inc. 2000 Management Recognition Plan (4)
- 10.14 Alaska Pacific Bancshares, Inc. 2003 Stock Option Plan (6)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (333-74827).
  - (2) Incorporated by reference to the registrant's Registration Statement on Form SB-2 (333-74827), except for amended Article III, Section 2, which was incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended March 31, 2003.
  - (3) Incorporated by reference to the registrant's Annual Report on Form 10-KSB for the year ended December 31, 1999.
  - (4) Incorporated by reference to the registrant's annual meeting proxy statement dated May 5, 2000.
  - (5) Incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended March 31, 2003.
  - (6) Incorporated by reference to the registrant's annual meeting proxy statement dated April 10, 2003.

- (b) The Company filed a Current Report on Form 8-K, dated February 27, 2004, to furnish a press release announcing its financial results for the fourth quarter and year ended December 31, 2003.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Alaska Pacific Bancshares, Inc.

May 6, 2004

\_\_\_\_\_  
Date

/s/Craig E. Dahl

\_\_\_\_\_  
Craig E. Dahl  
President and  
Chief Executive Officer

May 6, 2004

\_\_\_\_\_  
Date

/s/Roger K. White

\_\_\_\_\_  
Roger K. White  
Senior Vice President and  
Chief Financial Officer

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Craig E. Dahl, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Alaska Pacific Bancshares, Inc.;
2. Based on my knowledge, this 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(s) 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)) 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 (or persons performing the equivalent functions):
  - (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.

Date: May 6, 2004

/s/Craig E. Dahl  
Craig E. Dahl  
President and  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Roger K. White, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Alaska Pacific Bancshares, Inc.;
2. Based on my knowledge, this 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(s) 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)) 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, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) 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
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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 (or persons performing the equivalent functions):
  - (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.

Date: May 6, 2004

/s/Roger K. White  
Roger K. White  
Senior Vice President and  
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
OF ALASKA PACIFIC BANCSHARES, INC.  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify that:

- The report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- The information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

May 6, 2004

Date

/s/Craig E. Dahl

Craig E. Dahl

President and

Chief Executive Officer

**Exhibit 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
OF ALASKA PACIFIC BANCSHARES, INC.  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and in connection with the accompanying Quarterly Report on Form 10-QSB, I hereby certify that:

- The report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
- The information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

May 6, 2004

Date

/s/Roger K. White

Roger K. White  
Senior Vice President and  
Chief Financial Officer