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

# FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 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.

_X_ 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 July 31, 2004

Transitional Small Business Disclosure Format (check one):

_____ Yes _X_ 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

| *(dollars in thousands)* | June 30, 2004 | December 31, 2003 |
|---|---|---|
| **Assets** | (Unaudited) | |
| Cash and due from banks | $ 5,871 | $ 6,127 |
| Interest-earning deposits in banks | 5,191 | 12,999 |
| Total cash and cash equivalents | 11,062 | 19,126 |
| Investment securities available for sale, at fair value (amortized cost: June 30, 2004 - $9,405; December 31, 2003 - $11,332) | 9,342 | 11,292 |
| Federal Home Loan Bank stock | 1,763 | 1,732 |
| Loans held for sale | 442 | 2,938 |
| Loans | 141,398 | 125,282 |
| Less allowance for loan losses | 1,284 | 1,159 |
| Loans, net | 140,114 | 124,123 |
| Accrued interest receivable | 681 | 576 |
| Premises and equipment | 2,047 | 2,095 |
| Repossessed assets | - | 303 |
| Other assets | 1,534 | 2,374 |
| **Total Assets** | $166,985 | $164,559 |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| Deposits: | | |
| Noninterest-bearing demand | $ 22,116 | $ 20,043 |
| Interest-bearing demand | 31,781 | 32,220 |
| Money market | 26,383 | 24,973 |
| Savings | 23,837 | 24,225 |
| Certificates of deposit | 35,899 | 37,151 |
| Total deposits | 140,016 | 138,612 |
| Federal Home Loan Bank advances | 8,776 | 9,219 |
| Advances from borrowers for taxes and insurance | 1,811 | 686 |
| Accounts payable and accrued expenses | 417 | 292 |
| Accrued interest payable | 231 | 227 |
| Other liabilities | 184 | 266 |
| Total liabilities | 151,435 | 149,302 |
| Shareholders' Equity: | | |
| Common stock ($0.01 par value; 20,000,000 shares authorized; 655,415 shares issued; 626,132 shares outstanding at June 30, 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 | (55) | (80) |
| Retained earnings | 10,373 | 10,092 |
| Accumulated other comprehensive income | (37) | (24) |
| Total shareholders' equity | 15,550 | 15,257 |
| **Total Liabilities and Shareholders' Equity** | $166,985 | $164,559 |

*See notes to consolidated interim financial statements.*

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in thousands, except per share)* | 2004 | 2003 | 2004 | 2003 |
| **Interest Income** | | | | |
| Loans | $2,157 | $1,790 | $4,253 | $3,702 |
| Investment securities | 87 | 201 | 194 | 406 |
| Interest-bearing deposits with banks | 15 | 77 | 35 | 135 |
| Total interest income | 2,259 | 2,068 | 4,482 | 4,243 |
| **Interest Expense** | | | | |
| Deposits | 288 | 420 | 579 | 830 |
| Federal Home Loan Bank advances | 109 | 116 | 220 | 227 |
| Total interest expense | 397 | 536 | 799 | 1,057 |
| **Net Interest Income** | 1,862 | 1,532 | 3,683 | 3,186 |
| Provision for loan losses | 75 | 30 | 150 | 105 |
| Net interest income after provision for loan losses | 1,787 | 1,502 | 3,533 | 3,081 |
| **Noninterest Income** | | | | |
| Mortgage servicing income | 37 | 47 | 76 | 94 |
| Service charges on deposit accounts | 178 | 181 | 335 | 335 |
| Other service charges and fees | 72 | 50 | 115 | 93 |
| Gain on sale of mortgage loans | 112 | 113 | 168 | 295 |
| Total noninterest income | 399 | 391 | 694 | 817 |
| **Noninterest Expense** | | | | |
| Compensation and benefits | 991 | 910 | 2,051 | 1,887 |
| Occupancy and equipment | 384 | 335 | 759 | 669 |
| Data processing | 62 | 86 | 134 | 173 |
| Professional and consulting fees | 67 | 70 | 125 | 140 |
| Marketing and public relations | 72 | 61 | 137 | 113 |
| Repossessed property expense (recovery), net | 26 | 16 | (64) | 67 |
| Loss on sale of office building | - | - | - | 85 |
| Other | 257 | 239 | 473 | 446 |
| Total noninterest expense | 1,859 | 1,717 | 3,615 | 3,580 |
| Income before income tax | 327 | 176 | 612 | 318 |
| Income tax | 131 | 70 | 245 | 127 |
| **Net Income** | $196 | $106 | $367 | $191 |
| | | | | |
| Earnings per share: | | | | |
| Basic | $ .33 | $ .18 | $ .62 | $ .33 |
| Diluted | .31 | .17 | .58 | .31 |
| Cash dividends per share | .07 | .07 | .14 | .13 |

*See notes to consolidated interim financial statements.*

## Alaska Pacific Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

(Unaudited)

| *(in thousands)* | Six Months Ended June 30, 2004 | 2003 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 367 | $ 191 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 150 | 105 |
| Depreciation and amortization | 180 | 187 |
| Gain on sale of mortgage loans | (168) | (295) |
| Federal Home Loan Bank stock dividends | (31) | (44) |
| Amortization of fees, discounts, and premiums, net | (65) | (94) |
| Stock award plan expense | 25 | 25 |
| Loss on sale of repossessed assets | 45 | 13 |
| Loss on sale of building | - | 85 |
| Deferred income tax expense | 245 | 127 |
| Cash provided by (used in) changes in operating assets and liabilities: | | |
| Accrued interest receivable | (105) | 50 |
| Other assets | 605 | (521) |
| Advances from borrowers for taxes and insurance | 1,125 | 1,043 |
| Accrued interest payable | 4 | 24 |
| Accounts payable and accrued expenses | 125 | (111) |
| Other liabilities | (82) | 237 |
| Net cash provided by operating activities | 2,420 | 1,022 |
| **Investing Activities** | | |
| Purchase of investment securities available for sale | - | (10,316) |
| Maturities and principal repayments of investment securities available for sale | 1,838 | 2,904 |
| Loan originations, net of principal repayments | (31,407) | (19,247) |
| Sale of mortgage loans | 18,077 | 25,883 |
| Proceeds from sale of repossessed assets | 265 | 176 |
| Proceeds from sale of building | - | 1,297 |
| Purchase of premises and equipment | (132) | (100) |
| Net cash provided by (used in) investing activities | (11,359) | 597 |
| **Financing Activities** | | |
| Issuance of stock | - | 16 |
| Net increase (decrease) in Federal Home Loan Bank advances | (443) | 4,662 |
| Net increase (decrease) in demand and savings deposits | 2,656 | (332) |
| Net decrease in certificates of deposit | (1,252) | (422) |
| Cash dividends paid | (86) | (79) |
| Net cash provided by financing activities | 875 | 3,845 |
| **Increase (decrease) in cash and cash equivalents** | (8,064) | 5,464 |
| Cash and cash equivalents at beginning of period | 19,126 | 28,229 |
| **Cash and cash equivalents at end of period** | $11,062 | $33,693 |
| Supplemental information: | | |
| Cash paid for interest | $ 795 | $1,033 |
| Loan repossessions | 7 | 306 |
| Net change in unrealized gain on securities available for sale, net of tax | (13) | (137) |

*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 June 30, 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 June 30, 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 June 30, 2004:

| *(dollars in thousands)* | | |
|---|---|---|
| Tangible Capital: | | |
| Actual | $14,748 | 8.90% |
| Required | 2,484 | 1.50 |
| Excess | $12,264 | 7.40% |
| Core Capital: | | |
| Actual | $14,748 | 8.90% |
| Required | 6,625 | 4.00 |
| Excess | $ 8,123 | 4.90% |
| Total Risk-Based Capital: | | |
| Actual | $16,032 | 12.98% |
| Required | 9,879 | 8.00 |
| Excess | $ 6,153 | 4.98% |

## 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 June 30, | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Net Income | Average Shares | Earnings Per Share | Net Income | Average Shares | Earnings Per Share |
| Net income/average shares issued | $196,000 | 655,415 | | $106,000 | 655,415 | |
| Treasury stock | | (29,283) | | | (31,483) | |
| Unvested stock awards | | (6,286) | | | (11,578) | |
| Unearned ESOP shares | | (23,252) | | | (28,789) | |
| Basic EPS | 196,000 | 596,594 | $ .33 | 106,000 | 583,565 | $ .18 |
| Incremental shares under stock plans: | | | | | | |
| Stock awards | | 3,182 | | | 5,586 | |
| Stock options | | 30,334 | | | 29,003 | |
| Diluted EPS | $196,000 | 630,110 | $ .31 | $106,000 | 618,154 | $ .17 |

| Six Months Ended June 30, | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Net Income | Average Shares | Earnings Per Share | Net Income | Average Shares | Earnings Per Share |
| Net income/average shares issued | $367,000 | 655,415 | | $191,000 | 655,415 | |
| Treasury stock | | (29,283) | | | (31,750) | |
| Unvested stock awards | | (6,952) | | | (12,234) | |
| Unearned ESOP shares | | (23,252) | | | (28,789) | |
| Basic EPS | 367,000 | 595,928 | $ .62 | 191,000 | 582,642 | $ .33 |
| Incremental shares under stock plans: | | | | | | |
| Stock awards | | 3,821 | | | 5,739 | |
| Stock options | | 33,843 | | | 29,134 | |
| Diluted EPS | $367,000 | 633,592 | $ .58 | $191,000 | 617,515 | $ .31 |

## 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:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(in thousands)* | 2004 | 2003 | 2004 | 2003 |
| Net income | $196 | $106 | $367 | $ 191 |
| Other comprehensive income (loss) | (60) | 6 | (14) | (137) |
| Comprehensive income | $136 | $112 | $353 | $ 54 |

## Note 5 - Impaired Loans

Impaired loans were $1,225,000 and $331,000 at June 30, 2004 and December 31, 2003, respectively. Estimated impairments of $262,000 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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Net income, as reported | $196,000 | $106,000 | $367,000 | $191,000 |
| Total stock option employee compensation expense determined under fair value based method, net of tax effect | (6,000) | (6,000) | (12,000) | (11,000) |
| Pro forma net income | $190,000 | $100,000 | $355,000 | $180,000 |
| Earnings per share: | | | | |
| Basic -as reported | $.33 | $.18 | $.62 | $.33 |
| Basic -pro forma | .32 | .17 | .60 | .31 |
| Diluted -as reported | .31 | .17 | .58 | .31 |
| Diluted -pro forma | .30 | .16 | .56 | .29 |

**Note 7 -Commitments**

Commitments to extend credit, including lines of credit, total $10,252,000 and $11,318,000 at June 30, 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 $2,859,000 and $1,640,000 at June 30, 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 June 30, 2004 were $167.0 million, a 1.5% increase from $164.6 million at December 31, 2003. An increase in loans was funded primarily by reductions in cash and cash equivalents, loans held for sale, and investment securities and other assets.

Loans (excluding loans held for sale) were $141.4 million at June 30, 2004, compared to $125.3 million at December 31, 2003, an $16.1million (12.8%) increase. The increase was attributable to strong loan demand resulting from continuing business development efforts, particularly in lending to small businesses. Loans to businesses, including real estate and construction, increased 20.8% to $70.3 million at June 30, 2004, compared with $58.2 million at December 31, 2003. Among consumer loans, home equity loans exhibited the strongest growth, increasing 14.9% to $10.8 million at June 30, 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 twelve months, increasing 31.7% from $8.2 million at June 30, 2003.

Loans are summarized by category as follows:

| *(in thousands)* | June 30, 2004 | December 31, 2003 |
|---|---|---|
| Real estate: | | |
| Permanent: | | |
| One- to four-family | $46,732 | $46,381 |
| Multifamily | 1,027 | 1,108 |
| Commercial nonresidential | 43,378 | 39,293 |
| Land | 4,117 | 3,425 |
| Construction: | | |
| One- to four-family | 3,943 | 2,330 |
| Commercial nonresidential | 4,282 | - |
| Commercial business | 21,611 | 17,817 |
| Consumer: | | |
| Home equity | 10,809 | 9,361 |
| Boat | 4,331 | 4,326 |
| Automobile | 544 | 642 |
| Other | 624 | 599 |
| Loans | $141,398 | $125,282 |
| Loans held for sale | $ 442 | $2,938 |

Deposits increased 1.0% to $140.0 million at June 30, 2004, compared with $138.6 million at December 31, 2003. While the Bank experiences seasonal fluctuations in deposit flows, an analysis of the year-to-year (*i.e.*, June-to-June) trend indicates continuing growth in all categories of deposits except certificates of deposit, as illustrated in the following table:

| | At June 30, | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands)* | 2004 | Percent Change | 2003 | Percent Change | 2002 |
| Noninterest-bearing demand | $ 22,116 | 19.7% | $ 18,474 | 39.6% | $ 13,229 |
| Interest-bearing demand | 31,781 | 4.8 | 30,311 | 3.3 | 29,355 |
| Total demand | 53,897 | 10.5 | 48,785 | 14.6 | 42,584 |
| Money market | 26,383 | 19.4 | 22,100 | 1.5 | 21,763 |
| Savings | 23,837 | 5.0 | 22,710 | 10.8 | 20,488 |
| Subtotal | 104,117 | 11.2 | 93,595 | 10.3 | 84,835 |
| Certificates of deposit | 35,899 | (6.3) | 38,332 | (4.6) | 40,193 |
| Total | $140,016 | 6.1% | $131,927 | 5.5% | $125,028 |

The strong increases in noninterest-bearing demand (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 second quarter of 2004 was $196,000 ($.31 per diluted share) compared to $106,000 ($.17 per diluted share) for the second quarter of 2003, an increase of $90,000 (84.9%). Net income for the first half of 2004 was $367,000 ($.58 per diluted share) compared to $191,000 ($.31 per diluted share) for the first half of 2003, an increase of $176,000 (92.1%). The first half 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, Alaska.

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

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | 2004 | 2003 | Income Incr. (Decr.) | 2004 | 2003 | Income Incr. (Decr.) |
| Net interest income | $1,862 | $1,532 | $330 | $3,683 | $3,186 | $497 |
| Noninterest income, excluding mortgage gains | 287 | 278 | 9 | 526 | 522 | 4 |
| Gain on sale of mortgage loans | 112 | 113 | (1) | 168 | 295 | (127) |
| Provision for loan losses | (75) | (30) | (45) | (150) | (105) | (45) |
| Noninterest expense, excluding loss on sale of building | (1,859) | (1,717) | (142) | (3,615) | (3,495) | (120) |
| Pre-tax income before loss on sale of building | 327 | 176 | 151 | 612 | 403 | 209 |
| Income tax | (131) | (70) | (61) | (245) | (161) | (84) |
| Income before loss on sale of building | 196 | 106 | 90 | 367 | 242 | 125 |
| Loss on sale of building, net of tax | - | - | - | - | (51) | 51 |
| Net income | $ 196 | $ 106 | $ 90 | $ 367 | $ 191 | $176 |

**Net Interest Income**. Net interest income for the second quarter of 2004 increased $330,000 (21.5%) and for the first half of 2004 increased $497,000 (15.6%), each compared with the same periods in 2003. The net increases are attributable to several factors (comparisons are with corresponding periods in 2003):

- Average loans (including held-for-sale) increased significantly, rising $34.5 million (33.8%) for the second quarter and $29.5 million (28.3%) for the first half.
- 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 $21.3 million (77.8%) for the second quarter and $15.7 million (67.6%) for the first half.
- Interest income in the first quarter (and first half) of 2004 included $25,000 interest recovery from a government guarantee of a loan previously charged off.
- The mix of deposits has continued a gradual shift to lower-cost checking, money market, and savings accounts and away from higher-cost certificates of deposit.

As a result of these and other factors, the net interest margin on total average assets increased to 4.51% in the second quarter of 2004 from 3.92% in the second quarter of 2003. For the first half of 2004, the margin increased to 4.49% from 4.08% in the first half of 2003.

**Provision for Loan Losses.** The provision for loan losses was $75,000 for the first quarter and $150,000 for the first half of 2004, compared with $30,000 and $105,000, respectively, for the corresponding periods in 2003. 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.

Net loan chargeoffs were $102,000 for the second quarter and $25,000 for the first half of 2004, compared with $73,000 and $100,000, respectively, for the corresponding periods in 2003. The lower net amount in the first half of 2004 reflected an $89,000 recovery in the first quarter which resulted from the government guarantee discussed above.

**Noninterest Income.** Excluding gains on sale of mortgages, noninterest income increased $9,000 (3.2%) to $287,000 for the second quarter and increased $4,000 (0.8%) to $526,000 for the first half of 2004, compared with the same periods in 2003. The small increase was net of lower income from mortgage loan servicing, which declined $10,000 (21.3%) in the second quarter and $18,000 (19.1%) for the first half of 2004 compared with the same periods in 2003. Servicing income has been unfavorably impacted by rapid prepayments during the recent mortgage refinance boom.

Gains on sale of mortgage loans was approximately unchanged at $112,000 for the first quarter, but declined by $127,000 (43.1%) to $168,000 for the first half of 2004, each compared with the corresponding period in 2004. 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 decisions to retain a greater or lesser portion of the Bank's mortgage production in the portfolio, versus selling such production in the secondary market. Gains on the sale of mortgage loans 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 for the second quarter of 2004 increased $142,000 (8.3%) for the second quarter and $35,000 (0.1%) for the first half of 2004, each compared with the same periods in 2003. However, these comparisons were particularly affected by two things:

- The first quarter (and first half) of 2003 included a nonrecurring pre-tax loss of $85,000 on the sale of the Ketchikan building.

- Repossessed property expense for the first quarter (and first half) of 2004 was net of an $80,000 recovery 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 $132,000 (7.8%) for the second quarter and $251,000 (7.3%) for the first half of 2004, each compared with the same period in 2003.

The most significant increase was in compensation and benefits, which increased $81,000 (8.9%) for the second quarter and $164,000 (8.7%) for the first half as a result of normal pay increases, new positions, and filling of vacant positions. Occupancy and equipment expense increased $49,000 (14.6%) for the second quarter and $90,000 (13.5%) for the first half as a 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.

**Asset Quality**

Nonaccrual loans were approximately $101,000 at June 30, 2004, compared with $313,000 at December 31, 2003. Loans with balances totaling $1.2 million and $331,000 at June 30, 2004 and December 31, 2003, respectively, were considered to be impaired. Total estimated impairments of $262,000 and $136,000, respectively, were recognized on these loans in evaluating the adequacy of the allowance for loan losses.

The largest impaired loan at June 30, 2004 was a troubled commercial business loan for $910,000 for which $250,000 of estimated impairment was recognized based on potential liquidation of collateral, consisting primarily of inventory and equipment. Subsequent to June 30, 2004, however, management has negotiated with the customer a possible restructuring which, if completed, would likely result in a write-down of approximately $100,000. However, should the restructured business fail and collateral is repossessed, additional losses in excess of the $100,000 write-down could ultimately be recognized on the loan.

There were no repossessed assets at June 30, 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 from the Federal Home Loan Bank of Seattle generally equal to 25% of the Bank's total assets, or approximately $41 million at June 30, 2004, of which $32 million was unused.

At June 30, 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 June 30, 2004. See Note 2 of the Notes to Consolidated Interim Financial Statements contained herein for information regarding the Bank's regulatory capital position at June 30, 2004.

**Recent Accounting Pronouncements**

Significant recent Statements of Financial Accounting Standards ("SFAS"), Financial Accounting Standards Board Interpretations ("FIN"), Emerging Issues Task Force ("EITF") consensuses, Statements of Position ("SOP"), and new Securities and Exchange Commission ("SEC") guidance are described below, along with the impact of their adoption.

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.

SOP 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, issued in December 2003, is effective for loans acquired after 2004. The SOP addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities (loans) acquired in a transfer if those differences are attributable, at least in part, to credit quality. It includes loans acquired in business combinations. The SOP does not apply to loans originated by the Company. The Company intends to adopt the provisions of SOP 03-3 effective January 1, 2005.

On December 11, 2003, the SEC Staff announced its intention to release a Staff Accounting Bulletin in order to clarify existing accounting practices relating to the valuation of issued loan commitments, including interest rate lock commitments, subject to Derivative Implementation Group Issue C-13, *When a Loan Commitment is included in the Scope of Statement 133*. The new guidance is expected to require all registrants to begin accounting for these commitments subject to SFAS No. 133 as written options that would be reported as liabilities until they are exercised or expire. The provisions of this interim guidance are expected to be effective for loan commitments entered into after March 31, 2004. Management adopted the provisions of this guidance effective April 1, 2004.

Management does not expect that implementation of these new accounting pronouncements will have a significant impact on the Company's consolidated financial position or its consolidated results of operations.

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 June 30, 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 June 30, 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

The Annual Meeting of Stockholders of the Company was held on May 18, 2004. The results of the vote on the matters presented at the Meeting were as follows:

1. The following individuals were elected as directors:

| | Vote For | Vote Withheld |
|---|---|---|
| Roger Grummett | 551,435 | 1,050 |
| Deborah R. Marshall | 548,268 | 4,217 |
| Marta Ryman | 506,910 | 45,575 |

2. The appointment of Moss Adams LLP as the Company's independent auditors for the year ending December 31, 2004 was approved by the following vote:

| For | Against | Abstain |
|---|---|---|
| 544,885 | 5,900 | 1,700 |

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 May 4, 2004, to furnish a press release announcing its financial results for the first quarter ended March 31, 2004.

SIGNATURES

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

Alaska Pacific Bancshares, Inc.

| | |
|---|---|
| August 12, 2004 | /s/Craig E. Dahl |
| Date | Craig E. Dahl<br>President and<br>Chief Executive Officer |
| August 12, 2004 | /s/Roger K. White |
| Date | Roger K. White<br>Senior Vice President and<br>Chief Financial Officer |

**Exhibit 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

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: August 12, 2004

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

**Exhibit 31.2**

**CERTIFICATION CHIEF FINANCIAL OFFICER**

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: August 12, 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.

| | |
|---|---|
| August 12, 2004 | /s/Craig E. Dahl |
| Date | Craig E. Dahl<br>President and<br>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.

| | |
|---|---|
| August 12, 2004 | /s/Roger K. White |
| Date | Roger K. White<br>Senior Vice President and<br>Chief Financial Officer |