UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

[**X**] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to _________

Commission File Number: 0-26003

ALASKA PACIFIC BANCSHARES, INC.
(Name of small business issuer 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	99801
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number (907) 789-4484

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

Securities registered pursuant to Section 12(g) of the Exchange Act: Common Stock, par value $0.01 per share
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

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 [X] NO [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The issuer's revenues for the fiscal year were $14.4 million.

As of March 15, 2008, there were issued and outstanding 655,415 shares of the registrant's Common Stock, which are traded on the over-the-counter market through the OTC "Electronic Bulletin Board" under the symbol "AKPB." Based on the closing price of the Common Stock on March 15, 2008, the aggregate value of the Common Stock outstanding held by nonaffiliates of the registrant was $13.3 million (655,415 shares at $20.25 per share). For purposes of this calculation, officers and directors of the registrant are considered nonaffiliates.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the 2008 Annual Meeting of Stockholders (Part III)

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

PART I

Item 1. Description of Business

General

Alaska Pacific Bancshares, Inc. ("Company"), an Alaska corporation, was organized on March 19, 1999 for the purpose of becoming the holding company for Alaska Pacific Bank ("Alaska Pacific" or the "Bank") upon the Bank's conversion from a federal mutual to a federal stock savings bank ("Conversion"). The Conversion was completed on July 1, 1999. At December 31, 2007, the Company had total assets of $187.5 million, total deposits of $149.4 million and stockholders' equity of $18.7 million. The Company has not engaged in any significant activity other than holding the stock of the Bank. Accordingly, the information set forth in this report, including financial statements and related data, relates primarily to the Bank.

Alaska Pacific was founded as "Alaska Federal Savings and Loan Association of Juneau" in 1935 and changed its name to "Alaska Federal Savings Bank" in October 1993. In connection with the Conversion, Alaska Pacific changed its name from "Alaska Federal Savings Bank" to its current title. The Bank is regulated by the Office of Thrift Supervision ("OTS") and the Federal Deposit Insurance Corporation ("FDIC"). The FDIC currently insures the Bank's deposits, which have been federally insured since 1937. The Bank has been a member of the Federal Home Loan Bank ("FHLB") System since 1937.

Alaska Pacific operates as a community oriented financial institution and is devoted to serving the needs of its customers. The Bank's business consists primarily of attracting retail deposits from the general public and using those funds to originate one-to-four-family mortgage loans, commercial business loans, consumer loans, construction loans and commercial real estate loans.

Market Area

Alaska Pacific's primary markets are in the communities of Juneau, Ketchikan and Sitka, but serve the entire region of southeast Alaska considered to span the 500 miles from Yakutat in the north to Prince of Wales Island to the south. The region encompasses approximately 35,000 square miles of land distributed amongst the islands and coastline of the Alaska Panhandle. Southeast Alaska is home to approximately 70,000 residents in 14 communities, a number that, with the exception of Juneau, Ketchikan and Sitka, has shown slow but steady decline over the past nine years. While the region shares similar economic characteristics, there is some diversity and unique industries around the region.

With the recent upheaval in the nation's real estate markets with pockets of other serious economic problems, it is important to explain that southeast Alaska has historically been relatively immune from the direct impact of these types of problems in the "lower 48". It is often said that the region misses the "booms" as well as the "busts". Housing prices have remained relatively stable, with any movement up or down driven by small adjustments in each local market based on supply, demand and interest rates. Generally, the region's banks, thrift and credit unions did not engage in subprime lending, originating conforming loans has been the rule.

Alaska Pacific's administrative headquarters and largest banking office, one full service branch and the bank's mortgage operation, are located in Juneau with a population of 30,650, a number which has grown 6.8% over the past nine years, according the Juneau Economic Development Council. Juneau is the capital of Alaska with its primary economic resources being state and federal government, tourism, fish processing, fishing and mining. Juneau's historically active mining industry (primarily gold and silver), which had seen decades of decline, has gained importance in the area's economy. According to the Alaska Department of Labor, the largest employers in Juneau are the state, local and federal agencies, followed by Bartlett Regional Hospital and the University of Alaska. Unemployment in Juneau reflects a downward trend with the most recent available number at 4.7%.

Two full service offices of Alaska Pacific are located in Ketchikan (population approximately 13,174). Ketchikan is an industrial center and a major port of entry in Southeast Alaska with a diverse economy. A large fishing fleet, fish processing facilities, timber and wood products manufacturing, and tourism are Ketchikan's main economic support. The largest employers in the Ketchikan Gateway Borough include the city and state government, Ketchikan General Hospital, the Ketchikan Gateway School District, the Ketchikan Pulp Mill and the federal government.

One full service office of Alaska Pacific is located in Sitka (population approximately 8,833) located on the west coast of Baranof Island fronting the Pacific Ocean, on Sitka Sound. The primary economic sources in Sitka are fishing, fish processing, tourism, government, transportation, retail and health care services. The largest employers in Sitka include the Southeast Alaska Regional Health Corp., the Sitka Borough School District, city, state and federal governments and the Sitka Community Hospital. Other Sitka employers include the Alaska State Trooper Training Academy and numerous businesses involved in commercial and sport fishing and tourism.

In January 2006, Alaska Pacific's smallest offices, located in Hoonah (population approximately 860) and Yakutat (population approximately 808), were closed to reduce operating expenses, but Alaska Pacific continues to serve these communities through online banking and other remote services

Lending Activities

General. At December 31, 2007, Alaska Pacific's loan portfolio (excluding loans held for sale) amounted to $165.5 million, or 88% of total assets at that date. Alaska Pacific originates conventional mortgage loans, construction loans, commercial real estate loans, land loans, consumer loans and commercial business loans. Over 75% of Alaska Pacific's loan portfolio is secured by real estate, either as primary or secondary collateral, located in its primary market area.

Loan Portfolio Analysis. The following table sets forth the composition of Alaska Pacific's loan portfolio as of the dates indicated.

(dollars in thousands) December 31,	2007		2006	
	Amount	Percent	Amount	Percent
Real estate:				
Permanent:				
One-to-four-family	$41,275	24.93%	$44,072	27.79%
Multifamily	1,043	0.63	1,304	0.82
Commercial nonresidential	45,067	27.23	45,212	28.51
Total permanent	87,385	52.79	90,588	57.12
Land	6,321	3.82	6,359	4.01
Construction:				
One-to-four-family	11,648	7.04	12,892	8.13
Multifamily	719	0.43	731	0.46
Commercial nonresidential	11,564	6.99	6,567	4.14
Total construction	23,931	14.46	20,190	12.73
Commercial business	22,872	13.82	18,268	11.52
Consumer:				
Home equity	19,128	11.56	16,836	10.62
Boat	3,974	2.40	4,663	2.94
Automobile	1,006	0.61	738	0.46
Other	889	0.54	955	0.60
Total consumer	24,997	15.11	23,192	14.62
Total loans	165,506	100.00%	158,597	100.00%
Less:				
Allowance for loan losses	1,783		1,666	
Loans, net	$163,723		$156,931	

One-to-four-family Real Estate Lending. Historically, Alaska Pacific has concentrated its lending activities on the origination of loans secured by first mortgages on existing one-to-four-family residences located in its primary market area. At December 31, 2007, $41.3 million, or 24.9%, of Alaska Pacific's total loan portfolio consisted of these loans. Alaska Pacific originated $28.8 million and $25.0 million of one-to-four-family residential mortgage loans during the years ended December 31, 2007 and 2006, respectively.

Generally, Alaska Pacific's fixed-rate one-to four-family mortgage loans have maturities of 15 and 30 years and are fully amortizing with monthly payments sufficient to repay the total amount of the loan with interest by the end of the loan term. Generally, Alaska Pacific originates these loans under terms, conditions and documentation which permit them to be sold to U.S. Government sponsored agencies such as the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Alaska Housing Finance Corporation ("AHFC"), a state agency that provides affordable housing programs. Alaska Pacific's fixed-rate loans customarily include "due on sale" clauses, which gives the Bank the right to declare a loan immediately due and payable in the event the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not paid.

Alaska Pacific offers adjustable rate mortgage loans at rates and terms competitive with market conditions. At December 31, 2007, $2.3 million, or 5.6%, of Alaska Pacific's one-to-four-family residential loan portfolio consisted of adjustable rate mortgage loans. Demand for conventional adjustable rate mortgage loans has been very low in the Bank's market area, but have increased recently with the advent of "hybrid mortgages," which are adjustable rate loans with the interest rate fixed for an initial period of three to five years.

Alaska Pacific also originates one-to-four-family mortgage loans under Freddie Mac, the Federal Housing Administration, the Veterans Administration, and AHFC programs. Alaska Pacific generally sells these loans in the secondary market, with servicing retained. This means that Alaska Pacific retains the right to collect principal and interest payments on the loans and forward these payments to the purchaser of the loan, maintain escrow accounts for payment of taxes and insurance and perform other loan administration functions. See "-- Loan Originations, Sales and Purchases." Alaska Pacific recently added two larger private mortgage investors as sources for funding mortgages through correspondent lending programs.

Alaska Pacific requires title insurance insuring the status of its lien on all loans where real estate is the primary source of security. Alaska Pacific also requires that fire and casualty insurance, and flood insurance where appropriate, be maintained in an amount at least equal to the outstanding loan balance.

One-to-four-family residential mortgage loans may be made up to 80% of the appraised value of the security property without private mortgage insurance. Pursuant to underwriting guidelines adopted by the Board of Directors, Alaska Pacific can lend up to 97% of the appraised value of the property securing a one-to-four-family residential loan; however, Alaska Pacific generally obtains private mortgage insurance on the portion of the principal amount that exceeds 80% of the appraised value of the security property.

To a lesser extent, Alaska Pacific originates loans secured by non-owner occupied residential properties that are sold to Freddie Mac.

Land Lending. Alaska Pacific also originates loans secured by first mortgages on residential building lots on which the borrower proposes to construct a primary residence. These loans generally have terms of up to five years and are fixed-rate, fully amortizing loans. Alaska Pacific also originates commercial land loans, which have floating rates that adjust annually. At December 31, 2007 and 2006, land loans amounted to $6.3 million and $6.4 million, respectively.

Loans secured by undeveloped land or improved lots involve greater risks than one-to-four-family residential mortgage loans because these loans are more difficult to evaluate. If the estimate of value proves to be inaccurate, in the event of default and foreclosure Alaska Pacific may be confronted with a property value of which is insufficient to assure full repayment.

Construction Lending. At December 31, 2007, construction loans amounted to $23.9 million, or 14.5% of total loans, most of which were secured by properties located in Alaska Pacific's primary market area. This compares with $20.2 million, or 12.7% of the total loan portfolio at December 31, 2006. The increase is attributable to a steady demand for construction loans, both residential and commercial.

Construction loans are made for a term of up to nine to 18 months. Construction loans are made at fixed or adjustable rates with interest payable monthly. Alaska Pacific originates construction loans to individuals who have a contract with a builder for the construction of their residence. Alaska Pacific typically requires that permanent financing with Alaska Pacific or some other lender be in place prior to closing any construction loan to an individual. Alaska Pacific generally underwrites these loans, which typically convert to a fully amortizing adjustable- or fixed-rate loan at the end of the construction term, according to the underwriting standards for a permanent loan.

Construction loans to builders, or speculative loans, are typically made with a maximum loan-to-value ratio of the lesser of 80% of the cost of construction or 75% of the appraised value. Construction loans made to home builders are termed "speculative" because the home builder does not have, at the time of loan origination, a signed contract with a home buyer who has a commitment for permanent financing with either Alaska Pacific or another lender for the finished home. The home buyer may be identified either during or after the construction period, with the risk that the builder will have to service the debt on the speculative construction loan and finance real estate taxes and other carrying costs of the completed home for a significant time after the completion of construction until the home buyer is identified.

Prior to making a commitment to fund a construction loan, Alaska Pacific requires an appraisal of the property by an independent state-licensed and qualified appraiser approved by the Board of Directors. Alaska Pacific's staff also reviews and inspects projects prior to disbursement of funds during the term of the construction loan. Loan proceeds are generally disbursed after inspection of the project.

Although construction lending affords Alaska Pacific the opportunity to achieve higher interest rates and fees with shorter terms to maturity than one-to-four-family mortgage lending, construction lending is generally considered to involve a higher degree of risk than one-to-four-family mortgage lending. It is more difficult to evaluate construction loans than permanent loans. At the time the loan is made, the value of the collateral securing the loan must be estimated based on the projected selling price at the time the residence is completed, typically six to 12 months later, and on estimated building and other costs (including interest costs). However, appraisers will use both market and income valuation approaches in addition to cost to establish value. Changes in the demand for new housing in the area and higher-than-anticipated building costs may cause actual results to vary significantly from those estimated. Accordingly, Alaska Pacific may be confronted, at the time the residence is completed, with a loan balance exceeding the value of the collateral. Because construction loans require active monitoring of the building process, including cost comparisons and on-site inspections, these loans are more difficult and costly to monitor. Increases in market rates of interest may have a more pronounced effect on construction loans by rapidly increasing the end-purchasers' borrowing costs, thereby reducing the overall demand for new housing. The fact that in-process homes are difficult to sell and typically must be completed in order to be successfully sold also complicates the process of working out problem construction loans. This may require Alaska Pacific to advance additional funds and/or contract with another builder to complete the residence. Furthermore, in the case of speculative construction loans, there is the added risk associated with identifying an end-purchaser for the finished home.

Alaska Pacific has attempted to minimize the foregoing risks by, among other things, limiting its construction lending, and especially speculative loans, to a small number of well-known local builders. One-to-four-family construction loans generally range in size from $100,000 to $600,000, while commercial nonresidential and multifamily construction loans have generally ranged from $500,000 to $2.5 million. At December 31, 2007, two construction loans were not performing according to the loan terms; the largest, for approximately $1.9 million, was for a land development project.

Multifamily and Commercial Real Estate Lending. The multifamily residential loan portfolio consists primarily of loans secured by small apartment buildings and the commercial real estate loan portfolio consists primarily of loans secured by retail, office, warehouse, mini-storage facilities and other improved commercial properties. These loans generally range in size from $100,000 to $2.5 million and at December 31, 2007 the largest loan totaled $2.3 million and was performing in accordance with its terms. At December 31, 2007, Alaska Pacific had $1.0 million of multifamily residential and $45.1 million of commercial real estate loans, or 0.6% and 27.2%, respectively, of the total loan portfolio at this date. Multifamily and commercial real estate loans are generally underwritten with loan-to-value ratios of up to 75% of the lesser of the appraised value or the purchase price of the property. These loans generally are made at interest rates based on the prime rate for 15 to 20 year terms, with adjustment periods of one, three or five years and they adjust at a rate equal to the prime rate plus a negotiated margin of 1% to 3%. While a majority of Alaska Pacific's multifamily and commercial real estate loans are secured by properties located within Alaska Pacific's primary market area, others are secured by properties elsewhere in Alaska as well as Washington, Oregon, and Utah.

Alaska Pacific is also an approved lender under the AHFC Multifamily Participation Program, which was introduced in 1998. The AHFC Multifamily Participation Program provides for up to 80% of the loan amount, which allows Alaska Pacific to pursue larger lending opportunities while mitigating its risk.

From time to time, Alaska Pacific purchases participations in multifamily and commercial real estate loans from other banks in Alaska and the Pacific Northwest, generally ranging from $500,000 to $2.5 million. Such loans are on similar terms and are subject to the same underwriting standards as loans originated by Alaska Pacific.

Multifamily residential and commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Multifamily residential and commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on these loans typically is dependent on the successful operation of the real estate project. Supply and demand conditions in the market for office, retail and residential space can significantly affect these risks, and, as such, may be subject to a greater extent to adverse conditions in the economy generally. Alaska Pacific reviews all commercial real estate loans in excess of $500,000 on an annual basis to ensure that the loan meets current underwriting standards.

Future growth of commercial real estate loans is restricted by regulation which generally limits such loans, under Alaska Pacific's federal thrift charter, to 400% of total capital for regulatory purposes, or approximately $78 million at December 31, 2007.

Commercial Business Lending. At December 31, 2007, commercial business loans amounted to $22.9 million, or 13.8% of total loans. Future growth of commercial business loans is restricted by regulation which generally limits such loans, under Alaska Pacific's federal thrift charter, to 20% of total assets, or approximately $37 million at December 31, 2007.

Alaska Pacific originates commercial business loans to small sized businesses in its primary market area. Commercial business loans are generally made to finance the purchase of seasonal inventory needs, new or used equipment, and for short-term working capital. Security for these loans generally includes equipment, boats, accounts receivable and inventory, although commercial business loans are sometimes granted on an unsecured basis. Commercial business loans are made for terms of seven years or less, depending on the purpose of the loan and the collateral, with loans to finance operating lines made for one year or less renewed annually at an interest rate based on the prime rate usually adding a margin of between one half and three percentage points. Such loans generally are originated in principal amounts between $100,000 and $1 million. At December 31, 2007, the largest commercial business loan was for $1.1 million and was secured by equipment and inventory. This loan was restructured in 2005 after the borrower encountered financial difficulties, but was performing according to the restructured terms at December 31, 2007.

Alaska Pacific originates guaranteed loans through the Small Business Administration, the U.S. Department of Agriculture and the Alaska Industrial Development and Export Authority. Alaska Pacific has also worked with local municipal agencies, such as the Juneau Economic Development Council and the Cities of Sitka and Ketchikan in exploring participation or guaranty programs in each of these cities. Generally, Alaska Pacific receives guarantees of between 75% and 90% of the loan amount. In addition, Alaska Pacific has retained portions of commercial loans originated through participation programs with economic development agencies such as Alaska Industrial Development and Export Authority, often retaining portions as low as 10%.

Alaska Pacific also makes commercial loans secured by commercial charter boats and commercial fishing boats. These loans have 10 to 15 year terms with an interest rate that adjusts based on the prime interest rate. In connection with the loans on these boats, Alaska Pacific receives a ship's preferred marine mortgage to protect its interest in the collateral. Alaska Pacific has also granted a flooring line to one boat dealer for the purchase of boats and other related marine equipment.

Commercial business lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with residential, commercial and multifamily real estate lending. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan to collateral values and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial business loans often have equipment, inventory, accounts receivable or other business assets as collateral, the liquidation of collateral in the event of a borrower default is often not a sufficient source of repayment because accounts receivable may be uncollectible and inventories and equipment may be obsolete or of limited use, among other things. Accordingly, the repayment of a commercial business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment.

Consumer Lending. At December 31, 2007, consumer loans totaled $25.0 million, or 15.1% of total loans. Consumer loans generally have shorter terms to maturity or repricing and higher interest rates than long-term, fixed-rate mortgage loans. In addition to home equity, boat loans and automobile loans, Alaska Pacific's consumer loans consist of loans secured by land, airplanes, deposit accounts, and unsecured loans for personal or household purposes.

The largest category of Alaska Pacific's consumer loan portfolio is home equity loans that are made on the security of residences. At December 31, 2007, home equity loans totaled $19.1 million, or 11.6% of the total loan portfolio, compared to $16.8 million, or 10.6% of the total loan portfolio at December 31, 2006. Home equity loans generally do not exceed 95% of the appraised value of the residence or 100% of the tax assessment, less the outstanding principal of the first mortgage. Closed-end loans are generally fixed-rate and have terms of up to 25 years requiring monthly payments of principal and interest. Home equity lines of credit generally have adjustable interest rates. These rates are graduated based on credit scores. Recently, with the slowdown in price appreciation or actual declines in values, homeowner's equity in some high loan to value (LTV) home equity loans may have declined. However, Alaska has not experienced the rapid declines in home prices experienced by many parts of the country where home prices rose much faster.

At December 31, 2007, consumer boat loans amounted to $4.0 million, or 2.4%, of the total loan portfolio compared to $4.7 million, or 2.9% of the total loan portfolio at December 31, 2006. Alaska Pacific offers boat loans with maturities of between five and 20 years, which generally range in principal amounts from $15,000 to $350,000 and are secured by new and used boats. Alaska Pacific makes boat loans of less than $100,000 at fixed rates of interest and loans over $100,000 are made at an interest rate that is adjustable based on the prime lending rate. Alaska Pacific generally makes boat loans on new boats of up to 90% of the value and 85% on used boats, but in certain instances it will loan up to 100% of the value depending on credit score.

At December 31, 2007, automobile loans amounted to $1.0 million, or 0.6%, of the total loan portfolio compared to $738,000, or 0.5% of the total loan portfolio at December 31, 2006. Alaska Pacific offers automobile loans with maturities of up to seven years with fixed rates of interest. The origination of auto loans has increased in recent years as a result of business development efforts.

Other consumer loans include loans collateralized by deposit accounts and other types of collateral, and by unsecured loans to qualified individuals. These loans amounted to $0.9 million, or 0.5%, of total loans at December 31, 2007, compared to $1.0 million, or 0.6% of total loans at December 31, 2006.

Alaska Pacific also requires title, fire and casualty insurance on secured consumer loans. The only title exception is for home equity loans under $50,000 where a property profile, obtained from a title company, indicates there are no liens or encumbrances not previously disclosed.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciating assets such as automobiles or boats and particularly used automobiles. In these cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower beyond obtaining a deficiency judgment. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on these loans. These loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of these loans such as Alaska Pacific, and a borrower may be able to assert against this assignee claims and defenses that it has against the seller of the underlying collateral.

Loan Maturity and Repricing. The following table sets forth certain information at December 31, 2007 regarding the dollar amount of loans maturing in Alaska Pacific's portfolio based on their contractual terms to final maturity, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. Loan balances are net of undisbursed loan proceeds and unearned discounts, and do not include loans held for sale.

(in thousands) December 31, 2007	Within 1 Year	After 1 Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total	After 1 Year Fixed Rates	After 1 Year Adjustable Rates
Real estate:								
Permanent:								
One-to-four-family	$ 1,964	$ 6,348	$ 5,670	$ 11,949	$15,604	$41,535	$37,806	$ 1,765
Multifamily	842	41	35	117	348	1,383	12	529
Commercial nonresidential	9,153	4,253	5,389	10,502	15,996	45,293	4,981	31,159
Land	1,940	912	2,980	430	86	6,348	3,543	865
Construction:								
One-to-four-family	11,440	283	-	-	-	11,723	-	283
Multifamily	13	27	30	649	-	719	706	-
Commercial nonresidential	7,719	2,588	101	324	889	11,621	2,500	1,402
Commercial business	8,948	4,395	3,100	4,341	2,272	23,056	4,899	9,209
Consumer:								
Home equity	1,064	2,330	2,341	5,055	8,324	19,114	17,516	534
Boat	343	733	754	1,661	486	3,977	2,716	918
Automobile	284	481	212	24	-	1,001	717	-
Other	125	244	106	195	219	889	669	95
Total	$43,835	$22,635	$20,718	$35,247	$44,224	$166,659	$76,065	$46,759
Unearned loan fees net of origination costs						(1,153)		
Net Loans						$165,506		

Loan Solicitation and Processing. Alaska Pacific obtains its loan applicants from walk-in traffic, which is generated through media advertising and referrals from existing customers, from on-line loan applications through its web site, and through officer business development calls and activities. Local real estate agents refer a portion of Alaska Pacific's mortgage loan applicants, and dealers refer some consumer loans, such as boat loans. Alaska Pacific requires title insurance on all of its mortgage loans. All mortgage loans require fire and extended coverage on appurtenant structures and flood insurance, if applicable.

Loan approval authority varies based on loan type. The Chief Executive Officer, the Chief Credit Officer, and the Chief Lending Officer each has authority to approve all residential mortgage loans up to and including $300,000 that are originated for Alaska Pacific's portfolio and up to the agency limit if the loan is to be sold in the secondary market, multifamily and commercial real estate loans up to and including $300,000, commercial business loans up to and including $300,000 ($100,000 if unsecured), and consumer loans up to and including $300,000 ($100,000 if unsecured). Alaska Pacific's Senior Loan Committee, consisting of the Chief Executive Officer, Chief Credit Officer, Chief Lending Officer and a senior lending officer, must approve loans in excess of these amounts up to and including $750,000. The Directors' Loan Committee must approve all loans in excess of the Senior Loan Committee's approval authority up to 75% of Alaska Pacific's legal lending limit. The Board of Directors must approve all loans in excess of the Directors' Loan Committee's approval authority.

Upon receipt of a loan application from a prospective borrower, a credit report and other data are obtained to verify specific information relating to the loan applicant's employment, income and credit standing. An independent appraiser approved by Alaska Pacific and licensed or certified by the State of Alaska undertakes an appraisal of any real estate offered as collateral. Alaska Pacific promptly notifies applicants of the decision. Interest rates are subject to change if the approved loan is not closed within the time of the commitment.

Alaska Pacific has an automated underwriting system for consumer loans, enabling expedited approval of consumer loans at any branch location. This system also enables processing of online loan applications from customers. In addition, Alaska Pacific also has a system for online loan applications for mortgage loans.

Pursuant to OTS regulations, loans to one borrower cannot exceed 15% of Alaska Pacific's unimpaired capital and surplus. At December 31, 2007, the loans-to-one-borrower limitation for Alaska Pacific was $2.9 million and Alaska Pacific had no loans in excess of this limitation except where guaranteed by a government agency.

Loan Originations, Sales and Purchases. Alaska Pacific's lending activities include the origination of one-to-four-family residential mortgage loans, construction and land loans, loans to businesses, and consumer loans.

Alaska Pacific generally sells loans without recourse and with servicing retained except in its correspondent lending programs. By retaining the servicing, Alaska Pacific receives fees for performing the traditional services of processing payments, accounting for loan funds, and collecting and paying real estate taxes, hazard insurance and other loan-related items, such as private mortgage insurance. At December 31, 2007, Alaska Pacific's servicing portfolio was $100.2 million. For the year ended December 31, 2007, loan servicing fees totaled $262,000 before amortization of servicing rights.

The value of the loans that are serviced for others is significantly affected by interest rates. In general, during periods of falling interest rates, mortgage loans prepay at faster rates and the value of the mortgage servicing declines. Conversely, during periods of rising interest rates, the value of the servicing rights generally increases as a result of slower rates of prepayment. Alaska Pacific may be required to recognize a decrease in value by taking a charge against earnings, which would cause its profits to decrease.

In addition, Alaska Pacific retains certain amounts in escrow for the benefit of investors. Alaska Pacific is able to invest these funds but is not required to pay interest on them. At December 31, 2007, these escrow balances totaled $731,000.

The following table shows total loans originated, purchased, sold and repaid during the periods indicated.

(in thousands) Year ended December 31,	2007	2006
Loans originated:		
Real estate:		
Permanent:		
One-to-four-family	$28,764	$24,950
Multifamily	-	560
Commercial nonresidential	8,527	8,017
Land	1,990	4,313
Construction:		
One-to-four-family	7,999	12,628
Multifamily	64	273
Commercial nonresidential	11,896	5,333
Commercial business	15,377	14,258
Consumer:		
Home equity	5,039	7,443
Boat	608	1,204
Automobile	707	381
Other	2,568	3,302
Total loans originated	83,539	82,662
Loans purchased	5,096	7,055
Loans sold	(18,833)	(18,534)
Foreclosed loans	(0)	(25)
Principal repayments and other changes	(60,492)	(65,283)
Net increase in loans and loans held for sale	$ 9,310	$ 5,875

A portion of Alaska Pacific's originations in 2007 and 2006 represent refinancing of loans originally made by Alaska Pacific and other lenders.

Loan Commitments. Occasionally, Alaska Pacific issues, without charge, commitments for fixed- and adjustable-rate single-family residential mortgage loans conditioned upon the occurrence of certain events. These commitments are made in writing on specified terms and conditions and are honored for up to 60 days. Commercial commitments issued by Alaska Pacific include commitments for fixed-term loans as well as business lines of credit; letters of credit are not offered. At December 31, 2007, Alaska Pacific had $16.1 million of outstanding net loan commitments, including unused portions on commercial business lines of credit and undisbursed funds on construction loans. For additional information on loan commitments, see Note 13 of Notes to the Consolidated Financial Statements included in Item 7 of this Form 10-KSB.

Loan Origination and Other Fees. Alaska Pacific often receives loan origination fees and discount "points." Loan fees and points are a percentage of the principal amount of the loan that are charged to the borrower for funding the loan. The amount of fees and points charged by Alaska Pacific varies, though the range generally is between one half and two points. Accounting standards require fees received (net of certain loan origination costs) for originating loans to be deferred and amortized into interest income over the contractual life of the loan. Net deferred fees associated with loans that are prepaid are recognized as income at the time of prepayment. Alaska Pacific had $802,000 of net deferred loan fees at December 31, 2007.

Nonperforming Assets and Delinquencies. Alaska Pacific utilizes one loan collector to monitor the loan portfolio and communicate with customers concerning past due payments. The size of the portfolio and historically low delinquency rates allow one individual to manage consumer, commercial and residential loans, including those loans serviced for other investors. When a borrower fails to make a required payment, Alaska Pacific institutes collection procedures. The process for monitoring consumer, commercial and residential loans is the same for each type of loan until foreclosure or repossession of the collateral. Depending on the value or nature of the collateral, the loan servicing manager, senior lender or senior management directs any further action.

Customers who miss a payment are mailed a computer-generated notice 15 days after the payment due date. If the customer does not pay promptly, the collector telephones the customer 20 days after the payment due date. After 30 days, the collector sends a letter, which begins the demand process. Follow-up contacts are made between the 30th and 60th day, after which the collector sends a demand letter that specifies the action Alaska Pacific will take and the deadline for resolving the delinquency. While most delinquencies are cured promptly, the collector initiates foreclosure or repossession, according to the terms of the security instrument and applicable law, if the deadline in the 60-day letter is not met.

Residential loans have a highly structured process for foreclosure. In addition to Alaska Pacific's residential loan portfolio, Alaska Pacific services real estate loans for other investors who in turn have their own requirements that must be followed. Alaska Pacific evaluates consumer and commercial business loans individually depending on the nature and value of the collateral.

Alaska Pacific places all loans that are past due 90 days or more on nonaccrual status and all previously accrued interest income is reversed. Alaska Pacific charges off consumer loans when it is determined they are no longer collectible.

Alaska Pacific's Board of Directors is informed monthly as to the status of all mortgage, commercial and consumer loans that are delinquent 30 days or more, the status on all loans currently in foreclosure, and the status of all foreclosed and repossessed property owned by Alaska Pacific.

The following table sets forth information with respect to Alaska Pacific's nonperforming assets at the dates indicated. It is the policy of Alaska Pacific to cease accruing interest on loans 90 days or more past due.

(dollars in thousands) December 31,	2007	2006
Loans accounted for on a nonaccrual basis:		
Commercial business	$ 27	$ -
Consumer	296	-
Total	323	-
Accruing loans which are contractually past due 90 days or more	-	-
Total of nonaccrual and 90 days past due loans	323	-
Repossessed assets	-	-
Total nonperforming assets	$ 323	$ -
Nonaccrual and 90 days or more past due loans as a percentage of loans	0.20%	-
Nonaccrual and 90 days or more past due loans as a percentage of total assets	0.17%	-
Nonperforming assets as a percentage of total assets	0.17%	-

As of December 31, 2007, approximately $13,000 of interest would have been recorded if nonaccrual loans had been current according to their original terms and had been outstanding throughout the year.

Repossessed Assets. Alaska Pacific classifies real estate acquired as a result of foreclosure and other repossessed collateral as repossessed assets until sold. When Alaska Pacific acquires collateral, it is recorded at the lower of its cost, which is the unpaid principal balance of the related loan plus acquisition costs, or fair value.

Subsequent to acquisition, the property is carried at the lower of the acquisition amount or fair value. At December 31, 2007, Alaska Pacific had no repossessed assets.

Asset Classification. The OTS has adopted various regulations regarding problem assets of savings institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations have also created a special mention category, described as assets which do not currently expose an insured institution to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention. If an asset or portion thereof is classified loss, the loss amount is charged off.

Alaska Pacific monitors its asset quality through the use of an Asset Classification Committee, which is comprised of senior lenders and executive officers. The committee meets quarterly to review the loan portfolio, with specific attention given to assets with an identified weakness, as well as reviewing the local, state and national economic trends and the adequacy of the allowance for loan losses.

At December 31, 2007 and 2006, the aggregate amounts of Alaska Pacific's classified and special mention assets (as determined by Alaska Pacific), were as follows:

(in thousands) December 31,	2007	2006
Loss	$ -	$ -
Doubtful	489	450
Substandard assets	5,744	2,770
Special mention	471	1,282

At December 31, 2007 assets classified as substandard, doubtful or loss totaled $6.2 million compared to $3.2 million at December 31, 2006. Substandard and doubtful assets as of December 31, 2007 consisted of three commercial business loans totaling $1.1 million, four commercial real estate loans for $4.3 million and three other loans totaling $327,000. Management has estimated potential impairment of $556,000 for these loans in its assessment of the adequacy of the allowance for loan losses at December 31, 2007. The largest loan in the substandard classification was a $1.9 million commercial real estate loan for a land development project that was not performing in accordance with loan terms at December 31, 2007 and was being restructured by the agent bank. Additionally, in the doubtful and substandard classification at December 31, 2007 was a $1.1 million commercial business loan that was restructured in 2005 after the borrower encountered financial difficulties. While this loan was performing according to the restructured terms at December 31, 2007, management has estimated impairment of $480,000 for this loan. Also in the substandard classification at December 31, 2007 was a $1.1 commercial real estate loan to the same borrower; this loan is well collateralized and paying as agreed.

Special mention loans of $471,000 at December 31, 2007 consisted primarily of two commercial business loans totaling $339,000 and four other loans totaling $132,000. Alaska Pacific believes these loans are adequately secured, but are being monitored carefully.

Allowance for Loan Losses. Alaska Pacific maintains an allowance for loan losses sufficient to absorb losses inherent in the loan portfolio. Alaska Pacific has established a systematic methodology to ensure that the allowance is adequate. The *Asset Classification Policy* requires an ongoing quarterly assessment of the probable estimated losses in the portfolios. The Asset Classification Committee reviews the following information:

- *All loans classified during the previous analysis*. Current information as to payment history, or actions taken to correct the deficiency are reviewed, and if justified, the loan is no longer classified. If conditions have not improved, the loan classification is reviewed to ensure that the appropriate action is being taken to mitigate loss.

- *Past due loans*. The committee reviews loans that are past due 30 days or more, taking into consideration the borrower, nature of the collateral and its value, the circumstances that have caused the delinquency, and the likelihood of the borrower correcting the conditions that have resulted in the delinquent status. The committee may recommend more aggressive collection activity, inspection of the collateral, or no change in its classification.

- *Reports from Alaska Pacific's managers.* Lending managers may be aware of a borrower's circumstances that have not yet resulted in any past due payments but has the potential for problems in the future. Each lending manager reviews their respective lending unit's loans and identifies any that may have developing weaknesses. This "self identification" process is an important component of maintaining credit quality, as each lender is accountable for monitoring as well as originating loans.

- *Current economic conditions.* Alaska Pacific takes into consideration economic conditions in its market area, the state's economy, and national economic factors that could influence the quality of the loan portfolio in general. The unique, isolated geography of Alaska Pacific's market area of Southeast Alaska requires that each community's economic activity be reviewed.

- *Trends in Alaska Pacific's delinquencies*. Alaska Pacific's market area has seasonal trends and as a result, the portfolio tends to have similar fluctuations. Prior period statistics are reviewed and evaluated to determine if the current conditions exceed expected trends.

The amount that is to be added to allowance for loan losses is based upon a variety of factors. An important component is a loss percentage set for each major category of loan that is based upon Alaska Pacific's past loss experience. In certain instances, Alaska Pacific's own loss experience has been minimal, and the related loss factor is modified based on consideration of published national loan loss data. The loss percentages are also influenced by economic factors as well as management experience.

Each individual loan, previously classified by management or newly classified during the quarterly review, is evaluated for loss potential, and any specific estimates of impairment are added to the overall required reserve amount. As a result of the size of the institution, the size of the portfolio, and the relatively small number of classified loans, most members of the asset classification committee are often directly familiar with the borrower, the collateral or the circumstances giving rise to the concerns. For the remaining portion of the portfolio, comprised of "pass" loans, the loss percentages discussed above are applied to each loan category.

The calculated amount is compared to the actual amount recorded in the allowance at the end of each quarter and a determination is made as to whether the allowance is adequate or needs to be increased. Management increases the amount of the allowance for loan losses by charges to income and decreases it by loans charged off (net of recoveries).

Alaska Pacific's loan categories that it considers in evaluating risk may be broadly described as residential, commercial and consumer. The following comments represent management's view of the risks inherent in several component portfolio categories.

- *One-to-four-family Residential* - Alaska Pacific's market area is comprised primarily of a population with above-average incomes and market conditions that have, over the long term, supported a stable or increasing market value of real estate. Absent an overall economic downturn in the economy, experience in this portfolio indicates that losses are minimal provided the property is reasonably maintained, and marketing time to resell the property is relatively short.

- *Multifamily Residential* - There have been minimal losses taken in this segment of the portfolio, however, the rental market is very susceptible to the effects of an economic downturn. While Alaska Pacific monitors loan-to-value ratios, the conditions that would create a default and foreclosure would carry through to a new owner, which may require that Alaska Pacific discount the property or hold it until conditions improve.

- *Commercial Real Estate* - As with multifamily loans, the classification of commercial real estate loans closely corresponds to economic conditions which will limit the income potential and marketability of the property, resulting in higher risk than a loan secured by a single-family residence.

- *Construction Loans (Residential and Commercial)* - There are a variety of risks in construction lending, increased in Alaska by a short building season, difficult building sites and construction delays attributable to delivery of materials. While Alaska Pacific has established construction loan policies and underwriting guidelines designed to mitigate the risk, there is still a higher risk of loss with these loans.

- *Commercial Business Loans* - These types of loans carry the highest degree of risk, relying on the ongoing success of the business to repay the loan. Collateral for commercial credits is often difficult to secure, and even more difficult to liquidate in the event of a default.

- *Consumer Loans* - The consumer loan portfolio has a wide range of factors, determined primarily by the nature of the collateral and the credit history and capacity of the borrower. These loans tend to be smaller in principal amount and secured by second deeds of trust, automobiles, and pleasure boats. Loans for automobiles and pleasure boats generally experience higher than average wear in the Alaskan environment and hold a higher degree of risk of loss in the event of repossession.

Management believes that the allowance for loan losses at December 31, 2007 was adequate at that date. Although management believes that it uses the best information available to make these determinations, future adjustments to the allowance for loan losses may be necessary and results of operations could be significantly and adversely affected if circumstances differ substantially from the assumptions used in making the determinations.

While Alaska Pacific believes it has established its existing allowance for loan losses in accordance with generally accepted accounting principles, there can be no assurance that regulators, in reviewing Alaska Pacific's loan portfolio, will not request Alaska Pacific to increase significantly its allowance for loan losses. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, there can be no assurance that the existing allowance for loan losses will be adequate or that substantial increases will not be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses may adversely affect Alaska Pacific's financial condition and results of operations.

The following table sets forth an analysis of the changes in the allowance for loan losses for the periods indicated.

(dollars in thousands) Year ended December 31,	2007	2006
Allowance at beginning of period	$1,666	$1,448
Provision for loan losses	180	250
Charge-offs:		
One- to- four family residential	-	-
Commercial business	(77)	-
Consumer:		
Home equity	-	(11)
Boat	-	(24)
Total charge-offs	(77)	(35)
Recoveries:		
Commercial business	2	1
Consumer:		
Home Equity	3	-
Boat	9	2
Total recoveries	14	3
Net charge-offs	(63)	(32)
Balance at end of period	$1,783	$1,666
Allowance for loan losses as a percentage of loans outstanding at the end of the period	1.08%	1.05%
Net charge-offs as a percentage of average loans outstanding during the period	0.04%	0.02%
Allowance for loan losses as a percentage of nonperforming loans at end of period	552%	NA

The following table sets forth the breakdown of the allowance for loan losses by loan category for the dates indicated.

December 31,	2007			2006		
(dollars in thousands)	Amount	As a % of Outstanding Loans in Category	% of Loans in Category to Total Loans	Amount	As a % of Outstanding Loans in Category	% of Loans in Category to Total Loans
Real estate:						
Permanent:						
One-to-four-family	$ 31	0.07%	24.94%	$ 57	0.13%	27.79%
Multifamily	3	0.27	0.63	3	0.26	0.82
Commercial non-residential	333	0.74	27.22	328	0.73	28.51
Land	23	0.37	3.82	23	0.36	4.01
Construction:						
One-to-four-family	7	0.06	7.04	7	0.05	8.13
Multifamily	1	0.06	0.43	1	0.05	0.46
Commercial nonresidential	7	0.06	6.99	3	0.05	4.14
Commercial	1,190	5.20	13.82	990	5.42	11.52
Consumer:						
Home equity	52	0.27	11.56	106	0.63	10.62
Boat	134	3.38	2.40	145	3.10	2.94
Automobile	1	0.11	0.61	1	0.10	0.46
Other	1	0.12	0.54	2	0.22	0.60
Total allowance for loan losses	$1,783	1.08%	100.00%	$1,666	1.05%	100.00%

Investment Activities

Federal law permits Alaska Pacific to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies and of state and municipal governments, deposits at the FHLB of Seattle, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Subject to various restrictions, Alaska Pacific may also invest a portion of its assets in commercial paper and corporate debt securities. Alaska Pacific must also maintain an investment in FHLB stock as a condition of membership in the FHLB of Seattle.

Investment securities provide liquidity for funding loan originations and deposit withdrawals and enable Alaska Pacific to improve the match between the maturities and repricing of its interest-rate sensitive assets and liabilities. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" and "Regulation" herein.

Alaska Pacific's Asset Liability Management Committee determines appropriate investments in accordance with the Board of Directors' approved investment policies and procedures. Alaska Pacific's policies generally limit investments to U.S. Government and agency securities and mortgage-backed securities issued and guaranteed by Freddie Mac, the Federal National Mortgage Association ("Fannie Mae") and the Government National Mortgage Association ("Ginnie Mae"). Alaska Pacific's policies provide that investment purchases be ratified at monthly Board of Directors meetings. Certain considerations, which include the interest rate, yield, settlement date and maturity of the investment, Alaska Pacific's liquidity position, and anticipated cash needs and sources (which in turn include outstanding commitments, upcoming maturities, estimated deposits and anticipated loan amortization and repayments) affect the making of investments. The effect that the proposed investment would have on Alaska Pacific's credit and interest rate risk, and risk-based capital is also considered. From time to time, investment levels may be increased or decreased depending upon the yields on investment alternatives and upon management's judgment as to the attractiveness of the yields then available in relation to other opportunities and its expectation of the level of yield that will be available in the future, as well as management's projections as to the short-term demand for funds to be used in Alaska Pacific's loan origination and other activities.

The following table sets forth the composition of Alaska Pacific's investment and mortgage-backed securities portfolios at the dates indicated.

December 31,	2007			2006		
(dollars in thousands)	Fair Value	Amortized Cost	Percent of Portfolio	Fair Value	Amortized Cost	Percent of Portfolio
Mortgage-backed securities:						
Fannie Mae	$2,942	$2,988	76.1%	$4,141	$4,224	79.3%
Freddie Mac	403	415	10.6	454	471	8.8
Ginnie Mae	462	418	10.6	558	500	9.4
U.S. agencies and corporations:						
Small Business Administration pools	106	107	2.7	135	134	2.5
Total investment securities available for sale	$3,913	$3,928	100.0%	$5,288	$5,329	100.0%

While management has no specific plans to sell any security, the entire portfolio has been designated as "available-for-sale" at December 31, 2007 and 2006, to allow flexibility in managing the portfolio.

At December 31, 2007, the portfolio of U.S. Government and agency securities had an aggregate estimated fair value of $106,000 and the portfolio of mortgage-backed securities had an estimated fair value of $3.9 million.

At December 31, 2007, mortgage-backed securities consisted of Freddie Mac, Fannie Mae and Ginnie Mae issues with an amortized cost of $3.8 million. The mortgage-backed securities portfolio had coupon rates ranging from 4.3% to 9.0% and had a weighted average yield of 5.3% at December 31, 2007.

Mortgage-backed securities, which also are known as mortgage participation certificates or pass-through certificates, typically represent interests in pools of single-family or multifamily mortgages in which payments of both principal and interest on the securities are generally made monthly. The principal and interest payments on these mortgages are passed from the mortgage originators, through intermediaries, generally U.S. Government agencies and government sponsored enterprises, that pool and resell the participation interests in the form of securities, to investors such as Alaska Pacific. These U.S. Government agencies and government-sponsored enterprises, which guarantee the payment of principal and interest to investors, primarily include the Freddie Mac, Fannie Mae and the Ginnie Mae. Mortgage-backed securities typically are issued with stated principal amounts, and the securities are backed by pools of mortgages that have loans with interest rates that fall within a specific range and have varying maturities. Mortgage-backed securities generally yield less than the loans that underlie these securities because of the cost of payment guarantees and credit enhancements. In addition, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize certain liabilities and obligations of Alaska Pacific. These types of securities also permit Alaska Pacific to optimize its regulatory capital because they have low risk weighting.

The actual maturity of a mortgage-backed security may be less than its stated maturity due to prepayments of the underlying mortgages. Prepayments that are faster than anticipated may shorten the life of the security and may result in a loss of any premiums paid and thereby reduce the net yield on these securities. Although prepayments of underlying mortgages depend on many factors, including the type of mortgages, the coupon rate, the age of mortgages, the geographical location of the underlying real estate collateralizing the mortgages and general levels of market interest rates, the difference between the interest rates on the underlying mortgages and the prevailing mortgage interest rates generally is the most significant determinant of the rate of prepayments. During periods of declining mortgage interest rates, if the coupon rate of the underlying mortgages exceeds the prevailing market interest rates offered for mortgage loans, refinancing generally increases and accelerates the prepayment of the underlying mortgages and the related security. Under these circumstances, Alaska Pacific may be subject to reinvestment risk because, to the extent that Alaska Pacific's mortgage-backed securities amortize or prepay faster than anticipated, Alaska Pacific may not be able to reinvest the proceeds of these repayments and prepayments at a comparable rate.

The table below sets forth certain information regarding the carrying value, weighted average yields and maturities or periods to repricing of Alaska Pacific's investment and mortgage-backed securities at December 31, 2007.

(dollars in thousands) as of December 31, 2007	Amortized Cost	Weighted Average Yield	Weighted Average Maturity (Yrs)
Mortgage Backed Securities	$3,821	5.29%	9.42
US Agency	107	6.10%	11.42

Alaska Pacific's investment policy permits investment in "off balance sheet" derivative instruments such as "forwards," "futures," "options" and "swaps" used as hedges; however, Alaska Pacific has not utilized such instruments.

As a member of the FHLB of Seattle, the Bank is required to own capital stock in the FHLB of Seattle. The minimum amount of stock held is based on percentages specified by the FHLB of Seattle outstanding advances. The carrying value of FHLB of Seattle stock totaled $1.8 million at December 31, 2007. The redemption of any excess stock held by the Bank is at the discretion of the FHLB of Seattle, and under present policies may take up to five years. The yield on the FHLB of Seattle stock is normally paid through stock dividends that are subject to the discretion of the board of directors of the FHLB of Seattle. However, the FHLB of Seattle suspended the payment of dividends during the fourth quarter of 2004 until 2006. FHLB dividend income was $12,000 and zero during the year ended December 2007 and 2006, respectively. Stock ownership in the FHLB of Seattle is expected to remain stable or increase in response to the Bank's borrowing needs.

Alaska Pacific had no securities (other than U.S. Government and agency securities and mutual funds which invest exclusively in such securities), which had an aggregate book value in excess of 10% of shareholders' equity at December 31, 2007.

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major sources of Alaska Pacific's funds for lending and other investment purposes. Scheduled loan repayments are a relatively stable source of funds, while general interest rates and money market conditions significantly influence deposit inflows and outflows and loan prepayments. Alaska Pacific may use borrowings on a short-term basis to compensate for reductions in the availability of funds from other sources. Alaska Pacific may also use borrowings on a longer-term basis for general business purposes.

Deposit Accounts. Alaska Pacific attracts deposits from within Alaska Pacific's primary market area through the offering of a broad selection of deposits as set forth in the following table. In determining the terms of its deposit accounts, Alaska Pacific considers current market interest rates, profitability to Alaska Pacific, matching deposit and loan products and its customer preferences and concerns. Alaska Pacific's deposit mix and pricing is generally reviewed weekly. Deposits from municipalities and other public entities were approximately $4.5 million at December 31, 2007.

Alaska Pacific had approximately $6.6 million of brokered deposits at December 31, 2007 issued through the Certificate of Deposit Account Registry Service ("CDARS"). CDARS deposits range in maturities from one month to three years, and carry interest rates that are generally higher than locally obtained time deposits. As such, Alaska Pacific utilizes such deposits as an alternative supplemental funding source in addition to advances from the FHLB of Seattle.

In the unlikely event Alaska Pacific is liquidated, depositors will be entitled to full payment of their deposit accounts prior to any payment being made to the Corporation, as the sole stockholder of the Bank. Substantially all of the Bank's depositors are residents of the State of Alaska.

The following table sets forth information concerning Alaska Pacific's time deposits and other interest-bearing deposits at December 31, 2007.

Weighted Average Interest Rate	Original Term	Category	Amount *(in thousands)*	Minimum Balance	Percentage of Total Deposits
0.00%	N/A	Noninterest-bearing	$29,019	$ 100	19.44%
0.34	N/A	Interest-bearing demand	29,784	100	19.95
2.92	N/A	Money market deposit accounts	25,648	100	17.18
0.50	N/A	Savings accounts	17,192	100	11.51
		<u>Certificates of Deposit</u>			
1.69	Seven days	Fixed-rate	132	2,000	0.09
1.88	One month	Fixed-rate	5	2,000	0.01
2.13	Two months	Fixed-rate	28	2,000	0.01
3.11	Three months	Fixed-rate	2,783	2,000	1.86
4.09	Six months	Fixed-rate	2,993	2,000	2.00
4.16	Nine months	Fixed-rate	3,947	2,000	2.64
4.25	One year	Fixed-rate	8,904	2,000	5.96
4.23	18 months	Fixed-rate	822	2,000	0.55
4.21	Two years	Fixed-rate	2,454	2,000	1.64
3.67	Three years	Fixed-rate	438	2,000	.29
4.15	Four years	Fixed-rate	181	2,000	0.12
4.01	Five years	Fixed-rate	4,208	2,000	2.82
5.01	Various specials	Fixed-rate	7,974	5,000	5.34
4.25	Gold minor one year	Fixed-rate	1,783	500	1.19
8.00	Deferred Comp one year	Fixed-rate	1,156	2,000	0.77
5.13	CDARS - various	Fixed-rate	6,591	2,000	4.41
3.52	One year	Variable-rate	1,064	2,000	0.71
3.67	2-1/2 years	Variable-rate	2,261	2,000	1.51
2.08%		TOTAL	$149,367		100.00%

The following table sets forth the balances and changes in dollar amounts of deposits in the various types of accounts offered by Alaska Pacific at the dates indicated.

(dollars in thousands) December 31,	2007			2006	
	Amount	Percent of Total	Increase (Decrease)	Amount	Percent of Total
Noninterest-bearing demand accounts	$ 29,019	19.43%	$ 4,009	$ 25,010	17.22%
Interest-bearing demand accounts	29,784	19.94	(845)	30,629	21.09
Money market deposit accounts	25,648	17.17	1,910	23,738	16.35
Savings accounts	17,192	11.51	(1,195)	18,387	12.66
Fixed-rate certificates which mature:					
Within 1 year	36,774	24.62	3,911	32,863	22.63
After 1 year, but within 2 years	3,705	2.48	(1,590)	5,295	3.65
After 2 years, but within 5 years	3,920	2.62	(712)	4,632	3.19
Variable-rate certificates which mature:					
Within 1 year	2,008	1.34	(259)	2,267	1.56
After 1 year, but within 2 years	821	0.55	(222)	1,043	0.72
After 2 years, but within 5 years	496	0.33	(841)	1,337	0.93
Total	$149,367	100.00%	$4,166	$145,201	100.00%

Time Deposits Maturities and Weighted Average Rates

The following table sets forth the amount, maturities and weighted average rates of time deposits at December 31, 2007.

(In thousands) Year ending December 31,		Weighted Average Interest Rate
2008	$38,782	4.05%
2009	4,526	4.11%
2010	1,893	4.09%
2011	1,966	6.74%
2012 and thereafter	557	4.83%
	$47,724	

Deposit Activities and Other Sources of Funds

The following table sets forth the deposit activities of Alaska Pacific for the periods indicated.

(in thousands) Year ended December 31,	2007	2006
Beginning balance	$145,201	$146,650
Net deposits (withdrawals) before interest credited	1,018	(4,107)
Interest credited	3,148	2,658
Net increase (decrease) in deposits	4,166	(1,449)
Ending balance	$149,367	$145,201

Borrowings. Deposits and loan repayments are the primary source of funds for Alaska Pacific's lending and investment activities. However, Alaska Pacific may rely upon advances from the FHLB of Seattle to supplement its supply of lendable funds and to meet deposit withdrawal requirements. The FHLB of Seattle functions as a central reserve bank providing credit for thrift institutions and many other member financial institutions. The FHLB of Seattle requires Alaska Pacific, as a member, to own capital stock in the FHLB of Seattle and authorizes it to apply for advances on the security of this stock and certain of its mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the U.S. Government) provided certain creditworthiness standards have been met. Advances are made pursuant to several different credit programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based on the financial condition of the member institution and the adequacy of collateral pledged to secure the credit. At December 31, 2007, Alaska Pacific had a borrowing capacity of approximately $46.9 million with the FHLB of Seattle, of which $29.8 million was unused compared with $44.7 million and $30.7 million, respectively, at December 31, 2006.

The following table sets forth certain information regarding Alaska Pacific's advances from the FHLB of Seattle at the end of and during the periods indicated:

(dollars in thousands) Year ended December 31,	2007	2006
Advances:		
Maximum amount of borrowings outstanding during the year at any month end	$20,193	$18,952
Average outstanding during the year	15,400	13,729
Balance outstanding at end of year	17,076	14,062
Approximate weighted average rate paid:		
Average during the year	5.51%	5.27%
At end of year	4.83	5.43

REGULATION

General

The Bank, as a federally-chartered savings institution, is subject to federal regulation and oversight by the OTS extending to all aspects of its operations. The Bank also is subject to regulation and examination by the FDIC, which insures the deposits of The Bank to the maximum extent permitted by law, and requirements established by the Federal Reserve Board. Federally chartered savings institutions are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS and the FDIC. The investment and lending authority of savings institutions are prescribed by federal laws and regulations, and these institutions are prohibited from engaging in any activities not permitted by the laws and regulations. This regulation and supervision primarily is intended for the protection of depositors and not for the purpose of protecting stockholders.

The OTS regularly examines the Bank and prepares reports for the consideration of the Bank's Board of Directors on any deficiencies that it may find in the Bank's operations. The FDIC also has the authority to examine the Bank in its roles as the administrator of the Deposit Insurance Fund. The Bank's relationship with its depositors and borrowers also is regulated to a great extent by both federal and state laws, especially in matters such as the ownership of savings accounts and the form and content of the Bank's mortgage requirements. Any change in these regulations, whether by the FDIC, the OTS or Congress, could have a material adverse impact on the Bank and its operations

Regulation and Supervision of Savings Institutions

Office of Thrift Supervision. The OTS has extensive authority over the operations of savings institutions. As part of this authority, the Bank is required to file periodic reports with the OTS and is subject to periodic examinations by the OTS and the FDIC. All savings institutions are subject to a semi-annual assessment, based upon the institution's total assets, to fund the operations of the OTS. The OTS also has extensive enforcement authority over all savings institutions and their holding companies, including the Bank and the Corporation. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Except under certain circumstances, public disclosure of final enforcement actions by the OTS is required.

In addition, the investment, lending and branching authority of the Bank is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by these laws. For example, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the OTS. Federal savings institutions are also generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At December 31, 2007, the Bank's lending limit under this restriction was $2.9 million and, at that date, the Bank had no loans to one borrower exceeding this amount.

The OTS, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution that fails to comply with these standards must submit a compliance plan.

All savings institutions are required to pay assessments to the OTS to fund the agency's operations. The general assessments, paid on a semi-annual basis, are determined based on the institution's total assets, including consolidated subsidiaries. The Bank's OTS assessment for the year ended December 31, 2007 was $62,000.

FHLB System. The Bank is a member of the FHLB of Seattle, which is one of 12 regional FHLBs that administer the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans or advances to members in accordance with policies and procedures, established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB are required to be fully secured by sufficient collateral as determined by the FHLB. In addition, all long-term advances are required to provide funds for residential home financing.

As a member, the Bank is required to purchase and maintain stock in the FHLB of Seattle. At December 31, 2007, the Bank had $1.8 million in FHLB stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its FHLB stock until such dividends were suspended late in 2004. For the years ended December 31, 2007 and 2006, Alaska Pacific received $12,000 and zero in dividends.

Under federal law, the Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB stock in the future. A reduction in value of the Bank's FHLB stock may result in a corresponding reduction in the Bank's capital.

Federal Deposit Insurance Corporation. The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC. The Deposit Insurance Fund is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged effective March 31, 2006. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the insurance fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005, which was enacted in 2006 (A Reform Act). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. No institution may pay a dividend if in default of the FDIC assessment.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit is to be approximately $75,000 at December 31, 2007. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance Fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, federally-insured institutions are required to pay a Financing Corporation assessment, in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. For the semi-annual period ended December 31, 2007, the Financing Corporation assessment equaled 1.14 basis points for each $100 in domestic deposits. These assessments, which may be revised based upon the level of Deposit Insurance Fund deposits, will continue until the bonds mature in the years 2017 through 2019. For 2007, the Bank incurred $17,000 in FICO assessments.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what insurance assessment rates will be in the future. Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of the Bank is not aware of any practice, condition or violation that might lead to termination of the Bank's deposit insurance.

Capital Requirements. Federally insured savings institutions, such as Alaska Pacific, are required to maintain a minimum level of regulatory capital. The OTS has established capital standards, including a tangible capital requirement, a leverage ratio (or core capital) requirement and a risk-based capital requirement applicable to such savings institutions. These capital requirements must be generally as stringent as the comparable capital requirements for national banks. The OTS is also authorized to impose capital requirements in excess of these standards on individual institutions on a case-by-case basis.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). Tangible capital generally includes common stockholders' equity and retained income, and certain noncumulative perpetual preferred stock and related income. In addition, all intangible assets must be deducted from tangible capital for calculating compliance with the requirement. At December 31, 2007, the Bank had tangible capital of $18.4 million, or 9.81% of adjusted total assets, which is approximately $15.6 million above the minimum requirement of 1.5% of adjusted total assets in effect on that date.

The capital standards also require core capital equal to at least 4% of adjusted total assets unless an institution's supervisory condition is such to allow it to maintain a 3.0% ratio. Core capital generally consists of tangible capital plus certain intangible assets, including a limited amount of purchased credit card relationships. At December 31, 2007, the Bank had core capital equal to $18.4 million, or 9.81% of adjusted total assets, which is $10.9 million above the minimum requirement of 4% in effect on that date.

The OTS also requires savings institutions to have core capital equal to 4% of risk-weighted assets ("Tier 1 risk-based"). At December 31, 2007, the Bank had Tier 1 risk-based capital of $18.4 million, or 12.30% of risk-weighted assets, which is approximately $12.4 million above the minimum on that date. The OTS risk-based requirement requires savings institutions to have total capital of at least 8% of risk-weighted assets. Total capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital. The OTS is also authorized to require a savings institution to maintain an additional amount of total capital to account for concentration of credit risk and the risk of non-traditional activities.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, are multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the OTS has assigned a risk weight of 50% for prudently underwritten permanent one- to- four family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by Fannie Mae or Freddie Mac.

On December 31, 2007, the Bank had total risk-based capital of $19.6 million and risk-weighted assets of $149.4 million, or total capital of 13.12% of risk-weighted assets. This amount was $7.6 million above the 8% requirement in effect on that date.

The OTS and the FDIC are authorized and, under certain circumstances, required to take certain actions against savings institutions that fail to meet their capital requirements. The OTS is generally required to take action to restrict the activities of an "undercapitalized institution," which is an institution with less than either a 4.0% core capital ratio, a 4.0% Tier 1 risk-based capital ratio, or an 8.0% risk-based capital ratio. Any such institution must submit a capital restoration plan and until the plan is approved by the OTS, may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The OTS is authorized to impose the additional restrictions that are applicable to significantly undercapitalized institutions. As a condition to the approval of the capital restoration plan, any company controlling an undercapitalized institution must agree that it will enter into a limited capital maintenance guarantee with respect to the institution's achievement of its capital requirements.

Any savings institution that fails to comply with its capital plan or has Tier 1 risk-based or core capital ratios of less than 3.0% or a risk-based capital ratio of less than 6.0% and is considered "significantly undercapitalized" will be made subject to one or more additional specified actions and operating restrictions which may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution that becomes "critically undercapitalized" because it has a tangible capital ratio of 2.0% or less is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized institutions. In addition, the OTS must appoint a receiver, or conservator with the concurrence of the FDIC, for a savings institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. Any undercapitalized institution is also subject to the general enforcement authority of the OTS and the FDIC, including the appointment of a conservator or a receiver.

The OTS is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition. The imposition by the OTS or the FDIC of any of these measures on the Bank may have a substantial adverse effect on its operations and profitability.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits ("Guidelines"). The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that the Bank fails to meet any standard prescribed by the Guidelines, the OTS may require the Bank to submit an acceptable plan to achieve compliance with the standard. OTS regulations establish deadlines for the submission and review of such safety and soundness compliance plans. Management of the Bank is not aware of any conditions relating to these safety and soundness standards which would require submission of a plan of compliance.

Qualified Thrift Lender Test. All savings institutions, including Alaska Pacific, are required to meet a qualified thrift lender ("QTL") test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its portfolio assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 month period on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code ("Code"). Under either test, such assets primarily consist of residential housing related loans and investments. At December 31, 2007, the Bank met the test, with a ratio of 81.00%.

Any savings institution that fails to meet the QTL test must convert to a national bank charter, unless it requalifies as a QTL within one year of failure and thereafter remains a QTL. If such an association has not yet requalified or converted to a national bank, its new investments and activities are limited to those permissible for both a savings institution and a national bank, and it is limited to national bank branching rights in its home state. In addition, the association is immediately ineligible to receive any new FHLB borrowings and is subject to national bank limits for payment of dividends. If such an institution has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. If any association that fails the QTL test is controlled by a holding company, then within one year after the failure, the holding company must register as a bank holding company and become subject to all restrictions on bank holding companies. See " - Savings and Loan Holding Company Regulations."

Limitations on Capital Distributions. OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as Alaska Pacific, that before and after the proposed distribution are well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. The Bank may pay dividends to the Corporation in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the OTS prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. See "- Capital Requirements."

Liquidity. All savings institutions, including the Bank, are required to maintain sufficient liquidity to ensure a safe and sound operation.

Activities of Associations and Their Subsidiaries. When a savings institution establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the association controls, the savings institution must notify the FDIC and the OTS 30 days in advance and provide the information each agency may, by regulation, require. Savings institutions also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings institution of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIA. Based upon that determination, the FDIC or the OTS has the authority to order the savings institution to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the SAIF. If so, it may require that no SAIF member engage in that activity directly.

Transactions with Affiliates. The Bank's authority to engage in transactions with "affiliates" is limited by OTS regulations and by Sections 23A and 23B of the Federal Reserve Act as implemented by the Federal Reserve Board's Regulation W. The term "affiliates" for these purposes generally means any company that controls or is under common control with an institution. The Corporation and its non-savings institution subsidiaries are affiliates of the Bank. In general, transactions with affiliates must be on terms that are as favorable to the institution as comparable transactions with non-affiliates. In addition, certain types of transactions are restricted to an aggregate percentage of the institution's capital. Collateral in specified amounts must usually be provided by affiliates in order to receive loans from an institution. In addition, savings institutions are prohibited from lending to any affiliate that is engaged in activities that are not permissible for bank holding companies and no savings institution may purchase the securities of any affiliate other than a subsidiary.

The Sarbanes-Oxley Act of 2002 generally prohibits a company from making loans to its executive officers and directors. However, there is a specific exception for loans by a depository institution to its executive officers and directors in compliance with federal banking laws. Under such laws, the Bank's authority to extend credit to executive officers, directors and 10% stockholders ("insiders"), as well as entities that such person's control is limited. The law restricts both the individual and aggregate amount of loans the Bank may make to insiders based, in part, on the Bank's capital position and requires certain Board approval procedures to be followed. Such loans must be made on terms substantially the same as those offered to unaffiliated individuals and not involve more than the normal risk of repayment. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to insiders over other employees. There are additional restrictions applicable to loans to executive officers.

Federal Reserve System. The Federal Reserve Board requires that all depository institutions maintain reserves on transaction accounts or non-personal time deposits. These reserves may be in the form of cash or non-interest-bearing deposits with the regional Federal Reserve Bank. Negotiable order of withdrawal (NOW) accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to the reserve requirements, as are any non-personal time deposits at a savings bank. As of December 31, 2007, the Bank's deposit with the Federal Reserve Bank and vault cash exceeded its reserve requirements.

Community Reinvestment Act. Under the Community Reinvestment Act, every FDIC-insured institution has a continuing and affirmative obligation consistent with safe and sound banking practices to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The Community Reinvestment Act does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the Community Reinvestment Act. The Community Reinvestment Act requires the OTS, in connection with the examination of the Bank, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications, such as a merger or the establishment of a branch, by the Bank. An unsatisfactory rating may be used as the basis for the denial of an application by the OTS. Due to the heightened attention being given to the Community Reinvestment

Act in the past few years, the Bank may be required to devote additional funds for investment and lending in its local community. The Bank was examined in 2004 for Community Reinvestment Act compliance and received a rating of satisfactory in its latest examination.

Environmental Issues Associated With Real Estate Lending. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress asked to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan.

To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potential hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Privacy Standards. The Gramm-Leach-Bliley Financial Services Modernization Act of 1999 ("GLBA"), which was enacted in 1999, modernized the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. The Bank is subject to OTS regulations implementing the privacy protection provisions of the GLBA. These regulations require the Bank to disclose its privacy policy, including identifying with whom it shares "non-public personal information," to customers at the time of establishing the customer relationship and annually thereafter.

Anti-Money Laundering and Customer Identification. Congress enacted the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") on October 26, 2001 in response to the terrorist events of September 11, 2001. The USA Patriot Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. In 2006, Congress re-enacted certain expiring provisions of the USA Patriot Act.

Regulation and Supervision of the Company

General. The Company is a unitary savings and loan holding company subject to regulatory oversight of the OTS. Accordingly, the Company is required to register and file reports with the OTS and is subject to regulation and examination by the OTS. In addition, the OTS has enforcement authority over the Company and its non-savings institution subsidiaries which also permits the OTS to restrict or prohibit activities that are determined to present a serious risk to the subsidiary savings institution.

Activities Restrictions. The Company and its non-savings institution subsidiaries are subject to statutory and regulatory restrictions on their business activities specified by federal regulations, which include performing services and holding properties used by a savings institution subsidiary, activities authorized for savings and loan holding companies as of March 5, 1987, and non-banking activities permissible for bank holding companies pursuant to the Bank Holding Company Act of 1956 or authorized for financial holding companies pursuant to the GLBA.

If the Bank fails the qualified thrift lender test, the Company must, within one year of that failure, register as, and will become subject to, the restrictions applicable to bank holding companies. See "- Regulation and Supervision of Savings Institutions - Qualified Thrift Lender Test."

Mergers and Acquisitions. The Company must obtain approval from the OTS before acquiring more than 5% of the voting stock of another savings institution or savings and loan holding company or acquiring such an institution or holding company by merger, consolidation or purchase of its assets. In evaluating an application for the Company to acquire control of a savings institution, the OTS would consider the financial and managerial resources and future prospects of the Company and the target institution, the effect of the acquisition on the risk to the insurance funds, the convenience and the needs of the community and competitive factors.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”) was signed into law on July 30, 2002 in response to public concerns regarding corporate accountability in connection with the recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the Securities and Exchange Commission (“SEC”), under the Securities Exchange Act of 1934 (“Exchange Act”), including the Company.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

TAXATION

Federal Taxation

General. The Company and the Bank report their income on a fiscal year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other Companys with some exceptions, including particularly the Bank’s reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Bank or the Company.

Bad Debt Reserve. Historically, savings institutions such as the Bank which met certain definitional tests primarily related to their assets and the nature of their business (“qualifying thrift”) were permitted to establish a reserve for bad debts and to make annual additions thereto, which may have been deducted in arriving at their taxable income. The Bank’s deductions with respect to “qualifying real property loans,” which are generally loans secured by certain interest in real property, were computed using an amount based on the Bank’s actual loss experience, or a percentage equal to 8% of the Bank’s taxable income, computed with certain modifications and reduced by the amount of any permitted additions to the non-qualifying reserve. Due to the Bank’s loss experience, the Bank generally recognized a bad debt deduction equal to 8% of taxable income.

The thrift bad debt rules were revised by Congress in 1996. The new rules eliminated the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. These rules also required that all institutions recapture all or a portion of their bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Bank has no post-1987 reserves subject to recapture. For taxable years beginning after December 31, 1995, the Bank’s bad debt deduction will be determined under the experience method using a formula based on actual bad debt experience over a period of years. The unrecaptured base year reserves will not be subject to recapture as long as the institution continues to carry on the business of banking. In addition, the balance of the pre-1988 bad debt reserves continue to be subject to provisions of present law referred to below that require recapture in the case of certain excess distributions to shareholders.

Distributions. To the extent that the Bank makes “nondividend distributions” to the Company, such distributions will be considered to result in distributions from the balance of its bad debt reserve as of December 31, 1987 (or a lesser amount if the Bank’s loan portfolio decreased since December 31, 1987) and then from the supplemental reserve for losses on loans (“Excess Distributions”), and an amount based on the Excess Distributions will be included in the Bank’s taxable income. Nondividend distributions include distributions in excess of the Bank’s current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. The amount of additional taxable income created from an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if, after the Conversion, the Bank makes a "nondividend distribution," then approximately one and one-half times the Excess Distribution would be includable in gross income for federal income tax purposes, assuming a 34% corporate income tax rate (exclusive of state and local taxes). See "Regulation" for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

Corporate Alternative Minimum Tax. The Code imposes a tax on alternative minimum taxable income ("AMTI") at a rate of 20%. The excess of the tax bad debt reserve deduction using the percentage of taxable income method over the deduction that would have been allowable under the experience method is treated as a preference item for purposes of computing the AMTI. In addition, only 90% of AMTI can be offset by net operating loss carryovers. AMTI is increased by an amount equal to 75% of the amount by which the Bank's adjusted current earnings exceeds its AMTI (determined without regard to this preference and prior to reduction for net operating losses). For taxable years beginning after December 31, 1986, and before January 1, 1996, an environmental tax of 0.12% of the excess of AMTI (with certain modification) over $2.0 million is imposed on Companys, including the Bank, whether or not an Alternative Minimum Tax is paid.

Dividends-Received Deduction. The Company may exclude from its income 100% of dividends received from the Bank as a member of the same affiliated group of Companys. The corporate dividends-received deduction is generally 70% in the case of dividends received from unaffiliated Companys with which the Company and the Bank will not file a consolidated tax return, except that if the Company or the Bank owns more than 20% of the stock of a Company distributing a dividend, then 80% of any dividends received may be deducted.

State Taxation

The Alaska state income tax rate applicable to the Bank is based on a graduated tax rate schedule, with a maximum rate of 9.4% on income over $90,000. There have not been any audits of the Bank's state tax returns during the past five years.

Audits

The Company's income tax returns have not been audited by federal or state authorities within the last five years. For additional information regarding income taxes, see Note 12 of the Notes to Consolidated Financial Statements contained in Item 7 of this report.

Subsidiary Activities

As of December 31, 2007, Alaska Pacific did not own any active subsidiaries.

Executive Officers

The following table sets forth certain information with respect to the executive officers of the Company and the Bank are as follows:

Name	Age at December 31, 2007	Position	
		Company	Bank
Craig E. Dahl	58	Director, President and Chief Executive Officer	Director, President and Chief Executive Officer
Julie M. Pierce	36	Senior Vice President, Chief Financial Officer and Secretary	Senior Vice President and Chief Financial Officer
John E. Robertson	60	--	Senior Vice President and Chief Credit Officer
Christopher P. Bourque	56	--	Senior Vice President and Chief Operating Officer
Leslie Dahl	48	--	Senior Vice President and Chief Lending Officer

The following is a description of the principal occupation and employment of the executive officers of the Company and the Bank during at least the past five years:

Craig E. Dahl joined the Bank in 1992 and has served as President and Chief Executive Officer of the Bank since 1996 and as President and Chief Executive Officer of the Company since its formation in 1999. Prior to joining the Bank, he was President of the B.M. Behrends Bank in Juneau, Alaska. Mr. Dahl and Leslie Dahl, the Bank's Senior Vice President and Chief Lending Officer, are married to each other.

Julie M. Pierce joined the Bank in September 2007. Ms. Pierce previously held the positions of Assistant State and State Comptroller for the State of Alaska from 2005-2007, Director of Finance for Sealaska Heritage Institute from 2004-2005, and Chief Financial Officer for True North Federal Credit Union from 1999-2004.

John E. Robertson joined the Bank in December 2002. Mr. Robertson previously held the position of Senior Relationship Manager at ABN Amro Bank from 1995 until 2002.

Christopher P. Bourque joined the Bank in June 2003 and has served as Senior Vice President and Chief Operating Officer since April 2006. Mr. Bourque previously held the position of Senior Vice President of Operations at Mount McKinley Bank in Fairbanks, Alaska from 1992 until 2003.

Leslie Dahl joined the Bank in February 2000 and has served as Senior Vice President and Chief Lending Officer since April 2006. Ms. Dahl and Craig E. Dahl, the Company's and the Bank's President and Chief Executive Officer, are married to each other.

Personnel

As of December 31, 2007, the Bank had 71 full-time and two part-time employees, none of whom are represented by a collective bargaining unit. The Bank believes its relationship with its employees is good.

Competition

Alaska Pacific faces strong competition in its primary market area for the attraction of deposits (its primary source of lendable funds) and in the origination of loans. Its most direct competition for deposits has historically come from commercial banks and credit unions operating in its primary market area. The Bank competes with four commercial banks (including one Southeast Alaska based community bank, two giant super-regional banks and one statewide regional bank) and six credit unions in its primary market area. Particularly in times of high interest rates, Alaska Pacific has faced additional significant competition for investors' funds from short-term money market securities, other corporate and government securities and credit unions. The Bank's competition for loans also comes from mortgage bankers and Internet-based marketers. This competition for deposits and the origination of loans may limit Alaska Pacific's future growth.

Alaska Pacific's market share is approximately 13% of deposits in Southeast Alaska, but the total market in this calculation includes credit unions only for those based in Southeast Alaska. If one were to include state-wide credit unions as well as "non-bank" competitors such as brokerage firms and money market mutual funds, Alaska Pacific's share would be somewhat less. Alaska Pacific's largest competitor is Wells Fargo, with a market share of approximately 48%. Wells acquired the former National Bank of Alaska in 2000, and Alaska Pacific has achieved some success in drawing customers away from Wells, especially small businesses, through a targeted calling effort and a marketing emphasis on the advantages of banking locally.

Item 2. Description of Property

The following table sets forth certain information regarding Alaska Pacific's offices at December 31, 2007.

Location	Year Opened	Square Footage	Deposits *(in thousands)*
Main Office:			
Nugget Mall Office (1) 2094 Jordan Avenue Juneau, Alaska 99801	1984	16,000	$79,237
Branch Offices:			
301 N. Franklin Street Juneau, Alaska 99801	1960	6,268	30,231
410 Mission Street (2) Ketchikan, Alaska 99901	1974	2,300	12,514
2442 Tongass Avenue (3) Ketchikan, Alaska 99901	1997	1,550	6,783
315 Lincoln Street (4) Sitka, Alaska 99835	1978	2,032	20,602

(1) Lease expires in January 2019, with one 10-year option to renew.
(2) Lease expires in February 2008, with option to renew for two consecutive five-year terms.
(3) Lease expires in November 2008, with two six-month options to renew.
(4) Lease expires in December 2013, with option to renew for two consecutive five-year terms.

Alaska Pacific maintains 11 automated teller machines including six in the Juneau area, two in the Sitka area, two in the Ketchikan area, and one in Hoonah. At December 31, 2007, the net book value of Alaska Pacific's properties and its fixtures, furniture and equipment was $3.4 million.

Item 3. Legal Proceedings

Periodically, there have been various claims and lawsuits involving the Bank, mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition or operations of the Bank.

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

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2007.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

The Company's common stock is traded on the over-the-counter market through the OTC "Electronic Bulletin Board" under the symbol "AKPB." As of December 31, 2007, there were approximately 525 stockholders of record and 653,009 shares outstanding (including 4,058 unearned Employee Stock Ownership Plan ("ESOP") shares). Generally, if the Bank satisfies its regulatory capital requirements, it may make dividend payments up to the limits prescribed in the OTS regulations. However, an institution that has converted to the stock form of ownership may not declare or pay a dividend on, or repurchase any of, its common stock if the effect thereof would cause the regulatory capital of the institution to be reduced below the amount required for the liquidation account which was established in connection with the institution's mutual-to-stock conversion.

The following table sets forth market price information of the Company's stock for 2007 and 2006.

	Market Price		
Years Ended December 31,	High	Low	Dividends
2007:			
First Quarter	$25.75	$23.50	$0.09
Second Quarter	25.74	24.10	0.10
Third Quarter	26.25	24.60	0.10
Fourth Quarter	26.40	21.30	0.10
2006:			
First Quarter	21.50	20.00	0.08
Second Quarter	21.75	20.41	0.09
Third Quarter	23.00	21.25	0.09
Fourth Quarter	24.00	21.00	0.09

Equity Compensation Plan Information

The equity compensation plan information presented under subparagraph (d) in Part III, Item 11. of this Form 10-KSB is incorporated herein by reference.

Issuer Purchases of Equity Securities

During the fourth quarter of the year ended December 31, 2007, the Company had no purchases of its Common Stock.

Item 6. Management's Discussion and Analysis or Plan of Operation

General

The following discussion is intended to assist in understanding the consolidated financial condition and results of operations of the Company. The Company is not engaged in any significant business activity other than holding the stock of the Bank. Accordingly, the information in this discussion applies primarily to the Bank. The information contained in this section should be read in conjunction with the consolidated financial statements and the accompanying notes elsewhere in this annual report. In the following discussion, except as otherwise noted, references to "2007" or "2006" indicate the year ended December 31, 2007 or 2006.

The Bank's results of operations depend primarily on its net interest income, which is the difference between the income earned on its interest-earning assets, consisting of loans and investments, and the cost of its interest-bearing liabilities, consisting of deposits and FHLB borrowings. Among other things, fee income, provisions for loan losses, operating expenses and income tax provisions also affect the Bank's net income. General economic and competitive conditions, particularly changes in market interest rates, government legislation and policies concerning monetary and fiscal affairs, housing and financial institutions and the attendant actions of the regulatory authorities also significantly affect the Bank's results of operations.

Forward-Looking Statements

A Safe Harbor statement under the Private Securities Litigation Reform Act of 1995: This Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may be identified by the use of words such as "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." These forward-looking statements relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market, potential future credit experience, and statements regarding the Company's strategies. These forward-looking statements are based upon current management expectations and may, therefore, involve risks and uncertainties. The Company's actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide variety or range of factors including, but not limited to: interest rate fluctuations; economic conditions in the Company's primary market area; deposit flows; demand for residential, construction, commercial real estate, commercial business, consumer, and other types of loans; our ability to manage our growth, levels of our non-performing assets and other loans of concern; real estate values; success of new products; competitive conditions between banks and non-bank financial service providers; regulatory and accounting changes; success of new technology; technological factors affecting operations; costs of technology; pricing of products and services; and other risks detailed from time to time in our filings with the Securities and Exchange Commission. Accordingly, these factors should be considered in evaluating forward-looking statements, and undue reliance should not be placed on such statements. The Company undertakes no responsibility to update or revise any forward-looking statements. These risks could cause our actual results beyond 2007 to differ materially from those expressed in any financial statements made by or on behalf of the Company.

As used throughout this report, the terms "we", "our", "us" or the "Company" refer to the Company and its consolidated subsidiaries.

Operating Strategy

The Company's strategy is to operate a community-oriented financial institution devoted to serving the needs of its customers. The Company's business consists primarily of attracting retail deposits from the general public and using those funds to originate residential real estate loans, commercial real estate loans, commercial business loans, and a variety of consumer loans.

Financial Condition

Total assets were $187.5 million at December 31, 2007, compared with $178.9 million at December 31, 2006. The increase was primarily the result of growth in loans, partly offset by decreases in investments.

Loans increased $6.9 million, or 4.4%, to $165.5 million at December 31, 2007 from $158.6 million at December 31, 2006. The increase is largely attributable to continued marketing efforts to small businesses, builders, and consumers, as well as the purchase of participations in loans from other banks.

Following is a comparison of the composition of the portfolio (excluding loans held for sale) at both dates:

(dollars in thousands) December 31,	2007		2006	
	Amount	Percent	Amount	Percent
Real estate:				
Permanent:				
One- to four-family	$41,275	24.93	$ 44,072	27.79
Multifamily	1,043	0.63	1,304	0.82
Commercial nonresidential	45,067	27.23	45,212	28.51
Land	6,321	3.82	6,359	4.01
Construction:				
One- to four-family	11,648	7.04	12,892	8.13
Multifamily	719	0.43	731	0.46
Commercial nonresidential	11,564	6.99	6,567	4.14
Commercial business	22,872	13.82	18,268	11.52
Consumer:				
Home equity	19,128	11.56	16,836	10.62
Boat	3,974	2.40	4,663	2.94
Automobile	1,006	0.61	738	0.46
Other	889	0.54	955	0.60
Total loans	$165,506	100.00%	158,597	100.00%
Less:				
Allowance for loan losses	1,783		1,666	
Loans, net	$163,723		$156,931	

Loan demand was strong in 2007, particularly for commercial business, commercial construction and home equity loans. Total commercial business and commercial nonresidential loans increased 39% to $34.4 million, or 20.8% of the portfolio at December 31, 2007, from $24.8 million, or 15.7% of the portfolio at December 31, 2006. Home equity loans, by far the most important category of consumer loans for the Bank, increased 13.6% to $19.1 million, or 11.6% of the portfolio at December 31, 2007, from $16.8 million, or 10.6% of the portfolio at December 31, 2006.

Production of one-to-four-family mortgage loans continued to grow in 2007. Originations totaled $28.8 million in 2007, a 15% increase over the $25.0 million originated in 2006. Most of these loans were sold in the secondary market and, as a result, total one-to-four-family mortgages declined to 24.9% of the loan portfolio at December 31, 2007, compared with 27.8% of the loan.

Cash and cash equivalents increased $521,000 to $9.1 million at December 31, 2007, compared to $8.6 million at December 31, 2006.

Available-for-sale securities decreased $1.4 million to $3.9 million at December 31, 2007, compared to $5.3 million at December 31, 2006. The decrease was the result of normal principal reductions on mortgage-backed securities.

Premises and equipment was $3.4 million at December 31, 2007, a $100,000 decrease from the end of 2006.

Total deposits increased 2.9% to $149.4 million at December 31, 2007 from $145.2 million at December 31, 2006. Demand deposits and money market accounts increased a total of $5.1 million at December 31, 2007 compared to a year ago. During the same period, however, regular savings declined $1.2 million. Certificates of deposit increased $287,000 to $47.7 million at December 31, 2007.

At December 31, 2007 and 2006, $6.6 million and $6.0 million, respectively, of the certificates of deposit were brokered CDs obtained through the Certificate of Deposit Account Registry Service (“CDARS”). These deposits carry interest rates that are generally higher than locally obtained CDs, but which are generally lower than FHLB advances.

FHLB advances increased $3.0 million to $17.1 million at December 31, 2007 from $14.1 million at December 31, 2006. This increase in borrowings, along with the increase in deposits, was used to fund the growth in loans during 2007.

Results of Operations

Net Income. Net income decreased by $139,000, or 13.1%, to $922,000 ($1.40 per diluted share) for 2007, compared with $1.1 million ($1.63 per diluted share) for 2006. The decrease is attributable primarily to increased non-interest expense and a decrease in noninterest income offset with an increase in net interest income, gains on sale of loans and a decrease in the provision for loan losses. For purposes of comparison, pre-tax income may be separated into major components as follows:

(in thousands) Year ended December 31,	2007	2006	Income Increase (Decrease)
Net interest income	$9,082	$8,531	$551
Gain on sale of loans	311	255	56
Other noninterest income	1,015	1,047	(32)
Net revenues	10,408	9,833	575
Noninterest expense, excluding branch closure costs	(8,716)	(7,701)	(1,015)
Subtotal	1,692	2,132	(440)
Provision for loan losses	(180)	(250)	70
Pre-tax income, excluding branch closure costs	1,512	1,882	(370)
Branch closure costs	-	(113)	113
Income before income tax	$1,512	$1,769	$(257)

Net Interest Income. Net interest income increased $551,000, or 6.5%, to $9.1 million in 2007 from $8.5 million in 2006. The increase is due to a combination of factors, including growth in earning assets – particularly loans, improvement in net interest margin, and changes in the mix of assets and liabilities. See the tables in "Average Balances, Interest and Average Yields/Cost" and in "Rate/Volume Analysis" elsewhere in this discussion.

Average loans (including held for sale) increased $8.2 million, or 5.3%, to $162.6 million in 2007 from $154.4 million in 2006. The net interest margin on average interest-earning assets increased 19 basis points to 5.32% in 2007 from 5.13% in 2006.

Noninterest Income. Total noninterest income was $1.3 million in 2007 and 2006, with a decline in service charges on deposit accounts offset with an increase in gains on sale of loans.

Gains on sale of loans increased $56,000 to $311,000 in 2007 from $255,000 in 2006. The increase is primarily the result of a 15% increase in the production of mortgage loans, amplified by selling more of the production relative to retention in the loan portfolio.

Excluding gains on sale of mortgage loans, noninterest income decreased $32,000, or 3.1%, to $1,015,000 in 2007 compared with $1,047,000 in 2006. The small net decrease is primarily attributable to decreased service charges on deposit accounts.

Noninterest Expense. Noninterest expense, excluding nonrecurring branch closure costs, increased $1.0 million, or 13.2%, to $8.7 million in 2007 from $7.7 million in 2006. The net increase in expense is due to higher occupancy costs associated with amortization of leasehold improvements from Nugget Branch remodel and higher compensation and benefit costs associated with additional staff positions, increased medical costs and annual salary increases.

Provision and Allowance for Loan Losses

Provisions for loan losses are charges to earnings to bring the total allowance for loan losses to a level considered by management to be adequate to provide for known and inherent risks in the loan portfolio, including management's continuing analysis of factors underlying the quality of the loan portfolio.

The provision for loan losses decreased $70,000 to $180,000 for 2007 compared to $250,000 for 2006. The provisions for both years were considered appropriate in order for the allowance for loan losses to reflect management's best estimate of losses inherent in the loan portfolio. The allowance for loan losses increased $117,000, or 7.0%, to $1.8 million at December 31, 2007 from $1.7 million at December 31, 2006. The provisions and the resulting allowance are reflective of numerous factors, including the following:

- Loan losses. Net loan chargeoffs were $63,000 (0.04% of total loans) in 2007 compared with $32,000 (0.02% of total loans) in 2006.

- Growth and composition of the portfolio. Total loans increased $6.9 million to $165.5 million at December 31, 2007 compared with $158.6 million at December 31, 2006. Growth in recent years reflects gradual changes in composition away from single-family mortgages, moving to a greater proportion of loans to businesses. Management considered the higher relative risk of these loans in assessing the adequacy of the allowance.

- Management analysis of potential problem loans. As part of an assessment of the adequacy of the allowance, management performed a detailed review of individual loans for which full collectibility may not be assured. Loans judged to be impaired amounted to $1.2 million (0.7% of total loans) at December 31, 2007, compared with $1.1 million (0.7% of total loans) at December 31, 2006. Of these, estimated loan impairments of $556,000 and $450,000 were specifically considered in the assessment at December 31, 2007 and 2006, respectively.

- Past-due Loans. At December 31, 2007, 2.33% of all loan balances were past due 30 days or more, compared with 1.00% at December 31, 2006.

- Nonperforming and classified loans. Nonaccrual loans were $323,000 (0.2% of total loans) at December 31, 2007, compared with no nonaccrual loans at December 31, 2006. Loans classified as “substandard” or “doubtful” were $6.2 million (3.8% of total loans) at December 31, 2007 compared with $3.2 million (2.0% of total loans) at December 31, 2006.

- Economic conditions. Management considered known economic conditions in each of the geographic areas in which the Bank makes loans. For the last several years, Southeast Alaska’s economy has been relatively “flat” but stable, and management knows of no current economic conditions that warrant expectations of significant decline in the Bank’s markets. However, uncertainties in both the national and local economies have been considered in assessing the allowance.

The Company’s accounting for the allowance for loan losses is its most critical accounting process and is also the most subjective. While management believes that it uses the best information available to determine the allowance for loan losses, unforeseen market conditions and other events might result in adjustment to the allowance if circumstances differ substantially from the assumptions used in making the final determination. One or more of these events could have a significant effect on net income, and the effect could be both material and adverse.

For further information on the Bank’s accounting for the allowance for loan losses as well as how loan impairment is determined, see Note 1 of Notes to Consolidated Financial Statements.

Average Balances, Interest and Average Yields/Cost

The earnings of the Company depend largely on the spread between the yield on interest-earning assets, which consist primarily of loans and investments, and the cost of interest-bearing liabilities, which consist primarily of deposit accounts and borrowings, as well as the relative size of the Company's interest-earning assets and interest-bearing liabilities.

The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin, and ratio of average interest-earning assets to average interest-bearing liabilities. Average balances are generally daily averages for the period.

(dollars in thousands)

Year ended December 31,		2007			2006	
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
Interest-earning assets:						
Loans [1]	$162,575	$12,740	7.84%	$154,352	$11,404	7.39%
Investment securities [1]	6,356	257	4.04	8,077	314	3.89
Interest-earning deposits in banks	1,657	81	4.89	3,878	195	5.03
Total interest-earning assets	170,588	13,078	7.67	166,307	11,913	7.16
Allowance for loan losses	(1,725)			(1,560)		
Cash and due from banks	6,670			6,407		
Other assets	6,439			5,289		
Total assets	$181,972			$176,443		
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand	$ 29,325	$ 102	0.35%	$ 29,651	$ 104	0.35%
Money market	24,237	758	3.13	25,040	633	2.53
Savings	17,133	118	0.69	18,901	134	0.71
Certificates of deposit	47,674	2,170	4.55	44,561	1,787	4.01
Total interest-bearing deposits	118,369	3,148	2.66	118,153	2,658	2.25
Borrowings	15,400	848	5.51	13,729	724	5.27
Total interest-bearing liabilities	133,769	3,996	2.99	131,882	3,382	2.56
Noninterest-bearing demand deposits	26,186			24,902		
Mortgage escrows	1,232			1,297		
Other liabilities	2,666			1,325		
Shareholders' equity	18,119			17,037		
Total liabilities and shareholders' equity	$181,972			$176,443		
Net interest income		$9,082			$8,531	
Interest rate spread			4.68%			4.60%
Net interest margin:						
On average interest-earning assets			5.32%			5.13%
On average total assets			4.99			4.83
Ratio of average interest-earning assets to average interest-bearing liabilities	127.52%			126.10%		

[1] Average loans include nonperforming loans and loans held for sale. Interest income does not include interest on nonaccrual loans. Average investment securities includes FHLB stock.

Rate/Volume Analysis

The following table sets forth the effects of changing rates and volumes on net interest income of the Company. Information is provided with respect to effects on interest income attributable to changes in volume, which are changes in volume multiplied by prior rate; effects on interest income attributable to changes in rate, which are changes in rate multiplied by prior volume; and changes in rate/volume, which is a change in rate multiplied by change in volume.

(in thousands) Year ended December 31, 2007 compared with 2006	Rate	Volume	Rate/ Volume	Total
Interest-earning assets:				
Loans	$692	$608	$ 36	$1,336
Investment securities	13	(67)	(3)	(57)
Interest-earning deposits in banks	(5)	(112)	3	(114)
Total net change in interest income	700	429	36	1,165
Interest-bearing liabilities:				
Interest-bearing demand accounts	(1)	(1)	-	(2)
Money market accounts	150	(20)	(5)	125
Savings accounts	(4)	(13)	(1)	(16)
Certificates of deposit	241	125	17	383
Borrowings	32	88	4	124
Total net change in interest expense	418	179	17	614
Net change in net interest income	$282	$250	$19	$551

Yields Earned and Rates Paid

The following table sets forth, at the date and for the periods indicated, the weighted average yields earned on the Company's assets and the weighted average interest rates paid on the Company's liabilities, together with the net yield on interest-earning assets.

	At December 31, 2007	For the Year Ended December 31, 2007	2006
Weighted average yield on:			
Loans	7.70%	7.84%	7.39%
Investment securities	5.31	4.04	3.89
Interest-earning deposits in banks	3.65	4.89	5.03
Total interest-earning assets	7.60	7.67	7.16
Weighted average rate paid on:			
Interest-bearing demand accounts	0.34	0.35	0.35
Money market accounts	2.92	3.13	2.53
Savings accounts	0.50	0.69	0.71
Certificates of deposit	4.46	4.55	4.01
Total interest-bearing deposits	2.54	2.66	2.25
Borrowings	5.11	5.51	5.27
Total interest-bearing liabilities	2.86	2.99	2.56
Interest rate spread	4.74	4.68	4.60
Net interest margin on:			
Average interest-earning assets	--	5.32	5.13
Average total assets	--	4.99	4.83

Asset and Liability Management and Market Risk

Qualitative Analysis - Risks When Interest Rates Change. The Bank's profitability depends primarily on its net interest income, which is the difference between the income it receives on its loan and investment portfolios and its cost of funds, which consists of interest paid on deposits and borrowings. The relative amounts of interest-earning assets and interest-bearing liabilities also affect net interest income. When interest-earning assets equal or exceed interest-bearing liabilities, any positive interest rate spread will generate net interest income. The Bank's profitability is also affected by the level of noninterest income and expenses. Noninterest income includes service charges and fees and gain on sale of loans and investments. Noninterest expenses primarily include compensation and benefits, occupancy and equipment expenses, deposit insurance premiums and data processing expenses. General economic and competitive conditions, particularly changes in market interest rates, government legislation and regulation, and monetary and fiscal policies also significantly affect the Bank's results of operations**.**

Quantitative Analysis - How the Bank Measures Its Risk of Interest Rate Changes. The Bank does not maintain a trading account for any class of financial instrument nor does it engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Bank has no significant foreign currency exchange rate risk or commodity price risk.

The Bank has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. Principal elements in achieving this objective include increasing the interest-rate sensitivity of the Bank's interest-earning assets by originating for its portfolio loans with interest rates that periodically adjust to market conditions, as well as continuing decisions to sell fixed-rate mortgage production versus keeping them in the portfolio. The Bank relies on retail deposits as its primary source of funds. Historically, retail deposits, compared to brokered deposits and borrowed funds, tend to reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds.

In order to encourage institutions to reduce interest rate risk, the OTS adopted a rule incorporating an interest rate risk component into its risk-based capital rules. Using data compiled by the OTS, the Bank receives a report that measures interest rate risk by modeling the change in net portfolio value over a variety of interest rate scenarios. Net portfolio value is the present value of expected cash flows from assets, liabilities and off-balance-sheet contracts. The calculation is intended to illustrate the change in net portfolio value that will occur upon an immediate change in interest rates of at least 200 basis points with no effect given to any steps that management might take to counter the effect of that interest rate movement. Under OTS regulations, an institution with a greater than “normal” level of interest rate risk takes a deduction from total capital for purposes of calculating its risk-based capital. The OTS, however, has delayed the implementation of this regulation. An institution with a “normal” level of interest rate risk is defined as one whose “measured interest rate risk” is less than 2.0%. Institutions with assets of less than $300 million and a risk-based capital ratio of more than 12.0% are exempt. The Bank is exempt because of its asset size and risk-based capital ratio. Based on the Bank’s regulatory capital levels at December 31, 2007, the Bank believes that, if the proposed regulation had been implemented at that date, the Bank’s level of interest rate risk would not have caused it to be treated as an institution with greater than “normal” interest rate risk.

The following table illustrates the change in net portfolio value at December 31, 2007, based on OTS assumptions, that would occur in the event of an immediate change in interest rates, with no effect given to any steps which management might take to counter the effect of that interest rate movement.

(dollars in thousands)

	Net Portfolio Value			Net Portfolio as % of Portfolio Value of Assets	
Basis Point (“bp”) Change in Rates	Dollar Amount	Dollar Change (1)	Percent Change	Net Portfolio Value Ratio (2)	Change (3)
300 bp	$24,380	(2,897)	(11)%	12.66%	(119) bp
200	25,591	(1,686)	(6)	13.17	(68)
100	26,614	(663)	(2)	13.59	(26)
0	27,277	-	-	13.85	-
(100)	27,512	235	1	13.91	6
(200)	27,359	81	-	13.81	(4)

(1) Represents the increase (decrease) of the estimated net portfolio value at the indicated change in interest rates compared to the net portfolio value assuming no change in interest rates.
(2) Calculated as the estimated net portfolio value divided by the portfolio value of total assets.
(3) Calculated as the increase (decrease) of the net portfolio value ratio assuming the indicated change in interest rates over the estimated net portfolio value ratio assuming no change in interest rates.

The above table illustrates, for example, that at December 31, 2007 an instantaneous 200 basis point increase in market interest rates would reduce the Bank’s net portfolio value by $1.7 million, or 6%, and an instantaneous 200 basis point decrease in market interest rates would increase the Bank’s net portfolio value by $81,000.

The following table summarizes key exposure measures for the dates indicated. They measure the change in net portfolio value ratio for an adverse change in interest rates of 200 basis points (“bp”) upward or 200 bp downward.

	December 31, 2007	September 30, 2007	December 31, 2006
Pre-shock net portfolio value ratio	13.85%	14.07%	14.03%
Post-shock net portfolio value ratio	13.17%	13.53%	13.45%
Decline in net portfolio value ratio	68 bp	55 bp	57 bp

These measures indicate a relatively low level of interest-rate risk at the present time. Among other factors, this is due to management decisions in recent years to effect a relative decrease in fixed-rate mortgages and a gradual shift to earning assets that tend to reprice with greater frequency.

The OTS uses certain assumptions in assessing the interest rate risk of thrift institutions. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

Liquidity and Capital Resources

The Bank’s primary sources of funds are deposits, proceeds from principal and interest payments on loans and mortgage-backed securities, and FHLB advances. While maturities and scheduled amortization of loans and mortgage-backed securities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

The primary investing activity of the Bank has been the origination of loans, including one- to four-family mortgages, commercial real estate loans, commercial business loans, and consumer loans, Deposits, FHLB borrowings, and principal repayments on loans and mortgage-backed securities were the primary means for funding these activities.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. The Bank’s sources of funds include deposits, principal and interest payments from loans and investments, and FHLB advances. During 2007 and 2006, the Company used its sources of funds primarily to fund new loans and to pay maturing certificates and other deposit withdrawals. At December 31, 2007, the Bank had loan commitments including unused portions of lines of credit and undisbursed construction loans, of $16.1 million.

At December 31, 2007, the Bank had $15,000 of net unrealized losses on investment securities classified as available for sale, which represented 0.4% of the amortized cost ($3.9 million) of the securities. This represented an increase of $26,000 compared with $41,000 of net unrealized losses at December 31, 2006, primarily due to changes in market demand. Movements in market interest rates will continue to affect the unrealized gains and losses in these securities. However, assuming that the securities are held to their individual dates of maturity, even in periods of increasing market interest rates, as the securities approach their dates of maturity, any unrealized gains or losses will begin to decrease and will eventually be eliminated.

At December 31, 2007, certificates of deposit amounted to $47.7 million, or 31.9% of the Bank’s total deposits, including $38.8 million scheduled to mature by December 31, 2008. Historically, the Bank has been able to retain a significant amount of its deposits as they mature. Management believes it has adequate resources to fund all loan commitments with deposits and, as needed, FHLB advances and sale of mortgage loans, and that it can adjust the offering rates of certificates of deposits to retain deposits in changing interest rate environments. In addition, the Bank has available a line of credit with the FHLB generally equal to 25% of the Bank’s total assets, or approximately $46.9 million at December 31, 2007, of which $29.8 million was unused.

The Bank is required to maintain specific amounts of capital pursuant to OTS requirements. As of December 31, 2007, the Bank was in compliance with all regulatory capital requirements that were effective as of this date with tangible, core, and risk-based capital ratios of 9.81%, 9.81% and 13.12%, respectively. For further information, see Note 2 of the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157, *"Fair Value Measurements*." This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On November 14, 2007, the FASB proposed to defer the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. SFAS 157 is not expected to have a material impact on the Bank's financial statements.

In September 2006, the FASB issued SFAS 158, *"Employers' Accounting for Defined Benefit Pension and other Postretirement Plans - an amendment of FASB Statements 87, 88, 106, and 123(R).*" This Statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. SFAS 158 is not expected to have a material impact on the Bank's financial statements.

In February 2007, the FASB issued SFAS 159, *"The Fair Value Option for Financial Assets and Financial Liabilities-Including on amendment of FASB Statement No. 115.*" SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. SFAS 159 is effective for the Bank on January 1, 2008. SFAS 159 is not expected to have a material impact on the Bank's financial statements.

In December 2007, the FASB issued SFAS 141(R), "*Business Combinations"* and SFAS 160, *“Noncontrolling Interests in Consolidated Financial Statements*." SFAS 141(R) and SFAS 160 provide new guidance on accounting for business combinations and noncontrolling interests. The Statements will require more assets acquired and liabilities assumed to be measured at fair value as of the acquisition date and acquisition-related costs, such as legal and due diligence costs, to be expensed when incurred. Noncontrolling interests in subsidiaries are required to initially be valued at fair value and classified as a separate component of equity. The Statements are effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. SFAS 141(R) and SFAS 160 are not expected to have a material impact on the Bank's financial statements. On

November 5, 2007, the SEC staff issued Staff Accounting Bulletin (SAB) No. 109, which supersedes SAB 105. In a manner consistent with Statements 156 and 159, SAB 109 requires a company to include expected net future cash flows related to the associated servicing of the loan in the measurement of its written loan commitments that are accounted for at fair value through earnings. SAB 105 had stated that this treatment was inappropriate. SAB 109 reaffirms the SEC staff's view that internally developed intangible assets should not be included in the fair value of a derivative loan commitment and extends this view to all written loan commitments accounted for at fair value through earnings.

On December 21, 2007, the SEC staff issued SAB No. 110, which amends and replaces Question 6 of Section D2 of SAB Topic 14, *Share-Based Payment-Certain Assumptions Used in Valuation Methods-Expected Term* (SAB 107). In this release, the SEC staff document its views regarding the use of a "simplified" method in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123 (Revised 2004), *Share-Based Payment*. The guidance in this release is effective January 1, 2008. SAB No. 110 eliminates the scheduled date of December 31, 2007, after which the Staff would no longer accept use of the simplified method for estimating the term of plain vanilla options.

Item 7. Financial Statements

Index to Consolidated Financial Statements

MOSS ADAMS LLP

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS CONSULTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Alaska Pacific Bancshares, Inc.
Juneau, Alaska

We have audited the accompanying consolidated statements of financial condition of Alaska Pacific Bancshares, Inc. and subsidiary (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alaska Pacific Bancshares, Inc. and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Spokane, Washington
March 27, 2008

Alaska Pacific Bancshares, Inc. and Subsidiary

Consolidated Balance Sheets

(dollars in thousands) December 31,			2007	2006
Assets				
Cash and due from banks			$ 7,110	$ 6,840
Interest-earning deposits in banks			1,990	1,739
Total cash and cash equivalents			9,100	8,579
Investment securities available for sale, at fair value (amortized cost: 2007 - $3,928; 2006 - $5,329)			3,913	5,288
Federal Home Loan Bank stock, at cost			1,784	1,784
Loans held for sale			2,920	519
Loans			165,506	158,597
Less allowance for loan losses			1,783	1,666
Loans, net			163,723	156,931
Accrued interest receivable			978	927
Premises and equipment, net			3,436	3,537
Other assets			1,628	1,358
Total Assets			$187,482	$178,923
Liabilities and Shareholders' Equity				
Deposits:				
Noninterest-bearing demand			$ 29,019	$ 25,010
Interest-bearing demand			29,784	30,629
Money market			25,648	23,738
Savings			17,192	18,387
Certificates of deposit			47,724	47,437
Total deposits			149,367	145,201
Federal Home Loan Bank advances			17,076	14,062
Advance payments by borrowers for taxes and insurance			731	740
Accounts payable and accrued expenses			534	520
Accrued interest payable			668	607
Other liabilities			437	88
Total liabilities			168,813	161,218
Commitments and contingencies (Notes 12 and 13)				
Shareholders' Equity:				
	December 31,			
Common stock ($0.01 par value):	2007	2006		
Authorized shares	20,000,000	20,000,000		
Issued	655,415	655,415		
Outstanding	653,009	639,809	7	7
Additional paid-in capital			6,067	5,996
Treasury stock	(2,406)	(15,606)	(30)	(193)
Unearned Employee Stock Ownership Plan ("ESOP") shares	(4,058)	(8,412)	(41)	(84)
Retained earnings			12675	12004
Accumulated other comprehensive income (loss)			(9)	(25)
Total shareholders' equity			18,669	17,705
Total Liabilities and Shareholders' Equity			$187,482	$178,923

See notes to consolidated financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary
Consolidated Statements of Income

(in thousands, except per share) Year ended December 31,	2007	2006
Interest Income		
Loans	$12,740	$11,404
Investment securities	257	314
Interest-earning deposits in banks	81	195
Total interest income	13,078	11,913
Interest Expense		
Deposits	3,148	2,658
Federal Home Loan Bank advances	848	724
Total interest expense	3,996	3,382
Net Interest Income	9,082	8,531
Provision for loan losses	180	250
Net interest income after provision for loan losses	8,902	8,281
Noninterest Income		
Mortgage servicing income	154	151
Service charges on deposit accounts	647	683
Other service charges and fees	214	213
Gain on sale of loans	311	255
Total noninterest income	1,326	1,302
Noninterest Expense		
Compensation and benefits	5,021	4,493
Occupancy and equipment	1,482	1,332
Data processing	252	252
Professional and consulting fees	277	230
Marketing and public relations	351	284
Real estate owned expense, net	-	4
Branch closure costs	-	113
Other	1,333	1,106
Total noninterest expense	8,716	7,814
Income before income tax	1,512	1,769
Provision for income tax	590	708
Net Income	$ 922	$ 1,061
Net income per share:		
Basic	$1.45	$1.71
Diluted	1.40	1.63

See notes to consolidated financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

(in thousands)	Common Stock	Additional Paid-In Capital	Treasury Stock	Unearned ESOP Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
Balance, January 1, 2006	$7	$5,958	$(342)	(131)	$11,167	$(21)	$16,638
Net income					1,061		1,061
Other comprehensive income:							
Change in net unrealized gains and losses on securities available for sale (net of income tax of $22)						(4)	(4)
Comprehensive income							1,057
ESOP shares earned		(24)	149				125
Accrued vesting of restricted stock		62		47			109
Cash dividends ($.31 per share)					(224)		(224)
Balance, December 31, 2006	7	5,996	(193)	(84)	12,004	(25)	17,705
Net income					922		922
Other comprehensive income:							
Change in net unrealized gains and losses on securities available for sale (net of income tax benefit of $22)						16	16
Comprehensive income							938
Exercise of stock options		(35)	163				128
ESOP shares earned		65		43			108
Stock Compensation Expense		41					41
Cash dividends ($.35 per share)					(251)		(251)
Balance, December 31, 2007	$7	$6,067	$(30)	(41)	$12,675	$(9)	$18,669

See notes to consolidated financial statements.

Alaska Pacific Bancshares, Inc. and Subsidiary

Consolidated Statements of Cash Flows

(in thousands) Year ended December 31,	2007	2006
Operating Activities		
Net income	$922	$1,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	180	250
Depreciation and amortization	398	311
Deferred income tax (benefit) expense	(228)	77
Federal Home Loan Bank stock dividends		
Amortization of fees, discounts, and premiums, net	(324)	(218)
ESOP expense	108	109
Stock compensation expense	41	-
Cash provided by changes in operating assets and liabilities:		
Loans held for sale	(2,401)	2,012
Accrued interest receivable	(51)	(253)
Other assets	(52)	(86)
Advance payments by borrowers for taxes and insurance	(9)	(150)
Accrued interest payable	61	262
Accounts payable and accrued expenses	14	86
Other liabilities	349	(141)
Net cash provided by operating activities	(992)	3,320
Investing Activities		
Maturities and principal repayments of investment securities available for sale	1,388	2,154
Loan originations, net of principal repayments	(6,635)	(5,698)
Purchase of premises and equipment	(297)	(1,702)
Proceeds from sale of repossessed assets	-	126
Net cash used in investing activities	(5,544)	(5,120)
Financing Activities		
Cash dividends paid	(251)	(224)
Net increase in Federal Home Loan Bank advances	3,014	2,014
Net increase (decrease) in demand and savings deposits	3,879	(6,233)
Net increase in certificates of deposit	287	4,784
Proceeds from exercise of stock options	128	125
Net cash provided by financing activities	7,057	466
Increase (Decrease) in cash and cash equivalents	521	(1,334)
Cash and cash equivalents at beginning of year	8,579	9,913
Cash and cash equivalents at end of year	$9,100	$8,579
Supplemental information:		
Cash paid for interest	$ 3,935	$ 3,120
Cash paid for income taxes	980	1,059
Loans repossessed and transferred to repossessed assets	-	25
Net change in unrealized gains and losses on securities available for sale	16	(4)

See notes to consolidated financial statements.

Note 1 – Summary of Significant Accounting Policies

GENERAL: The accompanying consolidated financial statements include the accounts of Alaska Pacific Bancshares, Inc. (the "Holding Company") and its wholly owned subsidiary, Alaska Pacific Bank (the "Bank"). The Holding Company and the Bank are collectively referred to as the "Company." All significant intercompany transactions have been eliminated in consolidation.

The Holding Company was formed in 1999 when the Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank, issuing 655,415 shares in a subscription and community offering. Concurrent with the conversion, the Bank changed its name from Alaska Federal Savings Bank to Alaska Pacific Bank.

The Bank provides a range of financial services to individuals and small businesses in Southeast Alaska. The Bank's financial services include accepting deposits from the general public and making residential and commercial real estate loans, consumer loans, and commercial loans. The Bank also originates, sells, and services residential mortgage loans under several federal and state mortgage-lending programs.

CASH AND CASH EQUIVALENTS: Cash equivalents are any highly liquid investment with a remaining maturity of three months or less at the date of purchase. The Company has cash and cash equivalents on deposit with other banks and financial institutions in amounts that periodically exceed the federal insurance limit. The Company evaluates the credit quality of these banks and financial institutions to mitigate its credit risk.

INVESTMENT SECURITIES: Securities available for sale, including mortgage-backed and related securities, are carried at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of equity. Any security that management determines may not be held to maturity is classified as available for sale at the time the security is acquired. Any gains and losses realized on the sale of these securities are based on the specific identification method and included in earnings.

Purchase discounts and premiums on investment securities are amortized using the level yield method.

LOANS: Loans are reported at the principal amount outstanding, adjusted for net deferred loan fees and costs and other unamortized premiums or discounts.

Interest is accrued as earned unless management doubts the collectibility of the loan or the unpaid interest. Interest accrual is generally discontinued and loans are transferred to nonaccrual status when they become 90 days past due or earlier if the loan is impaired and collection is considered doubtful. All previously accrued but uncollected interest is deducted from interest income upon transfer to nonaccrual status. Income from nonaccrual loans is recorded only when interest payments are received.

Loans or portions of loans are charged off against the allowance for loan losses when considered uncollectible. Prior to charging a loan off, a loss allowance may be recognized on impaired loans for an estimated possible loss.

Loan origination fees and direct loan origination costs are deferred and recognized as an adjustment to interest income over the contractual life of the loan using the level yield method. When loans are sold, the related net unamortized loan fees and costs are included in the determination of the gain on sale of loans.

LOANS HELD FOR SALE: Loans held for sale consist primarily of residential mortgage loans and are individually valued at the lower of cost or market. Loans are recorded as sold when the loan documents are sent to the investor. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

ALLOWANCE FOR LOAN LOSSES: The allowance for loan losses is maintained at a level believed to be sufficient to absorb losses probable and inherent in the loan portfolio. Management's determination of the adequacy of the allowance is based on a number of factors, including the level of nonperforming loans, loan loss experience, collateral values, a review of the credit quality of the loan portfolio, and current economic conditions. Loans are categorized as either pass-graded or problem-graded based on periodic reviews of the loan portfolio. The allowance is evaluated quarterly based on an estimated range of probable loss comprised of two elements:

General component: The general allowance component is calculated by loan category as a range of estimated loss by applying various loss factors to pass-graded outstanding loans. The loss factors are based primarily on industry loss statistics, adjusted for the Bank's historical loss experience and other significant factors that, in management's judgment, affect the collectibility of the portfolio as of the evaluation date.

Specific component: The specific allowance component is established in cases where management has identified conditions or circumstances related to a problem-graded loan that management believes indicate a probable loss. A range of estimated loss is established for each such loan.

Loan impairment is measured in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, *Accounting by Creditors for Impairment of a Loan* and SFAS No. 118, *Accounting by Creditors for Impairment of a Loan – Income Recognition and Disclosures.* Under these standards, loans are deemed to be impaired when management determines that it is probable that all amounts due under the contractual terms of the loan agreements will not be collectible in accordance with the original loan agreement. All problem-graded loans are evaluated for impairment. Impairment is measured by comparing the fair value of the collateral or present value of future cash flows to the recorded investment in the loan.

MORTGAGE SERVICING RIGHTS: Mortgage servicing rights are stated at amortized cost. Cost is amortized in proportion to, and over the period of, future expected net servicing income. Mortgage servicing rights are assessed for impairment based on the fair value of those rights and any impairment is recognized through a valuation allowance. In assessing impairment, the mortgage servicing rights are stratified based on the nature and risk characteristics, including coupon rates, of the underlying loans which, at December 31, 2007 and 2006, consisted primarily of one- to four-family residential mortgage loans.

PREMISES AND EQUIPMENT: Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets: 20 to 50 years for buildings, five to 10 years for leasehold improvements, and three to 10 years for furniture and equipment. Expenditures for improvements and major renewals are capitalized and ordinary maintenance and repairs are charged to operations as incurred.

Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, estimated future cash flows expected to result from the use of the asset and its eventual disposition are compared with the carrying value, and a direct writedown is recorded for the amount of impairment, if any.

REPOSSESSED ASSETS: Real estate or other collateral acquired in satisfaction of a loan is initially recorded in repossessed assets at the lower of cost or estimated fair value less estimated selling costs, with any difference from the loan balance charged to the allowance for loan losses. Subsequent changes in estimated fair value result in writing down the properties, directly or through valuation accounts. Such writedowns and gains and losses on disposal, as well as operating income and costs incurred during the period of ownership, are recognized currently in noninterest expense.

FEDERAL HOME LOAN BANK STOCK: The Bank's investment in Federal Home Loan Bank of Seattle ("FHLB") stock is carried at cost because there is no active market for the stock. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specified percentages of its outstanding mortgages, total assets or FHLB advances. The Bank's minimum investment requirement was approximately $661,700 and $562,000 at

December 31, 2007 and 2006, respectively. The Bank may request redemption at par value on any stock in excess of the amount the Bank is required to hold. Stock redemptions are granted at the discretion of the FHLB.

ADVERTISING EXPENSE: Advertising costs are expensed as incurred. Advertising expense was $224,000 and $192,000 for the years ended December 31, 2007 and 2006, respectively.

INCOME TAX: The Company accounts for income tax using the asset and liability method. The asset and liability method recognizes the amount of tax payable at the date of the financial statements as a result of all events that have been recognized in the financial statements, as measured by the provisions of current enacted tax laws and rates. Net deferred tax assets are evaluated and reduced through a valuation allowance to the extent that it is more likely than not that such assets will not be fully recovered in the future.

TREASURY STOCK: Treasury stock is accounted for on the basis of average cost, or $12.375 per share at December 31, 2007 and 2006.

EMPLOYEE STOCK OWNERSHIP PLAN: Compensation expense under the Company's Employee Stock Ownership Plan ("ESOP") is based upon the number of shares allocated to employees each year multiplied by the average share price for the year. Expense is reduced by the amount of dividends paid on unallocated shares. In computing earnings per share, shares outstanding are reduced by shares held by the ESOP that have not yet been allocated to employees.

STOCK OPTION PLAN: The Company accounts for its stock option plans in accordance with the provisions of FASB Statement No. 123(R), *Share-Based Payment"*, a revision of FASB 123 "Accounting for Stock-Based Compensation". FASB Statement No. 123R establishes accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans and requires that the compensation cost relating to share-based payment transactions such as stock options be recognized in the Company's financial statements over the period the options are earned by employees. The adoption of this standard, as of January 1, 2006, using the modified prospective method, resulted in $41,000 and zero of compensation expense for the years ended December 31, 2007 and 2006, respectively. Because substantially all of the options granted through December 31, 2006 were fully earned and exercisable by the year ended December 31, 2005, no expense has been recorded by the Company in 2006 under SFAS 123(R).

STATEMENT OF CASH FLOWS: The statement of cash flows has been prepared using the "indirect" method for presenting cash flows from operating activities. For purposes of this statement, cash and cash equivalents include cash and due from banks and interest-bearing deposits with banks.

SEGMENT REPORTING: The Company has identified a single segment at the entity-wide level used by senior management to make operating decisions.

RECENT ACCOUNTING PRONOUNCEMENTS: Significant recent accounting pronouncements are described below.

In September 2006, the FASB issued SFAS 157, *"Fair Value Measurements*." This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. On November 14, 2007, the FASB proposed to defer the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those items recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

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January 1, 2008. SFAS 159 is not expected to have a material impact on the Company's consolidated financial statements.

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FAIR VALUE OF FINANCIAL INSTRUMENTS: The fair value of cash and cash equivalents and accrued interest receivable is estimated to be equal to the carrying value, due to their short-term nature. The fair value of investment securities is based upon estimated market prices obtained from independent safekeeping agents. The fair value of FHLB stock is considered to be equal to its carrying value, since it may be redeemed at that value. The fair value of loans is estimated using present value methods which discount the estimated cash flows, including prepayments as well as contractual principal and interest, using current interest rates appropriate for the type and maturity of the loans.

For demand and savings deposits and accrued interest payable, fair value is considered to be carrying value. The fair values of fixed-rate certificates of deposit and FHLB advances are estimated using present value methods and current offering rates for such deposits and advances.

USE OF ESTIMATES: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, deferred income taxes, and useful lives for depreciation of premises and equipment. Actual results could differ from these estimates.

Note 2 – Cash and Cash Equivalents

The Company is required to maintain prescribed reserves with the Federal Reserve Bank or in the form of cash. Cash reserve requirements are computed by applying prescribed percentages to various types of deposits. The Company is required to maintain a $750,000 minimum average daily balance with the Federal Reserve Bank for purposes of settling financial transactions and charges for Federal Reserve bank services. The Company is also required to maintain cash balances or deposits with the Federal Reserve Bank sufficient to meet its statutory reserve requirements. The average reserve requirement for the maintenance period, which included December 31, 2007 and 2006 was $539,000 and $543,000, respectively.

Note 3 – Regulatory Capital Requirements and Restrictions

The Bank is restricted on the amount of dividends it may pay to the Company. It is generally limited to the net income of the current fiscal year and that of the two previous fiscal years, less dividends already paid during those periods. At December 31, 2007, the Bank's retained earnings available for dividends to the Company were approximately $2,859,000. However, payment of dividends may be further restricted by the Bank's regulatory agency if such payment would reduce the Bank's capital ratios below required minimums or would otherwise be considered to adversely affect the safety and soundness of the institution.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action ("PCA"), the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures have been established by regulation to ensure capital adequacy and require the Bank to maintain minimum capital amounts and ratios (set forth in the following table). The Bank's primary regulatory agency, the Office of Thrift Supervision ("OTS"), requires that the Bank maintain minimum amounts and ratios (as defined in the regulations) of tangible capital of 1.5%, core capital of 4%, and total risk-based capital of 8%. The Bank is also subject to PCA capital requirement regulations set forth by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC requires the Bank to maintain minimum amounts and ratios (as defined in the regulations) of total and Tier I capital to risk-weighted assets. Management believes that, as of December 31, 2007 and 2006, the Bank meets all capital adequacy requirements to which it is subject. The Bank was categorized as "well capitalized" in the most recent notification by the Office of Thrift Supervision. There have been no events or conditions since that notification that management believes would change the Bank's capital category.

Following is a summary of the Bank's capital ratios:

			Minimum Capital Required			
(dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Categorized as "Well Capitalized" Under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2007:						
Tangible capital (to total assets)	$18,376	9.81%	$ 2,809	1.50%	N/A	N/A
Core capital (to total assets)	18,376	9.81	7,491	4.00	$ 9,364	5.00%
Total risk-based capital (to risk weighted assets)	19,603	13.12	11,956	8.00	14,945	10.00
Tier I risk-based capital (to risk weighted assets)	18,376	12.30	N/A	N/A	8,967	6.00
December 31, 2006:						
Tangible capital (to total assets)	$17,225	9.66%	$ 2,676	1.50%	N/A	N/A
Core capital (to total assets)	17,225	9.66	7,135	4.00	$ 8,919	5.00%
Total risk-based capital (to risk weighted assets)	18,441	13.32	11,076	8.00	13,845	10.00
Tier I risk-based capital (to risk weighted assets)	17,225	12.44	N/A	N/A	8,307	6.00

Note 4 – Investment Securities Available for Sale

Amortized cost and fair values of investment securities available for sale, including mortgage-backed securities, are summarized as follows:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2007:				
Mortgage-backed securities:	$3,821	$51	$(65)	$3,807
U.S. government agencies	107	-	(1)	106
Total	$3,928	$50	$(66)	$3,913
December 31, 2006:				
Mortgage-backed securities:	$5,195	$60	$(102)	$5,153
U.S. government agencies	134	1	-	135
Total	$5,329	$61	$(102)	$5,288

Impaired securities (those with unrealized losses) at December 31, 2007 are summarized as follows:

	Impaired less than 12 months		Impaired 12 months or more		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed securities	$49	$1	$3,279	$64	$3,328	$65
U.S. agencies and corporations	106	1	-	-	106	1
Total	$155	$2	$3,279	$64	$3,434	$66

Fourteen securities with unrealized losses at December 31, 2007 were mortgage-backed or other securities issued by the U.S. government and agencies; collectibility of principal and interest is considered to be reasonably assured. The fair values of individual securities fluctuate significantly with interest rates and with market demand for securities with specific structures and characteristics. Management does not consider these unrealized losses to be other than temporary.

No securities were designated as held to maturity at December 31, 2007 or 2006.

All investment securities at December 31, 2007 have final contractual maturities of more than five years. Actual maturities may vary due to prepayment of the underlying loans.

At December 31, 2007, investment securities with amortized cost of $3,616,000 and market value of $3,688,000 were pledged to secure public funds deposited with the Bank.

There were no sales of securities during 2007 or 2006. The Bank does not have a securities trading portfolio.

Note 5 – Loans

Loans are summarized as follows:

(in thousands) December 31,	2007	2006
Real estate:		
Permanent:		
One- to four-family	$ 41,275	$ 44,072
Multifamily	1,043	1,304
Commercial nonresidential	45,067	45,212
Land	6,321	6,359
Construction:		
One- to four-family	11,648	12,892
Multifamily	719	731
Commercial nonresidential	11,564	6,567
Commercial business	22,872	18,268
Consumer:		
Home equity	19,128	16,836
Boat	3,974	4,663
Automobile	1,006	738
Other	889	955
Loans	$165,506	$158,597
Loans held for sale	$2,920	$519

Loans are net of deferred loan fees and other discounts amounting to $802,000 and $935,000 at December 31, 2007 and 2006, respectively.

Loans include overdrawn balances of deposit accounts of $100,000 and $51,000 at December 31, 2007 and 2006, respectively.

Interest income from tax-exempt loans was $36,000 and $37,000 in 2007 and 2006, respectively.

Real estate loans are secured primarily by properties located in Southeast Alaska. Commercial real estate loans are generally secured by warehouse, retail, and other improved commercial properties. Commercial business loans are generally secured by equipment, inventory, accounts receivable, or other business assets.

Impaired loans are summarized as follows:

(in thousands) Year ended December 31,	2007	2006
Impaired loans at end of year	$1,191	$1,130
Impaired loans at end of year for which allowances have been provided	1,191	1,130
Amount of allowances at end of year	556	450
Average impaired loans	1,176	1,251

Nonaccrual loans were $323,207 and zero at December 31, 2007 and 2006, respectively. As of December 31, 2006, approximately $13,000 of interest would have been recorded if these loans had been current according to their original terms and had been outstanding throughout the year.

MORTGAGE LOAN SERVICING: The Bank services residential and other real estate loans for Alaska Housing Finance Corporation ("AHFC"), U.S. Government agencies, and institutional and private investors totaling $100,195,000 and $102,567,000 as of December 31, 2007 and 2006, respectively. These loans are the assets of the investors and, accordingly, are not included in the accompanying balance sheets. Related servicing income, net of amortization of mortgage servicing rights, amounted to $154,000 and $151,000 for 2007 and 2006, respectively.

The amortized cost of mortgage servicing rights was $675,000 and $702,000 at December 31, 2007 and 2006, respectively. The amount of servicing assets recognized during 2007 was $81,000 and amortization was $108,000 for the year. The amount of servicing assets recognized during 2006 was $122,000 and amortization was $109,000 for the year. Management has determined that a valuation allowance for impairment is not required at December 31, 2007 or 2006.

RELATED PARTY LOANS: In the ordinary course of business, the Bank makes loans to executive officers and directors of the Bank and to their affiliates. These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions. The aggregate dollar amount of these loans was $3,152,000 and $3,126,000 at December 31, 2007 and 2006, respectively. During the years ended December 31, 2007 and 2006, new loans of this type were $117,000 and $445,000, respectively, and repayments were $91,000 and $58,000, respectively.

Note 6 – Allowance for Loan Losses

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

(in thousands) Year ended December 31,	2007	2006
Balance at beginning of year	$1,666	$1,448
Provision for loan losses	180	250
Loans charged off	(77)	(35)
Recoveries	14	3
Balance at end of year	$1,783	$1,666

Note 7 – Premises and Equipment

Following is a summary of premises and equipment:

(in thousands) December 31,	2007	2006
Land	$ 424	$ 424
Buildings	2,207	2,195
Leasehold improvements	3,633	3,498
Furniture, fixtures and equipment	2,940	2,790
	9,204	8,907
Less accumulated depreciation	(5,768)	(5,370)
	$3,436	$3,537

Depreciation and amortization expense for the years ended December 31, 2007 and 2006 amounted to $398,000 and $311,000, respectively.

Note 8 – Deposits

Deposits in excess of $100,000 are not federally insured. Certificates of deposit exceeding $100,000 at December 31, 2007 and 2006 were $11,941,000 and $10,180,000, respectively, and the uninsured excess over $100,000 amounted to $4,341,000 and $3,581,000, respectively.

The scheduled maturities of certificates of deposit as of December 31, 2007, are as follows:

(in thousands) Year ending December 31,	
2008	$38,782
2009	4,526
2010	1,893
2011	1,966
2012 and thereafter	557
	$47,724

Interest expense on deposits consists of the following:

(in thousands) Year ended December 31,	2007	2006
Interest-bearing demand	$ 102	$ 104
Money market	758	633
Savings	118	134
Certificates of deposit	2,170	1,787
	$3,148	$2,658

The weighted averages interest rates paid on deposits are as follows:

Year ended December 31,	2007	2006
Interest-bearing demand	0.35%	0.35%
Money market	3.13	3.09
Savings	0.69	0.75
Certificates of deposit	4.55	4.42

Deposits from the Company's executive officers, directors, and their related companies were $2,249,000 and $2,188,000 at December 31, 2007 and 2006, respectively.

Note 9 – Federal Home Loan Bank Advances

FHLB advances consist of the following:

(dollars in thousands) December 31,	2007	2006
Overnight advances, 4.35%	$6,400	$2,500
Five-year amortizing advance, final maturity in 2008, 3.03%	71	671
Seven-year amortizing advance, final maturity in 2010, 3.62%	605	891
Putable advance, maturing in 2009, putable earlier at discretion of FHLB, 6.13%	5,000	5,000
Four-year advance, maturing in 2010, 5.24%	1,500	1,500
Five-year advance, maturing in 2011, 5.26%	2,000	2,000
Seven-year advance, maturing in 2013, 5.30%	1,500	1,500
	$17,076	$14,062

FHLB advances at December 31, 2007 with final maturities of more than one year have scheduled maturities as follows:

(in thousands) Year ending December 31,	
2008	$ 356
2009	5,286
2010	1,534
2011	2,000
2012 and thereafter	1,500
Total	$10,676

The average balance of FHLB advances outstanding during 2007 and 2006 was $15,400,000 and $13,729,000, respectively. The maximum amount of advances outstanding at any month end during 2007 and 2006 was $20,193,000 and $18,952,000, respectively. Under a blanket pledge agreement, all funds on deposit at FHLB, as well as all unencumbered qualifying loans and investment securities, are available to collateralize FHLB advances.

The Bank has available a line of credit with the FHLB generally equal to 25% of the Bank's total assets, or approximately $46.9 million at December 31, 2007, of which $29.8 million was unused.

Note 10 – Stock-Based Compensation

STOCK OPTION PLAN: In previous years, the Board of Directors, upon stockholder approval, approved two stock option plans (the Plans); one for key employees and one for directors of the Company. The Incentive and Director Stock Option Plan permits the grant of stock options to authorized key employees for up to 65,574 shares of common stock plus (i) the number of Shares repurchased by the Company in te open market or otherwise with an aggregate price no greater than the cash proceeds received by the Company from the exercise of Options granted under the Plan; plus (ii) any Shares surendered to the Company in payment of the exercise price of Options granted under the Plan. The Committee of the Plans shall determine the time or times at which an Option may be exercised. Previous option awards generally vest based on five years of continuous service. The term of each option award shall be no greater than 10 years in the case of an Incentive Stock Option or 15 years in the case of a Non-Qualified Stock Option. Option awards under both Plans shall not be less than 100% of the Market Value of a Share on the date of grant of such Option. Stock options granted are eligible for adjustment in the event that the outstanding common stock of the Company changes as a result of a stock dividend, stock split, or other changes to existing stock. The 2000 Stock Option Plan and the 2003 Stock Option Plan will terminate on July 2, 2010 and May 22, 2013, respectively.

In 2000, the Company's shareholders approved the 2000 Stock Option Plan, providing for the granting of options on up to 65,542 shares. Options for 65,542 shares were granted in 2000, with an exercise price equal to the market price of the stock at the date of grant, or $9.75. Options on 3,400 shares were granted in 2003, replacing forfeitures, with an exercise price of $17.50.

In 2003, the Company's shareholders approved the 2003 Stock Option Plan, providing for the granting of options on up to 32,000 shares. Options for 22,600 shares were granted in 2007, with an exercise price equal to the market price of the stock at the date of grant, or $25.50. Options become exercisable in five equal annual installments commencing one year after the date of grant, and unexercised options expire ten years after the date of grant.

The fair value of each option is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions used for unvested grants as of December 31, 2007, was as follows:

Risk free interest rate	4.4%
Expected volatility	20.4%
Expected cash dividends	1.5%
Expected life	7 years

Following is a summary of the changes in stock options:

(in thousands) Year ended December 31,	2007		2006	
	Number of Options	Exercise Price	Number of Options	Exercise Price
Stock options outstanding at beginning of year	48,265	$9.75 - $17.50	60,320	$9.75 - $17.50
Granted	22,600	$25.50	-	
Exercised	(13,200)	$9.75	(12,055)	$9.75 - $17.50
Forfeited	-		-	
Stock options outstanding at end of year	57,665	$9.75 - $25.50	48,265	$9.75 - $17.50
Options exercisable at end of year	38,045	$9.75 - $25.50	46,905	$9.75 - $17.50

Options exercised during the year ended December 31, 2007 had an aggregate intrinsic value of $190,000. Stock options outstanding at December 31, 2007 are summarized as follows:

				Exercisable	
Weighted-Average Exercise Price	Number Outstanding at End of Year	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value	Number of Shares	Aggregate Intrinsic Value
$ 9.75	32,665	2.6	$400,146	32,665	$400,146
17.50	2,400	5.2	10,800	1,720	7,740
25.50	22,600	9.7	-	3,660	-
$16.25	57,665	3.7	$410,946	38,045	$407,886

SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the consolidated income statement based on their fair values. Compensation cost is recorded as if each vesting portion of the award is a separate award. The adoption of this standard, as of January 1, 2006, using the modified prospective method, resulted in $41,000 and zero of compensation expense for the years ended December 31, 2007 and 2006, related to the unvested portion of options granted in prior years. Net of taxes for the years ended December 31, 2007 and 2006, this reduced net income by $16,000 and zero, respectively. The basic and diluted earnings per share basis effect in December 31, 2007 and 2006, was $0.07 and zero, respectively. There was $118,000 in unamortized stock-based compensation expense at December 31, 2007 with a weighted average expense period of 2.6 years.

SFAS 123(R) requires the recognition of stock-based compensation for the number of awards that are expected to vest. Recognized stock compensation expense was not reduced by estimated forfeitures because management believes the future effect to be minimal. Estimated forfeitures will be continually evaluated in subsequent periods and may change based on new facts and circumstances.

MANAGEMENT RECOGNITION PLAN: In 2000, the Company's shareholders approved the 2000 Management Recognition Plan, providing for the issuance of up to 26,217 shares of stock in the form of restricted stock awards. On July 20, 2000, 26,217 shares were granted with a total cost of $256,000, based on the market price of $9.75 per share. The shares vested in five equal annual installments in 2001 through 2005. No shares remained restricted at December 31, 2007 or 2006. Compensation expense related to the plan was zero for the years ended December 31, 2007 and 2006, respectively, including dividends on restricted shares.

Note 11 – Retirement Plans

The Bank has a salary deferral 401(k) plan. Employees who are at least 18 years of age and have completed three months of service are eligible to participate in the plan. Employees may contribute on a pretax basis a portion of their annual salary up to a maximum limit under the law. Beginning in 2006, the Bank matches 100% of employee contributions of up to 4% of compensation. For the years ended December 31, 2007 and 2006, the Bank contributed $103,000 and $94,000, respectively, to the plan, including administrative expenses.

The Company has an Employee Stock Ownership Plan ("ESOP") established in connection with the conversion to stock ownership. Eight percent of the shares issued in the conversion, or 52,433 shares, were purchased by the ESOP in exchange for a note payable to the Holding Company. The shares are allocated to employees over a ten-year period in proportion to the principal and interest paid on the note at the end of each year. All employees who have completed one year's service automatically participate in the plan, and each year's allocation is distributed in proportion to total compensation of employees. Employees are vested in the plan over a seven-year period. Dividends paid on allocated shares are credited to employee's accounts, but dividends on unallocated shares are used to reduce the expense of the plan. At December 31, 2007 and 2006, 48,375 and 44,021 shares, respectively, were allocated to employees. The Company's expense for the plan, including administrative expenses, amounted to $123,000 and $113,000 for the years ended December 31, 2007 and 2006, respectively. Unallocated shares had a market value of $89,000 and $201,000 at December 31, 2007 and 2006, respectively.

Note 12 – Operating Leases

The Bank leases certain of its premises and equipment under noncancelable operating leases with terms in excess of one year. Future minimum lease payments under these leases at December 31, 2007, are summarized as follows:

(in thousands) Year ending December 31,	
2008	$ 444
2009	138
2010	115
2011	115
2012	115
2013 and thereafter	164
	$1,091

Rent expense was $478,000 and $475,000 for the years ended December 31, 2007 and 2006, respectively. Rental income on owned premises amounted to $21,000 and $22,000 for the years ended December 31, 2007 and 2006, respectively.

Note 13 – Income Tax

The provision for income tax consisted of the following:

(in thousands) Year ended December 31,	2007	2006
Current tax expense:		
Federal	$695	$535
State	123	111
Total current	818	646
Deferred tax (benefit) expense:		
Federal	(194)	53
State	(34)	9
Total deferred	(228)	62
Income tax expense	$590	$708

A reconciliation of taxes computed at federal statutory corporate tax rates (34% in 2007 and 2006) to tax expense, as shown in the accompanying statements of income and changes in shareholders' equity, is as follows:

(in thousands) Year ended December 31,	2007	2006
Income tax expense at statutory rate	$514	$601
Income tax effect of:		
State income tax	91	106
Tax-exempt interest	(15)	(15)
Other	-	16
Income tax expense	$590	$708
Effective tax rate	39%	40%

Deferred federal income tax is provided for the temporary differences between the tax basis and financial statement carrying amounts of assets and liabilities. Components of the Company's net deferred tax assets consisted of the following:

(in thousands) December 31,	2007	2006
Deferred tax assets:		
Bad debt reserves	$953	$832
Premises and equipment	8	-
Accrued vacation	69	66
Other	35	17
Gross deferred tax assets	1,065	915
Deferred tax liabilities:		
Deferred loan fees, net	(70)	(123)
FHLB stock dividends	(625)	(571)
Premises and equipment	-	(20)
Other	(48)	(101)
Gross deferred tax liabilities	(743)	(815)
Net deferred tax assets	$322	$100

In August 1996, the Small Business Job Protection Act of 1996 ("the Act") was signed into law. Under the Act, the percentage of taxable income method of accounting for tax basis bad debts is no longer available effective for the years ending after December 31, 1995. As a result, the Bank is required to use the experience method of accounting for tax basis bad debts for 1998 and later years. In addition, the Act requires the recapture of post-1987 (the base year) additions to the tax bad debt reserves made pursuant to the percentage of taxable income method. The Bank is not subject to this recapture in 2007 or 2006, as its tax bad debt reserves do not exceed its base year reserve. As a result of the bad debt deductions, shareholders' equity as of December 31, 2007, includes accumulated earnings of approximately $1,759,000 for which federal income tax has not been provided. If, in the future, this portion of retained earnings is used for any purpose other than to absorb losses on loans or on property acquired through foreclosure, federal income tax may be imposed at then-applicable rates.

On January 1, 2007, the Bank adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 provides guidance on derecognition, classification, interest and penalties, and accounting in interim periods; and requires expanded disclosure with respect to the Company's methodology for estimating and reporting uncertain tax positions.

Currently, the Company is subject to U.S. federal income tax and income tax in the state of Alaska. The federal and state income taxes paid for the calendar years ending December 31, 2007, 2006, 2005, and 2004 may remain subject to examination by the applicable authorities. The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense in the Statements of Income. During the years ended December 31, 2007 and 2006, the Company recognized no interest and penalties.

The Company believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for the open years based on an assessment of many factors, including past experience and interpretations of tax law. The Company had no unrecognized tax benefits which would require an adjustment to the January 1, 2007, beginning balance of retained earnings. The Company had no unrecognized tax benefits at January 1, 2007, and December 31, 2007.

Note 14 – Commitments and Contingencies

COMMITMENTS: Commitments to extend credit, including lines of credit, totaled $9,731,000 and $12,543,000 at December 31, 2007 and 2006, respectively. Commitments to extend credit, generally at a variable interest rate, 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, totaled $6,365,000 and $6,986,000 at December 31, 2007 and 2006, respectively. These amounts are excluded from the balance of loans at year end.

The Bank has deposits in other institutions in excess of $100,000 insured by the FDIC.

CONCENTRATIONS: More than 75% of all loans in the Bank's portfolio are secured by real estate located in communities of Southeast Alaska.

Note 15 – 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. The following table shows the calculation of basic and diluted EPS.

Year ended December 31,	2007			2006		
	Net Income	Average Shares	Earnings Per Share	Net Income	Average Shares	Earnings Per Share
Net income/average shares issued	$922,000	655,415		$1,061,000	655,415	
Treasury stock		(12,356)			(20,579)	
Unvested stock awards		-			-	
Unearned ESOP shares		(8,412)			(13,062)	
Basic EPS	922,000	634,647	$1.45	1,061,000	621,774	$1.71
Incremental shares under stock plans:						
Stock awards		-			-	
Stock options		26,216			28,178	
Diluted EPS	$922,000	660,863	$1.40	$1,061,000	649,952	$1.63

Note 16 – Fair Value of Financial Instruments

The following information is presented in accordance with the requirements of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*. The estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

(in thousands) December 31,	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 9,100	$ 9,100	$ 8,579	$ 8,579
Investment securities available for sale	3,913	3,913	5,288	5,288
FHLB stock	1,784	1,784	1,784	1,784
Loans, including held for sale	168,426	170,919	159,116	158,958
Accrued interest receivable	978	978	927	927
Financial Liabilities				
Demand and savings deposits	101,643	101,643	97,764	97,764
Certificates of deposit	47,724	48,166	47,437	47,308
FHLB Advances	17,076	17,441	14,062	14,247
Accrued interest payable	668	668	607	607

The estimated fair value of loan commitments is $(12,000) and $46,000 at December 31, 2007 and 2006, respectively. Although management is not aware of any subsequent events that would significantly affect the estimated fair value amounts as of December 31, 2007, such amounts have not been comprehensively revalued since that date and, therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Note 17 – Parent Company Financial Information

Summarized financial information for Alaska Pacific Bancshares, Inc. (parent company only) is presented below:

PARENT COMPANY CONDENSED BALANCE SHEET

(in thousands) December 31,	2007	2006
Assets		
Cash	$ 297	$ 487
Investment in subsidiary	18,372	17,218
Other assets	-	-
Total Assets	$18,669	$17,705
Liabilities and Shareholders' Equity		
Shareholders' equity	$18,669	$17,705
Total Liabilities and Shareholders' Equity	$18,669	$17,705

PARENT COMPANY CONDENSED INCOME STATEMENT

(in thousands) Year ended December 31,	2007	2006
Equity in earnings of subsidiary	$1,041	$1,169
Total income	1,041	1,169
Operating expenses, net	119	108
Income before income tax	922	1,061
Income tax	-	-
Net income	$922	$1,061

PARENT COMPANY CONDENSED STATEMENT OF CASH FLOWS

(in thousands) Year ended December 31,	2007	2006
Cash flows from operating activities:		
Net income	$922	$1,061
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of subsidiary	(1,041)	(1,169)
Net cash used in operating activities	(119)	(108)
Cash flows from investing activities:		
Distributions received from subsidiary	52	55
Net cash provided by investing activities	52	55
Cash flows from financing activities:		
Issuance of common stock	128	125
Cash dividends paid	(251)	(224)
Net cash used in financing activities	(123)	(99)
Net increase (decrease) in cash	(190)	(152)
Cash at beginning of year	487	639
Cash at end of year	$297	$487

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

No disagreement with the Company's independent accountants on accounting and financial disclosure has occurred during the two most recent fiscal years.

Item 8A(T). Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Section 13(a)-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management within the 90-day period preceding the filing date of this annual report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company'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) Report of Management on Internal Control over Financial Reporting: Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed under the supervision of the Company's management, including its Chief Executive Officer and its Chief Financial Officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with generally accepted accounting principles in the United States of America.

The Company's internal control over financial reporting includes policies and procedures that: pertain to the maintenance of records which, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's financial statements.

Management recognizes that there are inherent limitations in the effectiveness of any system of internal control and, accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation and fair presentation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the framework established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2007 is effective.

/s/ Craig E. Dahl	/s/ Julie M. Pierce
Craig E. Dahl	Julie M. Pierce
President and Chief Executive Officer	Senior Vice President, Chief Financial Officer
(Principal Executive Officer)	(Principal Financial and Accounting Officer)

(c) Changes in Internal Controls: In the year ended December 31, 2007, the Company 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.

Item 8B. Other Information

There was no information to be disclosed by the Company in a report on Form 8-K during the fourth quarter of fiscal 2007 that was not so disclosed.

PART III

Item 9. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16(a) of the Exchange Act

The information contained under the section captioned “Proposal I -- Election of Directors” in the Company’s Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders (“Proxy Statement”) is incorporated herein by reference. For information regarding the executive officers of the Company, see “Item 1. Business - Executive Officers.”

Audit Committee Financial Expert

The Audit Committee consisting of Directors Milner (Chairman), Grant, Grummett and McDowell is responsible for reviewing the internal auditors’ report and results of their examination prior to review by and with the entire Board of Directors and retains and establishes the scope of the engagement of the Company’s independent auditors. The Board of Directors has designated Director Milner as the Audit Committee financial expert, as defined in the SEC’s Regulation S-B, by the Bank’s Board of Directors. Although the Company is not listed on Nasdaq, its Board of Directors has chosen to apply the definition of “independent “under the Nasdaq rules, as permitted by the SEC’s Regulation S-B. Using this definition, the Board has determined that Director Milner is independent.

Compliance with Section 16(a)

Section 16(a) of the Exchange Act requires Company directors and executive officers, and persons who own more than 10% of a registered class of its equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Officers, directors and greater than 10% stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

Reference is made to the cover page of this Annual Report on Form 10-KSB, and the information under the section captioned “Compliance with Section 16(a) of the Exchange Act” in the Proxy Statement is incorporated herein by reference, with regard to compliance with Section 16(a) of the Exchange Act.

Code of Ethics

The Board of Directors adopted a Code of Ethics for the Company’s officers (including its senior financial officers), directors, and employees, which is included as Exhibit 14 hereto. The Code of Ethics requires the Company’s officers, directors, and employees to maintain the highest standards of professional conduct. The Company has elected to provide a copy of its Code of Ethics without charge to anyone who requests it.

Shareholder Recommendations for Board Nominations

No material changes have been made to the procedures by which security holders may recommend nominees to the Company’s Board of Directors. See the sections captioned "Meetings and Committees of the Board of Directors and Corporate Governance Matters -- Committees and Committee Charters" and "Stockholder Proposals" in the Proxy Statement, which are incorporated herein by reference.

Item 10. Executive Compensation

The information contained under the sections captioned "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) **Security Ownership of Certain Beneficial Owners**
Information required by this item is incorporated herein by reference to the section captioned "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement.

(b) **Security Ownership of Management**
Information required by this item is incorporated herein by reference to the sections captioned and "Security Ownership of Certain Beneficial Owners and Management" and "Proposal I - Election of Directors" of the Proxy Statement.

(c) **Changes in Control**
The Company is not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

(d) **Equity Compensation Plan Information.** The following table summarizes share and exercise price information about the Company's equity compensation plans as of December 31, 2007.

Plan category	*(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights*	*(b) Weighted-average exercise price of outstanding options, warrants, and rights*	*(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))*
Equity compensation plans approved by security holders			
Option plan	38,045	$16.25	-
Equity compensation plans not approved by security holders	-		-
Total	38,045		-

Item 12. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the section captioned "Meetings and Committees of the Board of Directors and Corporate Governance Matters – Corporate Governance – Related Party Transactions" and "Meetings and Committees of the Board of Directors and Corporate Governance Matters – Corporate Governance –Director Independence" in the Proxy Statement.

Item 13. Exhibits

(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 Julie M. Pierce (8)
10.3	Severance Agreement with Thomas C. Sullivan (3)
10.4	Severance Agreement with Tammi L. Knight (3)
10.5	Severance Agreement with John E. Robertson (5)
10.6	Severance Agreement with Leslie D. Dahl (8)
10.7	Severance Agreement with Christopher P. Bourque (8)
10.8	Alaska Federal Savings Bank 401(k) Plan (1)
10.9	Alaska Pacific Bancshares, Inc. Employee Stock Ownership Plan (3)
10.10	Alaska Pacific Bancshares, Inc. Employee Severance Compensation Plan (3)
10.11	Alaska Pacific Bancshares, Inc. 2000 Stock Option Plan (4)
10.12	Alaska Pacific Bancshares, Inc. 2003 Stock Option Plan (6)
14	Code of Ethics (7)
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm
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, 2004.

(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, 2004.

(6) Incorporated by reference to the registrant's annual meeting proxy statement dated April 10, 2004.

(7) Incorporated by reference to the registrant's Annual Report on Form 10-KSB for the year ended December 31, 2005

(8) Incorporated by reference to the registrant's quarterly report on Form 10-QSB for the quarterly period ended September 30, 2007.

Item 14. Principal Accountant Fees and Services

The information set forth under the section captioned "Proposal II -- Approval of Appointment of Independent Auditors" in the Proxy Statement is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on March 28, 2008, on its behalf by the undersigned, thereunto duly authorized.

ALASKA PACIFIC BANCSHARES, INC.

/s/ Craig E. Dahl
Craig E. Dahl
President and Chief Executive Officer
(Duly Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 28, 2008 by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Craig E. Dahl
Craig E. Dahl
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Julie M. Pierce
Julie M. Pierce
Senior Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

/s/ Roger Grummett
Roger Grummett
Chairman of the Board and Director

/s/ BethAnn Chapman
BethAnn Chapman
Director

/s/ Hugh N. Grant
Hugh N. Grant
Director

/s/ William A. Corbus
William A. Corbus
Director

/s/ Eric McDowell
Eric McDowell
Director

/s/ Scott C. Milner
Scott C. Milner
Director

/s/ Robert E. Allen, Jr.
Robert E. Allen, Jr.
Director

/s/ William J. Schmitz
Wlliam J. Schmitz
Director

Exhibit Index

Exhibit No.	Description
21	Subsidiaries of the Registrant
23	Consent of Independent Registered Public Accounting Firm
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

Exhibit 21

Subsidiaries of the Registrant

Parent

Alaska Pacific Bancshares, Inc.

Subsidiaries (a)	Percentage of Ownership	Jurisdiction or State of Incorporation
Alaska Pacific Bank	100%	United States

(a) The operation of the Company’s wholly owned subsidiary is included in the Company’s Consolidated Financial Statements contained in Item 7 of this report on Form 10-KSB.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Alaska Pacific Bancshares, Inc.

We consent to the incorporation by reference in Registration Statements No. 333-58798 and 333-147444 on Form S-8 of Alaska Pacific Bancshares, Inc. of our report dated March 28, 2008, with respect to the consolidated balance sheets of Alaska Pacific Bancshares, Inc. and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, which appear in the December 31, 2007, annual report on Form 10-KSB of Alaska Pacific Bancshares, Inc.

/s/ Moss Adams LLP

Spokane, Washington
March 28, 2008

Exhibit 31.1

Certification Required
By Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

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

1. I have reviewed this Annual Report on Form 10-KSB 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: March 28, 2008

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

Exhibit 31.2

Certification Required
By Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Julie M. Pierce, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Annual Report on Form 10-KSB 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: March 28, 2008

/s/Julie M. Pierce
Julie M. Pierce
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 Company's Annual Report on Form 10-KSB, 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.

March 28, 2008	/s/Craig E. Dahl
Date	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 Company's Annual Report on Form 10-KSB, 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.

March 28, 2008	/s/ Julie M. Pierce
Date	Julie M. Pierce Senior Vice President and Chief Financial Officer