

***Alaska Pacific Bancshares, Inc.***  
***2009 Annual Report & 10-KSB***

# Message to Our Shareholders

Our financial results for 2009 were extremely disappointing. While we continue to focus on the positive aspects of our core business and market, the fact is that we had to continue working through a challenging economic environment, which created difficulties with the remaining out-of-market participation loans. These loans have plagued the Bank's performance for the past two years.

The \$2.2 million pretax loss for 2009 was a direct result of charging off \$3.9 million in loans, with \$3 million of that in the referenced real estate loans. Even with that the bank ended the year with a remaining allowance for loan losses of \$1.78 million. The charge off activity and established reserves represented an effort to put these loans behind us and look forward to 2010. In spite of these losses, the Bank ended the year with capital of \$18.7 million, recognizing that the additional capital received through the US Treasury Capital Purchase Program of \$4.4 million has been a key element in remaining well capitalized.

Nonetheless, our performance will improve considerably once we are done dealing with the largest problem credits and the costs associated with them. We continue to experience exceptionally low delinquency rates in all types of loans except for these specific credits. Our loan demand has been reasonably steady relative to the region's economy, and we are seeing an increase in residential construction activity, which is a positive indicator in the market.

We would encourage you to read the Management's Discussion and Analysis section of the Form 10-K along with the financial statements and related footnotes that detail the loans that contributed to the losses for 2009, which are primarily the same large credits as identified in prior reports. While this does not diminish the size of the loss, the point is to show that problems remain specific to these transactions. The regulatory guidelines and accounting standards required that we write down the balances on these specific real estate loans to a value based on current appraisals. It was necessary to take these charges and move forward, whether or not there is an expectation of receiving higher values as these projects work their way through litigation and resolution. In addition, the tax rules regarding loss carry back were restricted to a two-year look back instead of five because we received Capital Purchase Program funds from the US Treasury. This limitation removed virtually all of the tax benefit of the 2009 loss.

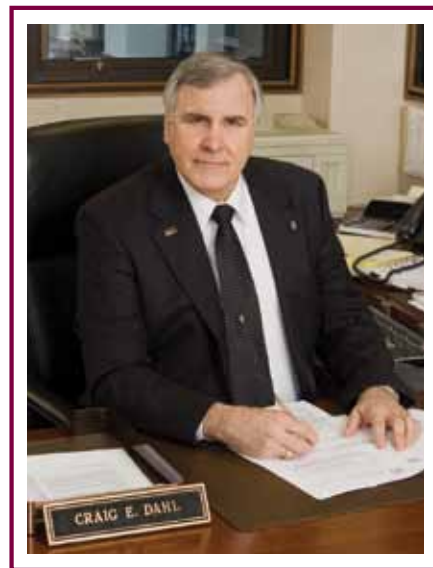
Our continued confidence in our day to day operations is further reinforced by the economic climate in Southeast Alaska, which has, for the most part, weathered the recession more favorably than

other parts of Alaska and the lower 48. Certainly there were problems during 2009. The Alaska State Department of Labor indicates that the region lost more than 750 jobs during the year; and as we look forward to 2010 there are concerns over the impact that the reduction of cruise ship visitors will

have on retail business, city sales taxes and commercial real estate values. However, there is a lot more optimism in the market based upon two major projects that will impact the region. The hard-fought Kensington gold mine will begin operation mid 2010 in Juneau, creating more than 200 new jobs. In the same regard, the Ketchikan Shipyard is preparing to staff its major expansion, potentially creating more than 200 new jobs in that market. Knowing that both projects are independent of oil revenues, government payrolls or seasonal tourism dollars has, along with other projects, generated a sense of confidence in the region's economic stability. Housing prices, which experienced some decline over the past two years, have either stabilized or recovered depending on price range and location.

Our focus going forward will be on restoring profitability and developing the plan and resources to repay the funds received from the US Treasury. While we remain confident in our future, we also know that 2010 will be a year of rebuilding for the institution. We will be operating in a market that will be in a transition between the emerging opportunities of two expanding industries and the problems that might develop with a further reduction in tourism. We are also watching for the impact of any regulatory changes that could result from financial reform legislation currently before Congress.

I can assure you that we are disappointed with the financial losses and understand the impact on our shareholders. Management is fully committed to improving the financial performance and increasing shareholder value. While the recession may have been declared over, our nation has a lot of rebuilding to do and we remain committed to seeing the Company through these difficult times.



Respectfully,

Craig E. Dahl  
President and Chief Executive Officer  
Alaska Pacific Bancshares, Inc.