



Alaska Pacific Bancshares, Inc.
2010 Annual Report & 10-KSB

Message to Our Shareholders

I am very pleased to report our performance for the year ended December 31, 2010, which represents a significant change compared to results from our previous two years. For the year ended December 31, 2010, our net income was \$539,000 compared to a \$2.5 million loss for 2009. While still short of our desired earnings target, this increase in income represents a significant change of direction for the Bank and signals a return to more normal operations. During 2010, we continued to address the challenge of mitigating the losses presented by a small number of out-of-market participation loans, while maintaining the Bank's core business model. Our financial statements and accompanying schedules included in this Annual Report reflects the additional actions we took during 2010 to reduce or eliminate the balances outstanding on these loans. As we indicated last year, once we are able to resolve these problem loans, our performance will improve considerably. This year's increase in earnings reflects the efforts we have made in 2010 and that we are on our way to restoring the Bank to profitability.

During 2010, we continued to focus on the reduction of classified assets to the extent that the market and earnings would permit. At the same time we addressed the additional challenges that came with the regulatory restrictions imposed by the Office of Thrift Supervision ("OTS"). While these restrictions have not been formally removed, we have met every requirement imposed by the OTS. This includes maintaining our regulatory capital levels in excess of those required by the OTS throughout the year. In complying with the additional regulatory requirements imposed by the OTS, it has been a challenge to demonstrate the relatively stable environment of Southeast Alaska from the economy of the lower-48. We have maintained that our local economy is another factor that will assist the Bank in returning to normal operations once these out-of-market problem loans, located in several states in the Pacific Northwest, are resolved.

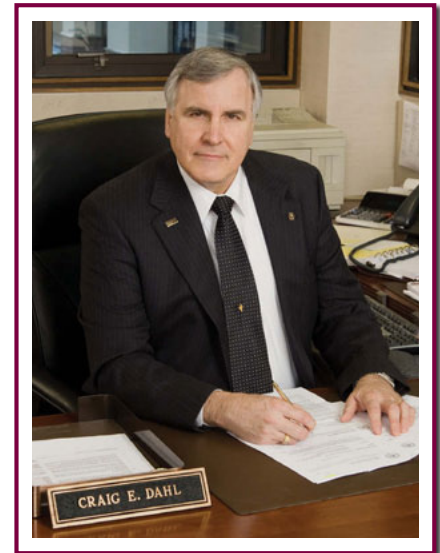
We also have focused on ensuring that the Bank's policies and procedures meet the new regulatory requirements in the areas of risk management and compliance. Certainly, we have had the same concerns as every other small financial institution in the country, as to finding the best way to address these new requirements, remain in regulatory compliance and still operate in an efficient and profitable manner. To assist us in our compliance efforts, the Bank has added a full-time compliance officer, and engaged two independent CPA firms to perform various levels of review for internal audit and compliance work. We are watching, along

with the rest of the banking industry, as the new provisions of The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 are implemented, including the establishment of the new Consumer Protection Agency.

Probably of most concern to you, our shareholders, is what the Bank is

doing to repay the capital acquired from the U.S. Treasury under the Troubled Asset Relief Program ("TARP") Capital Purchase Program ("CPP"). The OTS supported the Bank's decision to apply for this additional capital based upon the long-term prospects for the Bank. This additional capital provided a necessary safeguard for the Bank at a time when the capital markets were unavailable for smaller financial institutions. While many rules and restrictions were imposed after we acquired the additional capital from U.S. Treasury, it proved to be in the Bank's overall best interest. The board of directors has devoted substantial amount of time and attention to assessing the available strategic alternatives for the repayment of these funds that would be in the best interests of our shareholders. As we have indicated before, our primary goals are to resolve our problem loans, eliminate the additional regulatory restrictions imposed on us, and to restore the Bank to profitability. The board believes that these goals are attainable and once they have been achieved, the repayment of the TARP CPP funds will be addressed.

The boards of directors, officers and employees have worked diligently to resolve the Bank's regulatory issues and problem loans, while recognizing throughout the process that we have shareholders who have a significant investment in Alaska Pacific Bancshares, Inc. I assure you that we have taken every step possible to improve our performance and that our 2010 operating results indicate that we are on the right track to return the Bank to profitability and increase shareholder value.



Respectfully,

Craig E. Dahl
President and Chief Executive Officer