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STATE OF ALASKA
THE LEGISLATURE

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JUNEAU, ALASKA 99811
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Mary Van Nimwegen

SB 82

*Joint Senate Resources &
International Trade & Tourism*

2/3/89



SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE

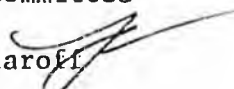
P.O. BOX 405, KODIAK, ALASKA 99815 (907) 486-5259
DURING SESSION:
P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILLIAMNA • PIRILLOF ISLANDS • SIUMAGIN ISLANDS

MEMORANDUM

TO: Senator Bettye Fahrenkamp
Chair
Senate Resources Committee

FROM: Senator Fred F. Zharoff 

DATE: January 12, 1989

RE: Senate Bill 82 - "An Act relating to loans and lending practices of the Alaska Commercial Fishing and Agriculture Bank; providing an exemption for the bank's membership stock and certain other securities issued by the bank from registration under the Alaska Securities Act; and providing for an effective date."

I respectfully request that SB 82 be scheduled for a hearing at the Resources Committee's earliest convenience.

SB 82 would allow the Alaska Commercial Fishing and Agriculture Bank (CFAB) to establish a new program that will help keep limited entry permits in the hands of Alaska residents.

The new program will be especially applicable to those situations in which a commercial fisherman wishes to liquidate his fishing operation by selling his or her limited entry permit to a specific resident fisherman -- frequently a younger family member -- who has little cash and who, alone, is not perceived to be sufficiently creditworthy to be granted a permit purchase loan. Under the new program, a seller may share in the credit risk of a CFAB-financed permit purchase by using a portion of the sale proceeds to purchase a participation in the loan involved. The seller's financial interest is protected because of CFAB's ability to foreclose its permit lien in the event of irremediable default. Also, if desired, the seller can retrieve the permit by having the purchaser (the borrower) designate the seller as the person to assume the debt in the event of default and foreclosure.

As an investment, the loan participation certificate will allow the seller to receive the market interest rate on the deferred portion of the sale proceeds.

The program offers an alternative to what is commonly called "permit migration" or "permit drain". Under current circumstances, a rural permit holder -- unable to find a local fisherman with the financial capacity to buy the permit -- concludes there is no alternative other than to sell the permit to an urban Alaskan or nonresident who can raise the cash upfront.

The bill also makes a number of miscellaneous amendments to CFAB's statute.

Attached is a sectional analysis explaining how the bill works. The sections related to the program described above are Sec. 2, (f) in Sec. 3, Sec. 6, and Sec. 9.

Also included is a copy of CFAB's most recent annual report. I have requested position statements from the Commercial Fisheries Entry Commission and the Division of Banking, Securities and Corporations to use as backup information, but have not yet received them. I will provide them to the committee as soon as they are available.

It is crucial that SB 82 be acted on as soon as possible in order for the new program to be effectively utilized by Alaskan fishermen in 1989. Even though limited entry permits are bought and sold throughout the year, the market sees the most activity and peaks in the period between early March and May.

Thank you for your consideration of this request.

STATE OF ALASKA

COMMERCIAL FISHERIES ENTRY COMMISSION

RECEIVED JAN 12 1989

STEVE COWPER, GOVERNOR

P.O. BOX KB
JUNEAU, ALASKA 99811-0302
PHONE: (907) 465-4081

January 11, 1989

The Honorable Fred F. Zharoff
Alaska State Legislature
M/S 3100

Re: CFAB Legislation
SB 82

Dear Senator Zharoff:

Thank you for the opportunity to review your legislation introduced on behalf of the Alaska Commercial Fishing and Agriculture Bank, which I understand has become SB 82.

CFAB's president, Mr. Ed Crane, developed the idea behind the legislation about a year ago, and we have discussed the proposal with him a number of times since then. We are very pleased that CFAB perceived the need and took the initiative to develop this remedy. We also commend you for having introduced this legislation.

SB 82 appears to the Entry Commission to be sound. For those Alaskan fishermen wishing to take advantage of such an opportunity, this legislation should be helpful. In direct response to your question, we would be happy to support this legislation. Please do not hesitate to contact us, if we can provide you with any further information.

Cordially,

COMMERCIAL FISHERIES ENTRY COMMISSION

Bruce Twomley, Chairman
Rich Listowski, Commissioner
Phil Smith, Commissioner

by: 

cc: Bob Evans
Deputy Chief of Staff
Office of the Governor
M/S 0101



SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE

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SECTIONAL ANALYSIS

Senate Bill No. 82 - "An Act relating to loans and lending practices of the Alaska Commercial Fishing and Agriculture Bank; providing an exemption for the bank's membership stock and certain other securities issued by the bank from registration under the Alaska Securities Act; and providing for an effective date."

SECTION 1 PURPOSE.

Explains the rationale behind the bill.

SECTION 2

New paragraph (12) added to 44.81.210(a).

Gives CFAB the power to issue loan participation certificates.

SECTION 3

New subsections (e) and (f) added to 44.81.230.

(e) Allows a borrower to pledge more than one limited entry permit as security for a loan. This will be of benefit to fishermen who have multiple permits and are trying to expand their operations. They will be able to use their limited entry permits as financial assets to leverage the funds they need to purchase vessels, gear, etc. They can diversify and spread fixed costs over more fisheries. This will be of particular benefit to fishermen who have little liquidity, but substantial equity in existing permits.

(f) Allows a borrower to nominate another person to assume the debt on a permit loan. This way the individual who holds a loan participation certificate can take over the loan in the case of foreclosure.

SECTION 4

Amendment to subsection (b) in 44.81.235.

Corrects an oversight in the existing statute by allowing a loan made to purchase a limited entry permit to be included when a single permit is pledged to secure multiple loans.

SECTION 5

Amendment to subsection (c) in 44.81.235.

Corrects an oversight in the existing statute by allowing CFAB to refinance a loan which is made to purchase a limited entry permit. Under the current statute, CFAB may accept a permit as collateral when refinancing loans for fishing vessels, fishing gear, set net sites, and working capital, but not loans which are for the purchase of a permit.

SECTION 6

Amendment to subsection (b) in 44.81.250.

Makes this section of the existing CFAB statute consistent with the amendment in paragraph (f) of Section 3, above, by including a reference to the nomination of a person to assume debt.

SECTION 7

Amendment to subsection (d) in 44.81.250.

Adds reference to loans for the purchase of limited entry permits to the statute regarding CFAB's legal rights during foreclosure.

SECTION 8

New subsection (e) added to 44.81.250.

Describes the procedure CFAB shall follow when it has repossessed a limited entry permit.

SECTION 9

New paragraph (12) added to 45.55.140(a).

Exempts CFAB from the state's securities registration requirements. This restores the exemption CFAB had in statute when it was originally created. The exemption is currently granted to banks, savings institutions, savings and loan associations, trust companies, foreign governments, employee benefit plans, insurance companies, credit unions, nonprofit organizations, and others. The exemption will allow CFAB to offer loan participation certificates and remove the question of whether this transaction must comply with the extensive requirements for securities registration. CFAB will still be subject to annual audits by the Division of Banking, Securities and Corporations, an independent outside auditor, and, upon legislative instruction, by the Legislative Audit Division, as provided for in 44.81.270.

SECTION 10

Immediate effective date.

RECEIVED JAN 12 1989

STEVE COWPER, GOVERNOR

COMMERCIAL FISHERIES ENTRY COMMISSION

P.O. BOX KB
JUNEAU, ALASKA 99811-0302
PHONE: (907) 465-4081

January 11, 1989

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M/S 3100

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Cordially,

COMMERCIAL FISHERIES ENTRY COMMISSION

Bruce Twomley, Chairman
Rich Listowski, Commissioner
Phil Smith, Commissioner

by: _____


cc: Bob Evans
Deputy Chief of Staff
Office of the Governor
M/S 0101

FISCAL NOTE

REQUEST:

Revision Date: _____
 Title: Commercial Fishing and Agriculture Bank
 Sponsor: Zarhoff, Sturgulewski, et al
 Requestor: Senate Resources

Agency Affected: Commerce & Econ. Dev.
 BRU: Banking and Securities
 Components: Securities

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

No fiscal impact.

Prepared by: L.P. Carroll, Senior Securities Examiner
 Division: Banking and Securities

Phone: 465-2521
 Date: 01/17/89

Approved by Commissioner: Larry Merculieff *SM*
 Agency: Dept. of Commerce and Economic Development


Date: 1/18/1989

Distribution (by preparer):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)
 mm0595t
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SB 82: An Act relating to loans and lending practices of the Alaska Commercial Fishing and Agriculture Bank.

The banking section is neutral on this measure. The intent is to facilitate transfers of Limited Entry Permits held as loan security by CFAB. This bill will remove CFAB from securities law regulation for issue of its stock and/or other securities in conjunction with loans to members.


Larry Mercuri, Commissioner

Date: 1-18-1989

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grant proves compliance with the requirements of this subsection: and subsection (c) of this section as to notice and post-effective amendment, the stop order is void as of the time of its entry. The administrator may by regulation or otherwise waive either or both of the conditions specified in (c)(2) and (3) of this section. If the federal registration statement becomes effective before all the conditions in this subsection and subsection (c) of this section are satisfied and they are not waived, the registration statement automatically becomes effective as soon as all the conditions are satisfied. If the registrant advises the administrator of the date when the federal registration statement is expected to become effective, the administrator shall promptly advise the registrant by telephone or telegram at the registrant's expense, whether all the conditions are satisfied and whether the administrator then contemplates the institution of a proceeding under AS 45.55.120; but this advice by the administrator does not preclude the institution of the proceeding at any time. (§ 403 ch 198 SLA 1959, as amended by § 19 ch 105 SLA 1961; am § 2 ch 55 SLA 1972; am § 7 ch 86 SLA 1972; am § 79 ch 14 SLA 1987)

Effect of amendments. — The 1987 "three copies" at the beginning of subsection substituted "one copy" for tion (b)(1).

Article 4. General Provisions.

Section	Section
140. Exemptions	210. Criminal penalties
200. Orders, injunction, and civil penalties	260. Scope of the chapter and service of process

Sec. 45.55.140. Exemptions. (a) The following securities are exempted from AS 45.55.070:

(1) a security, including a revenue obligation, issued or guaranteed by the United States, a state, a political subdivision of a state, or an agency or corporate or other instrumentality of one or more of the foregoing; or a certificate of deposit for any of the foregoing;

(2) a security issued or guaranteed by Canada, a Canadian province, a political subdivision of a Canadian province, an agency or corporate or other instrumentality of one or more of the foregoing, or a foreign government with which the United States currently maintains diplomatic relations, if the security is recognized as a valid obligation by the issuer or guarantor;

(3) a security issued by and representing an interest in or a debt of, or guaranteed by, a bank organized under the laws of the United States, or a bank, savings institution, savings and loan association, building and loan association, or trust company organized and supervised under the laws of a state or of the United States;

(4) a commercial paper which arises out of a current transaction or the proceeds of which have been or are to be used for current transactions, and which evidences an obligation to pay cash within nine months of the date of issuance, exclusive of days of grace, or any renewal of the paper which is likewise limited, or a guarantee of the paper or of the renewal, if the commercial paper is of the type eligible for discount by a federal reserve bank;

(5) a security issued in connection with an employee's stock purchase, savings, pension, profit-sharing, or similar employee's benefit plan;

(6) a security issued by and representing an interest in or a debt of, or guaranteed by, a federal savings and loan association, or a building and loan or similar association organized under the laws of a state and authorized to do business in this state;

(7) a security issued by and representing an interest in or a debt of, or guaranteed by, an insurance company organized under the laws of a state and authorized to do business in this state; but this exemption does not apply to an annuity contract, investment contract, or similar security under which the promised payments are not fixed in dollars but are substantially dependent upon the investment results of a segregated fund or account invested in securities; except that policies or annuity contracts of insurance companies admitted to do business in the state are not subject to this chapter;

(8) a security issued or guaranteed by a federal credit union or any credit union, industrial loan association, or similar association organized and supervised under the laws of this state;

(9) a security issued or guaranteed by a railroad, other common carrier, public utility, or holding company which is

(A) subject to the jurisdiction of the Interstate Commerce Commission;

(B) a registered holding company under the Public Utility Holding Company Act of 1935 or a subsidiary of the company within the meaning of that Act;

(C) regulated in respect of its rates and charges by a governmental authority of the United States or a state; or

(D) regulated in respect of the issuance or guarantee of the security by a governmental authority of the United States, a state, Canada, or a Canadian province;

(10) a security listed or approved for listing upon notice of issuance on the New York Stock Exchange, the American Stock Exchange, the Midwest Stock Exchange, or the Pacific Coast Stock Exchange, or any other security of the same issuer which is of senior or substantially equal rank; a security called for by subscription rights or warrants so listed or approved; or a warrant or right to purchase or subscribe to any of the foregoing;

(11) a security issued by a private person, partnership, charitable, or chamber of commerce;

(b) The

(1) a trust for at least half the office of the

(2) a trust created by a trust instrument for the benefit of a trust, or

indebtedness;

(3) a trust for a receiver, trustee,

(4) an insurance company or

Company of special insurance institution for the purchase

(5) sales

(A) to no more than 60 days after the date of issuance in this state;

(i) no more than 60 days after the date of issuance indirectly from the issuer;

(ii) the time between the date of issuance and the date of maturity;

(iii) a legal action by the issuer or the registered owner of the security under this chapter;

(iv) offering of the security and

(v) the time between the date of issuance and the date of maturity before the date of maturity;

(B) to no more than 60 days after the date of issuance in this state;

(i) the same as the time between the date of issuance and the date of maturity;

(ii) before the date of registration of the security with the administrator of the securities

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(11) a security issued by a person organized and operated not for private profit but exclusively for religious, educational, benevolent, charitable, fraternal, social, athletic, or reformatory purposes, or as a chamber of commerce or trade or professional association.

(b) The following transactions are exempted from AS 45.55.070:

(1) a transaction between the issuer or other person on whose behalf the offering is made and an underwriter, or among underwriters;

(2) a transaction in a bond or other evidence of indebtedness secured by a real or chattel mortgage or deed of trust, or by an agreement for the sale of real estate or chattels, if the entire mortgage, deed of trust, or agreement, together with all the bonds or other evidence of indebtedness, secured thereby, is offered and sold as a unit;

(3) a transaction by an executor, administrator, sheriff, marshal, receiver, trustee in bankruptcy, guardian, or conservator;

(4) an offer or sale to a bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, or other financial institution or institutional buyer, or to a broker-dealer, whether the purchaser is acting for itself or in some fiduciary capacity;

(5) sales by an issuer

(A) to no more than 10 persons in this state other than those designated in (4) of this subsection during a period of 12 consecutive months whether or not the seller or any of the buyers is then present in this state, if

(i) no commission or other remuneration is paid or given directly or indirectly for soliciting a prospective buyer in this state;

(ii) the total dollar amount invested during a period of 12 consecutive months does not exceed \$100,000;

(iii) a legend is placed on the certificate or other document evidencing ownership of the security, stating that the security is not registered under this chapter and cannot be resold without registration under this chapter or exemption from it;

(iv) offers are made without public solicitation or advertisement; and

(v) the issuer files with the administrator a notice specifying the issuer, the security to be sold and the terms of the offer at least two days before any sales are made;

(B) to no more than 25 persons in this state other than those designated in (4) of this subsection during a period of 12 consecutive months whether or not the seller or any of the buyers is then present in this state, if

(i) the sales are made solely in this state;

(ii) before any sale, each prospective buyer is furnished access to the information that would be provided to a prospective buyer in a registration under AS 45.55.100, which information shall be furnished to the administrator upon request;

(iii) the total dollar amount invested during a period of 12 consecutive months does not exceed \$500,000;

(iv) commissions or other remuneration meet the requirements of this chapter and are made only to persons registered under AS 45.55.040;

(v) a legend is placed on the certificate or other document evidencing ownership of the security, stating that the security is not registered under this chapter and cannot be resold without registration under this chapter or exemption from it;

(vi) the issuer obtains a signed agreement from the buyer acknowledging that the buyer is buying for investment purposes and that the securities will not be resold without registration under this chapter;

(vii) offers are made without public solicitation or advertisement; and

(viii) the issuer files with the administrator a notice specifying the issuer, the security to be sold, and the terms of the offer at least two days before any sales are made;

(6) an offer or sale of a preorganization certificate or subscription if

(A) no commission or other remuneration is paid or given directly or indirectly for soliciting a prospective subscriber,

(B) the number of subscribers does not exceed 10, and

(C) no payment is made by any subscriber;

(7) a transaction under an offer to existing security holders of the issuer, including persons who at the time of the transaction are holders of convertible securities, nontransferable warrants, or transferable warrants exercisable within not more than 90 days of their issuance, if

(A) no commission or other remuneration, other than a standby commission, is paid or given directly or indirectly for soliciting a security holder in this state, or

(B) the issuer first files a notice specifying the terms of the offer and the administrator does not by order disallow the exemption within the next five full business days;

(8) an offer (but not a sale) of a security for which registration statements have been filed under both this chapter and the Securities Act of 1933 if no stop order or refusal order is in effect and no public proceeding or examination looking toward an order is pending under either Act;

(9) an isolated nonissuer transaction, whether effected through a broker-dealer or not;

(10) a nonissuer distribution of an outstanding security if

(A) a recognized securities manual contains the names of the issuer's officers and directors, a balance sheet of the issuer as of a date within 18 months, and a profit and loss statement for either the fiscal year preceding that date or the most recent year of operations, or

(B) the security is sold to the issuer or within 60 days of the issuer's payment of principal of the security;

(11) a transaction involving a broker-dealer or other person registered with the administrator upon a signed copy of the certificate of the security for a specified period;

(12) a transaction for the purpose of evaluating the security;

(13) a transaction involving a security that is being sold judicially or in connection with a quasi-reorganization or similar transaction;

(A) no commission or other remuneration is paid or given to any commission or other remuneration holder;

(B) the issuer is not the issuer or not less than 10 days before the issuer's sale of the security;

(14) a transaction involving a stock dividend is the stock dividend in cash or property or dividend in kind;

(15) an acquisition of an interest in a corporation or partnership, or a merger, consolidation, or other reorganization of another corporation or partnership;

(16) the issuer is not the issuer or not less than 10 days before the issuer's sale of the security to the public if

(A) the security is sold to the issuer or within 60 days of the issuer's payment of principal of the security;

(B) the security is sold to the issuer or within 60 days of the issuer's payment of principal of the security;

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(B) the security has a fixed maturity or a fixed interest or dividend provision and there has been no default during the current fiscal year or within the three preceding fiscal years, or during the existence of the issuer and any predecessors if less than three years, in the payment of principal, interest, or dividends on the security;

(11) a nonissuer transaction effected by or through a registered broker-dealer under an unsolicited order or offer to buy; however, the administrator may by regulation require that the customer acknowledge upon a specified form that the sale was unsolicited, and that a signed copy of each form be preserved by the broker-dealer for a specified period;

(12) a transaction executed by a bona fide pledgee without any purpose of evading this chapter;

(13) a transaction incident to a right of conversion or a statutory or judicially approved reclassification, recapitalization, reorganization, quasi-reorganization, stock split, reverse stock split, merger, consolidation or sale of assets, if

(A) no commission or other remuneration, other than a standby commission is paid or given directly or indirectly for soliciting a security holder in this state; and

(B) the issuer files a notice in the form specified by the administrator not less than 30 days before making the offer;

(14) a stock dividend, whether the corporation distributing the dividend is the issuer of the stock or not, if nothing of value is given by stockholders for the dividend other than the surrender of a right to a cash or property dividend when each stockholder may elect to take the dividend in cash or property or in stock;

(15) an act incident to a class vote by stockholders, under the certificate of incorporation or the applicable corporation statute, on a merger, consolidation, reclassification of securities or sale of securities of another corporation;

(16) the offer or sale by a registered broker-dealer, acting either as principal or agent, of securities previously sold and distributed to the public if

(A) the securities are sold at prices reasonably related to the current market price at the time of sale, and, if broker-dealer is acting as agent, the commission collected by the broker-dealer on account of the sale is not in excess of usual and customary commissions collected with respect to securities and transactions having comparable characteristics;

(B) the securities do not constitute the whole or a part of an unsold allotment to or subscription or participation by the broker-dealer as an underwriter of the securities or as a participant in the distribution of the securities by the issuer, by an underwriter or by a person or group of persons in substantial control of the issuer or of the outstanding securities of the class being distributed; and

Effect of amendment.

Sec. 45.55.140 appears to engage in a or regulati

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(A) direc or practice:

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(b) The a istered pers lates this ch this chapter single violat single proce

(c) For vi tor may iss other person administrat than \$500 fr violations, i

(d) Before administrat hearing. He under (a)(1) effect until if the person within 15 da

(C) the securities have been lawfully sold and distributed in this state under this chapter;

(17) offers or sales of certificates of interest or participation in oil, gas, or mining rights, titles or leases, or in payments out of production under such rights, titles or leases, if the purchasers

(A) are or have been during the preceding two years engaged primarily in the business of exploring for, mining, producing, or refining oil, gas, or minerals; or

(B) have been found by the administrator upon written application to be substantially engaged in the business of exploring for, mining, producing, or refining oil, gas, or minerals so as not to require the protection provided by AS 45.55.070.

(c) In any proceeding under this chapter, the burden of proving an exemption or an exception from a definition is upon the person claiming it.

(d) The administrator may by order deny or revoke an exemption specified in (a)(5), (7) or (11) of this section or in (b) of this section with respect to a specific security or transaction. The order may not be entered without appropriate prior notice to all interested parties, opportunity for hearing, and written findings of fact and conclusions of law, except that the administrator may by order summarily deny or revoke any of the specified exemptions pending final determination of a proceeding under this subsection. Upon the entry of a summary order, the administrator shall promptly notify all interested parties that it has been entered and of the reasons for it and that within 15 days of the receipt of a written request the matter will be set down for hearing. If no hearing is requested and none is ordered by the administrator, the order remains in effect until it is modified or vacated by the administrator. If a hearing is requested or ordered, the administrator, after notice of and opportunity for hearing to all interested persons, may modify or vacate the order or extend it until final determination.

(e) An order under (d) of this section may not operate retroactively. A person may not be considered to have violated AS 45.55.070 or 45.55.150 by reason of an offer or sale effected after the entry of an order under this subsection if the person sustains the burden of proof that the person did not know, and in the exercise of reasonable care could not have known of the order.

(f) The administrator shall by regulation prescribe a schedule of fees for examination or investigation of claimed exemption. (§ 302 ch 198 SLA 1959; am §§ 3 — 11 ch 105 SLA 1961; am § 1 ch 8 SLA 1966; am § 1 ch 25 SLA 1968; am §§ 11 — 13 ch 86 SLA 1972; am § 15 ch 218 SLA 1976; am §§ 1 — 3 ch 132 SLA 1977; am § 1 ch 56 SLA 1978; am § 50 ch 94 SLA 1980; am § 1 ch 87 SLA 1988)

Effect of amendments. — The 1988 amendment, effective June 2, 1988, re-wrote subsection (a)(5) to the extent that a detailed comparison is impracticable.

Sec. 45.55.200. Orders, injunction, and civil penalties. (a) If it appears to the administrator that a person has engaged or is about to engage in an act or practice in violation of a provision of this chapter or regulation or order under this chapter, the administrator may

(1) in the public interest or for the protection of investors, issue an order

(A) directing the person to cease and desist from continuing the act or practice;

(B) directing the person, for a period not to exceed three years, to file the annual reports, proxies, consents of authorizations, proxy statements, or other materials relating to proxy solicitations required under AS 45.55.139 with the administrator for examination and review 10 working days before a distribution to shareholders; and

(C) voiding the proxies obtained by a person required to file under AS 45.55.139, including their future exercise or actions resulting from their past exercise, if the proxies were solicited by means of an untrue or misleading statement prohibited under AS 45.55.160; or

(2) bring an action in the superior court to enjoin the acts or practices and to enforce compliance with this chapter or regulation or order under this chapter, and upon a proper showing, the appropriate remedy must be granted and a receiver or conservator may be appointed for the defendant or the defendant's assets; the court may not require the administrator to post a bond.

(b) The administrator may issue an order against an applicant, registered person, or other person who knowingly or intentionally violates this chapter or a regulation or order of the administrator under this chapter, imposing a civil penalty of not more than \$2,500 for a single violation, or not more than \$25,000 for multiple violations, in a single proceeding or a series of related proceedings.

(c) For violations not covered by (b) of this section, the administrator may issue an order against an applicant, registered person, or other person who violates this chapter or a regulation or order of the administrator under this chapter, imposing a civil penalty of not more than \$500 for a single violation, or not more than \$5,000 for multiple violations, in a single proceeding or a series of related proceedings.

(d) Before issuing an order under (a)(1), (b), or (c) of this section, the administrator shall give reasonable notice of and an opportunity for a hearing. However, the administrator may issue a temporary order under (a)(1) of this section pending the hearing, which remains in effect until 10 days after the hearing is held and which becomes final if the person to whom notice is addressed does not request a hearing within 15 days after the receipt of notice. (§ 308 ch 198 SLA 1959; am

Chapter 81. Commercial Fishing and Agriculture Bank.

Section

- 10. Alaska Commercial Fishing and Agriculture Bank
- 20. Board of directors
- 30. [Repealed]

Section

- 90. Term of office and removal
- 210. Powers of the bank
- 235. Limitations on pledge of permits
- 270. Audit of bank

Sec. 44.81.010. Alaska Commercial Fishing and Agriculture Bank.

(a) There is established the Alaska Commercial Fishing and Agriculture Bank. The exercise by the bank of the powers conferred by this chapter is considered to be for a public purpose. The bank is exempt from the provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska Cooperative Corporation Act) in the exercise of powers granted by this chapter.

(b) For the purpose of the funding of the bank's operations, the board of directors may issue nonvoting, preferred shares of stock in the bank and determine the value of each share. The state, through appropriate agencies, may purchase the nonvoting, preferred shares issued by the bank. Shares purchased by the state shall be repurchased by the bank within 20 years after their purchase. If the bank fails to repurchase the shares within 20 years, the commissioner of commerce and economic development may dissolve the bank.

(c) [Repealed, § 43 ch 85 SLA 1988.] (§ 3 ch 159 SLA 1978; am § 1 ch 53 SLA 1979; am § 12 ch 122 SLA 1980; am § 1 ch 109 SLA 1981; am § 65 ch 21 SLA 1985; am § 1 ch 49 SLA 1987; am § 43 ch 85 SLA 1988)

Effect of amendments. — The 1985 amendment inserted "and except that any filing fees shall be waived," preceding "the bank is subject" in the next-to-last sentence of subsection (a).

The 1987 amendment in subsection (a) deleted the former second sentence, which read "Except as otherwise provided in this chapter, and except that any filing fees

shall be waived, the bank is subject to the provisions of AS 10.15 (Alaska Cooperative Corporation Act)" and in the last sentence inserted "and AS 10.15 (Alaska Cooperative Corporation Act)."

The 1988 amendment, effective June 2, 1988, repealed former subsection (c), relating to the purchase of preferred bank stock during 1979.

NOTES TO DECISIONS

Status for maritime foreclosure proceedings. — The Alaska Commercial Fishing and Agriculture Bank is not a state agency for purposes of maritime lien

foreclosure proceedings. *Alaska Com. Fishing & Agriculture Bank v. O/S Alaska Coast*, Sup. Ct. Op. No. 3027 (File No. S-892, 715 P.2d 707 (1986).

Sec. 44.81.020. B aged by a board of d members shall be el one of the elected b board members sha chase of all the non bank and purchased pleted, all board me bank. The board m among themselves. T the bank.

(b) The governor s on the board will rem section. (§ 3 ch 159 § SLA 1980; am § 2 c

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Sec. 44.81.030. Ar SLA 1985.]

Sec. 44.81.090. Te board shall serve for t sive terms. Terms sha who releases confider commits serious ethic ness to serve as a men irredeemably substan be removed from the members of the board. am § 3 ch 49 SLA 1

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7 (1986).

Sec. 44.81.020. Board of directors. (a) The bank shall be managed by a board of directors consisting of seven members. Five board members shall be elected by the members of the bank, with at least one of the elected board members being an Alaska farmer, and two board members shall be appointed by the governor until the repurchase of all the nonvoting, preferred shares initially issued by the bank and purchased by agencies of the state. After repurchase is completed, all board members shall be elected by the members of the bank. The board members shall annually elect a chairman from among themselves. The purpose of the board is to manage the assets of the bank.

(b) The governor shall designate the two members whose positions on the board will remain appointive for the period set out in (a) of this section. (§ 3 ch 159 SLA 1978; am § 2 ch 53 SLA 1979; am § 3 ch 51 SLA 1980; am § 2 ch 49 SLA 1987)

Effect of amendments. — The 1987 amendment in subsection (a) deleted the former second, third and fourth sentences concerning initial appointments to the board and the appointment of an experi-
enced Alaska farmer, in the present second sentence substituted "Five" for "Thereafter, five" and deleted "with at least 10 years of Alaskan farm experience" following "Alaska farmer."

Sec. 44.81.030. Articles of incorporation. [Repealed, § 66 ch 21 SLA 1985.]

Sec. 44.81.090. Term of office and removal. The members of the board shall serve for terms of three years, and they may serve successive terms. Terms shall be staggered. An elected member of the board who releases confidential information in violation of AS 44.81.260, commits serious ethical misconduct that relates to the member's fitness to serve as a member of the board, or maintains a chronically and irredeemably substandard borrowing relationship with the bank may be removed from the board by affirmative vote of a majority of the members of the board. (§ 3 ch 159 SLA 1978; am § 3 ch 53 SLA 1979; am § 3 ch 49 SLA 1987)

Effect of amendments. — The 1987 amendment deleted the former third and fourth sentences, concerning terms of office of initial board members, added the last sentence and added "and removal" at the end of the catchline.

Sec. 44.81.110. Compensation of board members.

NOTES TO DECISIONS

Cited in Alaska Com. Fishing & Agriculture Bank v. O'S Alaska Coast. Sup. Ct. Op. No. 3027 (File No. S-892), 715 P.2d 707 (1986).

Sec. 44.81.160. Pledge of the state.**NOTES TO DECISIONS**

Cited in Alaska Com. Fishing & Agri- Ct. Op. No. 3027 (File No. S-892), 715
culture Bank v. OS Alaska Coast, Sup. P.2d 707 (1986).

Sec. 44.81.200. Reports and publications.**NOTES TO DECISIONS**

Cited in Alaska Com. Fishing & Agri- Ct. Op. No. 3027 (File No. S-892), 715
culture Bank v. OS Alaska Coast, Sup. P.2d 707 (1986).

Sec. 44.81.210. Powers of the bank. (a) The bank may

(1) make variable rate or fixed rate loans to individuals who are residents and who are engaged in commercial agriculture or fishing, including harvesters, processors, suppliers and marketers, or to corporations, partnerships or joint ventures engaged in commercial agriculture or fishing, the majority interest of which is beneficially owned by residents of the state and a majority of the owners of which are residents of the state, if the recipient of the loan is a member of the bank; however, the bank may make a loan under this paragraph to a corporation, partnership, or joint venture for the purchase of a new or existing fishing vessel or for the repair or renovation of an existing fishing vessel, the primary purpose of which is to commercially harvest fishery resources, only if the corporation, partnership, or joint venture is wholly owned and controlled by residents of the state and if the recipient of the loan is a member of the bank;

(2) make and alter bylaws necessary or desirable to carry out its corporate functions;

(3) establish amortization plans for repayment of loans, which may include extensions for poor fishing or farming seasons, or for adverse market conditions for Alaskan products;

(4) enter into agreements with regional institutions of the federal farm credit system, private lending institutions, and other state agencies or agencies of the federal government, to carry out the purposes of this chapter;

(5) adopt, alter, and use a corporate seal;

(6) sue and be sued in the name of the bank;

(7) issue bonds to carry out any of its corporate purposes and powers;

(8) sell, lease as lessor or lessee, exchange, donate, convey or encumber in any manner by mortgage or by creation of any other security interest, real or personal property owned by it, or in which it has an interest, when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(9) incur securities liabilities of another person or the board of directors for the purposes;

(10) make loans with financial institutions;

(11) make contributions in the exercise of its powers;

(12) acquire by purchase or otherwise, the right to acquire, or to operate, and control, any other business;

(13) borrow money on the credit of the bank, notwithstanding its indebtedness for any other purpose, to charge outstanding obligations concerning these purposes;

(14) secure the right to acquire, or to operate, and control, any other business, other than the bank, on its behalf;

(15) appoint officers, directors, and agents, and prescribe their powers;

(16) provide technical assistance to any person in the exercise of his powers, to enhance the ability of the bank to carry out its purposes;

(17) make loans to any person, including liens subordinate to any other lien to a private lender;

(18) participate in any other business, including policy and in the operation of any other business and agriculture in any other business;

(19) do what is necessary to carry out its purposes and powers;

(20) make loans to any person, including entry permits; a loan to any individual commercial lender for a continuous period of more than one year, or for a longer period of time, without application for the loan to the AS 44.81.230;

(21) indemnify directors, officers, heirs, executors and administrators of the bank of expenses including judgments, and the costs of litigation in connection with any action against them because of their official duties as directors, officers, heirs, executors and administrators of the bank;

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(9) incur secondary liability by guaranty or endorsement of the obligations of another corporation or legal entity when, in the judgment of the board of directors, the action is in furtherance of its corporate purposes;

(10) make loans as provided in (1) of this subsection in participation with financial institutions, and establish and regulate the terms of the loans;

(11) make contracts and execute instruments necessary or convenient in the exercise of its corporate powers;

(12) acquire by purchase, lease, bequest, devise, gift, the satisfaction of debts, or the foreclosure of mortgages, and hold, maintain, use, operate, and convey real or personal property;

(13) borrow money and issue secured and unsecured evidence of indebtedness for a corporate purpose or to fund, refund, pay, or discharge outstanding obligations, and enter agreements and contracts concerning these obligations;

(14) secure the payment of its obligations by pledge or mortgage or other lien on its contracts, revenues, income, or property;

(15) appoint officers, employees, trustees for certificate holders, and agents, and prescribe their powers and duties;

(16) provide technical services to members of the bank; for the purpose of this paragraph, "technical services" includes services that will enhance the ability of the member to obtain financial assistance from the bank;

(17) make loans, as provided in (1) of this subsection, secured by liens subordinate to valid first liens and security agreements granted to a private lending institution;

(18) participate with state departments and agencies in formulating policy and in planning for the development of commercial fishing and agriculture in the state;

(19) do what is necessary or appropriate to carry out the corporate purposes and powers expressed or implied in this chapter;

(20) make loans to individual commercial fishermen for limited entry permits; a loan under this paragraph may be made only to an individual commercial fisherman who has been a state resident for a continuous period of two years immediately preceding the date of application for the loan; loans made under this paragraph are subject to AS 44.81.230;

(21) indemnify directors, officers or employees of the bank and their heirs, executors and administrators against all liabilities and related expenses including, but not limited to, court costs and attorney fees, judgments, and the cost of reasonable settlements, incurred by them in connection with or arising out of an action or proceeding brought against them because of an act or omission in the performance of their official duties as directors, officers or employees of the bank regardless

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NOTES TO DECISIONS

Cited in Alaska Com. Fishing & Agri- Cl. Op. No. 3027 (File No. S-892), 715
culture Bank v. O/S Alaska Coast, Sup. P.2d 707 (1986).

Sec. 44.81.230. Loans for purchase of Alaska limited entry permits.

NOTES TO DECISIONS

Cited in Anderson v. Anderson, Sup.
Ct. Op. No. 3172 (File No. S-1320), 736
P.2d 320 (1987).

Sec. 44.81.235. Limitations on pledge of permits. (a) The bank may issue a loan secured by a limited entry permit for

(1) purchase, repair, restoration, or improvement of a commercial fishing vessel or commercial fishing gear;

(2) construction of a commercial fishing vessel;

(3) working capital, including insurance premiums, fuel, bait, and boat storage and launching expenses; or

(4) purchase and improvement of set net sites and associated equipment.

(b) A limited entry permit may be used as security for more than one loan if each loan meets the requirements of (a) of this section.

(c) A limited entry permit may be used as security for a loan to refinance existing debts if the proceeds of each original loan were used in accordance with (a) of this section. (§ 6 ch 49 SLA 1987)

Sec. 44.81.270. Audit of bank. (a) At the direction of the Legislative Budget and Audit Committee under AS 24.20.271, the legislative auditor may conduct an audit of the bank. The legislative audit division has free access to all books and papers of the bank that relate to its business and books and papers kept by a director, officer, or employee relating to or upon which a record of its business is kept, and may summon witnesses and administer oaths or affirmations in the examination of the directors, officers, or employees of the bank or any other person in relation to its affairs, transactions, and conditions, and may require and compel the production of records, books, papers, contracts, or other documents by court order if not voluntarily produced.

(b) The bank shall be audited annually by independent outside auditors. The legislative auditor may confer with the outside auditors and review the workpapers of the audit.

(c) The state bank examiners shall perform an annual qualitative examination and evaluation of the bank. The commissioner of commerce and economic development shall assess the bank a fee established under AS 06.01.010(b) for the actual expenses incurred by the Department of Commerce and Economic Development in connection

with the examination. The examiners shall report to the board of directors on the examination. The examiners shall prepare a summary report evaluating the bank's loan portfolio quality on a statistical basis and addressing the appropriateness and effectiveness of the bank's policies, practices, and management within the context of the bank's statutory purposes. The examiners shall distribute copies of the summary report to the bank, the legislature, and the governor. (§ 8 ch 109 SLA 1981; am § 7 ch 49 SLA 1987; am §§ 40, 41 ch 85 SLA 1988)

Effect of amendments. — The 1987 amendment added subsections (b) and (c). The 1988 amendment, effective June 2, 1988, rewrote the first sentence in subsection (a), which read "The legislative auditor may cause the bank to be audited in the manner and under the conditions pre-

scribed by AS 24.20.27," and deleted the former last sentence in subsection (b), which read "At the direction of the Legislative Budget and Audit Committee under AS 24.20.271, the legislative auditor may conduct an audit of the bank."

NOTES TO DECISIONS

Cited in Alaska Com. Fishing & Agriculture Bank v. O/S Alaska Coast, Sup.

Ct. Op. No. 3027 (File No. S-8:2), 715 P.2d 707 (1986).

Chapter 83. Alaska Power Authority.

Article

- 2. Purpose and Powers (§ 44.83.090)
- 4. Power Cost Equalization Program (§§ 44.83.162, 44.83.165)
- 6. General Provisions (§§ 44.83.187, 44.83.195, 44.83.224)
- 9. Energy Program for Alaska (§§ 44.83.386, 44.83.398, 44.83.410 — 44.83.425)

NOTES TO DECISIONS

Authority not suable in federal court. — The Alaska Power Authority cannot be sued in federal court as it cannot be considered a citizen for purposes of the diversity statute, 28 U.S.C. § 1332,

and, as a state agency, it enjoys the protections of the eleventh amendment. M-K Eng'g Co. v. Alaska Power Auth., 662 F. Supp. 303 (D. Alaska 1986).

Article 1. Creation and Organization.

Sec. 44.83.020. Creation of authority.

NOTES TO DECISIONS

Quoted in M-K Eng'g Co. v. Alaska Power Auth., 662 F. Supp. 303 (D. Alaska 1986).

Sec. 44.83.030.

Stated in M-K Eng'g Power Auth., 662 F. Supp. 303 (D. Alaska 1986).

Section

90. Power contracts and public Utilities Commission

Sec. 44.83.070.

Stated in M-K Eng'g Power Auth., 662 F. Supp. 303 (D. Alaska 1986).

Sec. 44.83.080.

Opinions of attorney authority may reimburse for (1) time spent in act

Stated in M-K Eng'g Power Auth., 662 F. Supp. 303 (D. Alaska 1986).

Sec. 44.83.090. Utilities Commission. methods which it n municipal electric, tric utilities and re rized by law to eng reasonable share of in a project, or for cause the power to l the full cost of the e ing costs, debt cove and other charges 44.83.425. Except 44.83.380 — 44.83. and distribution of capacity of it shall

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 1-26-89
IN ACCORDANCE WITH UNIFORM RULE 23

LSC

FURTHER FINANCE

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE _____

1/9/89

Mr. President:

RESOURCES Committee considered SB 82

loans and lending practices of the Alaska Commercial Fishing and Agriculture Bank; providing an exemption for the bank's membership stock and certain other securities issued by the bank from registration under the Alaska Securities Act; efd and recommended:

replace with CS _____ same title

attached amendment(s) and new title

_____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to twice

FISCAL NOTE(S) attached zero

fiscal impact

appropriation no FN attached

Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]
[Signature]
Ches Stungelworth
Rick Hafford

[Signature] Do Pass
Chairman signature and recommendation

Committee backup attached

REPORT OF EXAMINATION

RECEIVED JAN 30 1988



Qualitative

Examination

License or Certificate Number

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

(P.O. BOX 92070, 2550 Denali St., Ste 1201, Anchorage, AK 99509-2070)

Examiner-in-charge Frank Puschak

Examined close of business 11/30/87

Willis F. Kirkpatrick

Director

DIVISION OF BANKING, SECURITIES, SMALL LOANS AND CORPORATIONS
STATE OF ALASKA

SCOPE OF EXAMINATION

In compliance with Chapter 81 of the Alaska Statutes as amended June 6, 1987, an examination of the Alaska Commercial Fishing and Agricultural Bank was performed by the Department of Commerce and Economic Development, Division of Banking, Securities and Corporations, that contains financial information prepared in accordance with generally accepted accounting principles.

LOAN PORTFOLIO

Analysis of the examination ratios indicate improvement in the quality of the loan portfolio since the first examination on April 29, 1985. The ratio of adversely classified loans to total loans decreased from 43.70% to 34.98% and the ratio of overdue loans to gross loans decreased from 41.54% to 37.35%. While these ratios are still considered to be above the norms, the trend shows definite improvement.

Of the \$13,965,552 in adversely classified loans, \$12,761,018 are nonearning loans (nonaccrual loans), and of that total, seven borrowers account for \$10,814,726. These seven lines were all granted from 1981 to 1984, prior to the arrival of the present management team. Since four of the seven lines are involved in bankruptcy proceedings, there is little that present management can do to accelerate resolution of these problem lines.

The reserve for loan losses has been increased to \$3,427,597, or 7.70% of total loans, and given loss classifications of \$1,891,586 appear adequate to provide the necessary loss protection.

BANK POLICIES AND PRACTICES

Since 1984, the senior management of the bank has been entirely replaced. As evidenced by the examination ratios and trends, there has been significant improvement in the bank's performance. The problem loans have been identified and are being handled as well as circumstances permit. In addition, a new loan policy was adopted, and the loan approval procedure is more closely controlled and monitored.

It is difficult, at best, to make the higher credit-risk loans as mandated by statute and still remain a viable business. The nonearning loans are the largest impediment to more profitable operations and the accumulation of capital to provide for growth and to meet statutory obligations. The increased competition from commercial banks and other state programs has taken some of the better quality customers, and the bank must contend with borrowers of greater credit-risk, a higher cost-of-funds, and the nonearning loans. Given the depressed economy, there is little more that can be done. However, with the present policies and practices, the condition of the bank is such that it appears capable of withstanding the current economic depression.

State Banking Authority (Signature)

Frank J. Puschak by: Terry L. Lutz

State Banking Authority (Signature)

Examiner (Signature)

Regional Director (Signature)

STATEMENT OF FINANCIAL POSITION

NUMBER

TYPE: Regular			DATE: 11/30/87		
ASSETS	AMOUNT	%	LIABILITIES AND CAPITAL	AMOUNT	%
Net loans and leases	41,113	84	Core deposits		
Securities over one year			Time deposits over 100M		
Subtotal	41,113	84	Deposits held in foreign offices		
Interest-bearing depository balances			Federal funds purchased and repos		
Federal funds sold and repos			Other borrowings (includes note option)	20,213	41
Trading account assets			Volatile liabilities	20,213	41
Debt securities one year and less	5,390	11	Acceptances outstanding		
Temporary investments	5,390	11	Other liabilities	878	2
TOTAL EARNING ASSETS	46,503	95	TOTAL LIABILITIES	21,091	43
Cash and noninterest-bearing depository balances	961	2	Mortgages and capitalized leases		
Acceptances (customers' liability)			Subordinated notes and debentures		
Premises, fixed assets, and capitalized leases	250	nil	TOTAL LIABILITIES AND DEBT	21,091	43
Other real estate owned			Limited life preferred stock	31,800	65
Investments in unconsolidated subsidiaries			TOTAL EQUITY CAPITAL	(3,671)	8
Intangible assets					
Other assets	1,506	3			
TOTAL ASSETS	49,220	100%	TOTAL LIABILITIES AND CAPITAL	49,220	100%

MEMORANDUM INFORMATION (Include the amounts of brokered deposits maturing in one year or less and over one year.)

* Matures on or before July 20, 2000

SUMMARY OF ASSETS SUBJECT TO ADVERSE CLASSIFICATION OR SPECIAL MENTION

ASSET CATEGORY	Special Mention	Substandard	Doubtful	Loss	Total Classified
Loans		12,283		1,682	13,965
Receivables		1,615			1,615
Other Assets		83		209	292
Totals - Current Examination		13,981		1,891	15,872
Totals at 4/29/85 examination		35,891		3,317	39,208
Totals at examination					
Totals at examination					

EXAMINATION RATIOS AND TRENDS

RATIOS	Current Exam.	Prior Exam.	Prior Exam.	Prior Exam.
	11/30/87	4/29/85		
Adversely Classified Assets: Total Assets	32.25%	38.78%		
Adversely Classified Loans and Leases: Total Loans and Leases	34.98%	43.70%		
Overdue Loans and Leases: Gross Loans and Leases	37.36%	41.54%		

COMMENTS:

Examination ratios indicate improvement in reducing adversely classified loans and assets.

ANALYSIS OF BANK EARNINGS

NUMBER

COMPARATIVE STATEMENT OF INCOME TYPE:	INTERIM			1985	1984
		11-30-87	1986		
Interest Income		5,574	6,284	10,504	12,911
Interest Expense		2,240	3,766	6,267	8,387
Net Interest Income		<u>3,334</u>	<u>2,518</u>	<u>4,237</u>	<u>4,524</u>
Non-interest Income					
Overhead Expense		2,440	1,932	2,888	3,260
Provision for Loan and Lease Losses		<u>75</u>	<u>50</u>	<u>1,235</u>	<u>11,242</u>
Provision for Allocated Transfer Risk					
Securities Gains (Losses)					
Net Operating Income (Pre-Tax)		819	536	114	(9,978)
Applicable Taxes		<u>19</u>	<u>226</u>	<u>32</u>	
Net Operating Income (After Tax)		800	310	82	(9,978)
Extraordinary Credits (Charges), Net of					
Tax Effect		<u>19</u>	<u>226</u>	<u>32</u>	
Net Income		819	536	114	(9,978)
Other Increases/Decreases		209	220	(348)	(234)
Cash Dividends					
Net Change in Equity Capital Accounts		1,028	756	(234)	(10,212)

COMPONENT RATIOS AND TRENDS

RATIOS	BANK			
	11-30-87	1986*	1985*	1984*
Net Operating Income to Average Assets	1.59%	0.48%	0.09%	(8.72)%
Net Interest Income (TE) to Average Earning Assets	6.51%	4.14%	4.87%	4.22%
Overhead Expense to Average Assets	4.85%	3.02%	3.12%	2.85%
Net Income to Average Total Equity	3.00%	2.01%	0.43%	(31.49)%

COMMENTS:

* Based upon year-end data.

Trend analysis indicates improved earnings, but the increasing trend in overhead expenses means that overhead should be reviewed with the goal of reducing expenses.

ANALYSIS OF LOAN AND LEASE RESERVES

RECONCILEMENT	TO DATE	1986	1985	1984
Beginning Balance	3,291	3,442	5,318	4,140
Gross Loan and Lease Losses	125	889	3,486	10,534
Recoveries	<u>187</u>	<u>688</u>	<u>375</u>	<u>470</u>
Net Loan and Lease Losses (Recoveries)	(62)	201	3,111	10,064
Provision for Loan and Lease Losses	75	50	1,235	11,242
Other Increases (Decreases)				
Ending Balance	3,428	3,291	3,442	5,318

COMPONENT RATIOS AND TRENDS

RATIOS	BANK			
	11-30-87	1986	1985	1984
Loss Reserve to Total Loans and Leases	7.70%	7.41%	5.22%	5.61%
Net Losses to Average Total Loans and Leases	(0.14)%	N/A	N/A	N/A
Recoveries to Prior Period Losses	21.03%	19.74%	3.56%	N/A
Earnings Coverage of Net Losses (X)	(13.20)	2.67	0.37	N/A

COMMENTS:

N/A - Not Available.

A ratio of 7.70% for loss reserve to total loans indicates a conservative and adequate level of reserves.



1988 ANNUAL REPORT
ALASKA COMMERCIAL FISHING & AGRICULTURE BANK

Alaska Commercial Fishing and Agriculture Bank

1988 Annual Report

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Executive Message to Members

May 31, 1988, marked the close of CFAB's first twelve-month fiscal year after seven years of operating on a calendar year basis and a five-month transition "year" which ended on May 31, 1987. While that makes certain kinds of comparisons difficult, your Board of Directors and management are pleased with the results of the year just ended and with the identifiable and measurable indications of continued progress.

Operating Results and Effects

As shown in the Financial Reports section of this Annual Report, CFAB's Fiscal 1988 operations resulted in about \$2,410,200 of proceeds before non-recurring items and before the imputation of any income tax effect. There was one particularly distressing and costly extraordinary event: In late 1987 an Anchorage Superior Court jury concluded that, several years earlier, CFAB had negligently and improperly responded to developments and circumstances which involved a multiplicity of parties, a loan proposal to finance a vessel refurbishing, and an undisclosed seaman's lien. There were \$688,500 of net proceeds available after the effects of that judgment, and the Board of Directors acted to apply that amount to reduction of the unallocated and undistributed 1984 loss. One of our major objectives continues to be to amortize that loss in a manner which will equitably spread the burden over a number of years.

The gradual reduction of that unallocated and undistributed 1984 loss produces a clear benefit to existing and future CFAB member-borrowers. But the effect of that benefit is diffused; no member-borrower is able to identify or calculate a specific effect on his or her loan account. However, the factors and events which led to that reduction do in fact have the additional effect of lessening the demands CFAB must make on those member-borrowers. Accordingly, we were pleased to announce a ½ percent reduction in CFAB's Variable Base Interest Rate effective July 1, 1988. Furthermore, as this message is being written there are plans to implement a second reduction, also ½ percent, effective September 1, 1988.

The Trend Toward Financial Stability

What were these "factors" and "events" which are now generating benefits and relieving pressures for CFAB and its member-borrowers? The answer can be found in a review of earlier Annual Reports. Since 1984, there has been in each report to members a discussion of CFAB's burden of non-performing loans. Each of those non-performing loans represents dollars which CFAB has borrowed and on which it must pay interest; but since the non-performing loan is not itself producing interest, CFAB has necessarily relied on other member-borrowers to carry the extra burden. Any interested observer of the Alaska commercial banking community over the past several years can undoubtedly understand and appreciate the dangers which an excessive volume of non-performing loans present for a lending institution.

Although this report to members is about CFAB's operations in Fiscal 1988, a clearer and somewhat more dramatic view of the significance of non-earning loans and of the slow and difficult process of dealing with them can be gained by comparing data at May 31, 1988, and at May 31, 1985 (which was not an audit date). The following schedule shows the number of borrowers with non-earning loans of \$1,000,000 or more; \$500,000 to \$999,999; etc. as of those two dates.

Size of Loan Accounts	May 31, 1985		May 31, 1988	
	Number of Borrowers	Total	Number of Borrowers	Total
Over \$1,000,000	7	\$20,165,695	2	\$ 5,300,515
\$500,000/\$999,999	4	2,552,087	2	1,548,479
\$250,000/\$499,999	5	1,644,819	3	988,641
\$100,000/\$249,999	11	2,041,415	7	1,051,154
\$50,000/\$99,999	15	1,054,709	9	732,983
Under \$50,000	24	507,587	19	424,833
Totals	80	\$27,966,312	42	\$10,046,605

The reduction of about \$17.9 million in non-earning loans during the 3-year period is certainly a positive indicator of CFAB's relative financial health, but unless that reduction has been the result of cash proceeds or of conversion to an interest-earning asset — rather than the result of charge-offs or of acquisition of non-productive collateral — it has little constructive effect.

The schedule below, then, serves to make more evident what the actual effect of the non-earning loan reduction has been.

	May 31, 1987	May 31, 1988	Change
Investments	\$ 1,200,000	\$ 0	(\$ 1,200,000)
Earning Loans and Receivables	50,569,700	31,569,700	18,999,999
Total Earning Assets	\$51,769,700	\$31,569,700	(\$20,199,999)
Less: Interest-Bearing Debt	67,660,000	18,639,700	49,020,300
Net (Deficit) Earning Assets	(\$15,890,300)	(\$12,920,000)	\$2,970,300

The positive change of nearly \$21.0 million (an amount well in excess of the \$17.9 million reduction in non-earning loans) is a meaningful indication of CFAB's viability today. We believe and intend that Fiscal 1989 will mark the transition from a "rehabilitation" mode to one of controlled growth for CFAB.

Achievements in Overhead Reductions

There is another important element to CFAB's recovery in which we take special pride and which we must mention. It was evident three and one-half years ago that CFAB's basic operating costs — its "overhead" — needed to be drastically reduced, even while we were committing major and sometimes costly resources to the administration and liquidation of non-performing loans. Those operating expenses had averaged slightly more than \$3.2 million annually in the years 1981 through 1984. In calendar 1985, they were reduced to \$2.8 million. There was significant reduction, to \$1.9 million, in calendar 1986. For the five-month fiscal "year" ending in May 1987 those expenses were incurred at an annualized rate of about \$2.0 million. The total for fiscal 1988 was less than \$1.8 million. That represents a 47 percent reduction from CFAB's peak year (1982) for operating expenses, and translates into \$3,300 less annualized costs for each and every loan on CFAB's books at May 31, 1988!

While we take pride in the accomplishment just mentioned, there is greater pride in emphasizing to you that it was essentially an accomplishment of CFAB's entire staff. Directors and managers establish objectives and policies, and provide direction, but implementation and achievement requires the constant and committed effort of every single staff member at every level. CFAB's staff today is a small

group, in numbers; but its overall quality and its record of accomplishments are admired within the Alaska financial community. As owners of CFAB, you also should take pride in that staff.

Other Measures of Progress

There are a number of other matters, with varying levels of significance and visibility, which developed or occurred during Fiscal 1988:

- At the end of the year, member-borrowers' equity investment under the "new" Class B Preferred Stock program totaled \$1,053,400. While there is no special meaning to that number, we believe that exceeding \$1.0 million is a notable milestone for the 2½-year-old program.

- As of November 30, 1987, the State of Alaska's bank examiners performed the first annual examination of CFAB in accordance with statutory amendments proposed by CFAB, and passed by the legislature, in early 1987. In every substantive way, the examiners' findings and report were consistent with CFAB's own evaluation of its overall financial condition and of its loan portfolio.

- CFAB's Bylaws were amended by the Board of Directors and distributed to all members in May. There were numerous changes. Particular objectives, which we believe were achieved, were to make the procedures for nominating Director candidates, and for the election of Directors, simpler and more efficient as well as to make it more practically possible for any interested member to become a candidate.

- The exposure and delivery of CFAB's credit services to prospective applicants is being enhanced by our development of a Loan Correspondent program. This program, simple in concept but with significant potential impact, involves the selection and designation of businesspersons or professionals to act as liaisons or points of contact for CFAB in fishing communities around the state. Their role is to provide basic information about CFAB to inquirers and to offer assistance in organizing and preparing loan applications and supporting information, in communications with CFAB, and in finalizing a loan transaction. They are not CFAB employees, and they have no influence on CFAB's

decision-making process; but they can be vital links in what is sometimes a confusing, intimidating, and/or costly application process. As of this writing, CFAB has Loan Correspondents in various communities in Southeastern Alaska and in the Prince William Sound, Southcentral, and Kodiak areas — by the end of 1988, we hope to have the network extended into the Bristol Bay area and Western Alaska.

- For a period from December 1983 through the end of 1985, CFAB had in place a supplemental member investment program known as the "C Stock Redemption Plan." It was intended to accelerate the accumulation of member-borrower equity, in anticipation of the future need to retire the State's equity investment in the Bank. Member-borrowers whose loans were obtained or modified during the period mentioned were participants in the program and continued to make the required investments, so long as their respective loans were outstanding, through the end of 1987.

Because of perceived ineffective or inappropriate features of the C Stock Redemption Plan, CFAB's "new" Class B Preferred Stock program (mentioned earlier) was adopted in January 1986 as a primary vehicle for borrower-member equity investment in the Bank. In early 1988 the Board of Directors concluded that, as a matter of practicality and equitability, the relatively small amount — \$251,919 — of C Stock Redemption Plan investment should be retired, with the proceeds returned to the owning member-borrowers. That was accomplished as of March 31; depending upon the respective circumstances of member-borrowers' loan accounts, the proceeds were paid in cash or applied to outstanding balances or, in instances where the Bank had earlier recognized a loss of principal or interest, were transferred to CFAB's Allowance for Loan Losses account.

- In January 1986, CFAB introduced its Modified Level Payment loan program — a fairly simple concept within which a loan's repayment installment amounts were fixed for three years at a time, even though the interest rate might vary. At the time of introduction, we believed that loan structure might appeal to some borrowers as a desirable alternative to the traditional repayment requirement of fixed principal amounts plus interest. CFAB's borrowers have voted by their actions, however, and by an overwhelming margin they have been selecting the Modified Level Payment plan as most suitable to their needs.

- Since June 1987, and as a result of amendments to CFAB's statute passed by the 1987 State Legislature, the circumstances under which CFAB may accept a Limited Entry Permit as loan collateral have been broadened. We have seen a considerable increase in the demand for such loans, a trend toward establishing permits as more useful assets for Alaska fishermen.

As the prices for which many permits are traded creep higher, and as an increasing number of the earliest permit-holders reach retirement age, we have encountered many instances in which the potential or desired sale of a permit to a younger local fisherman — frequently a second generation member of the same family — cannot be completed because the intended buyer is not able to make a cash purchase and has not acquired sufficient resources or experience to warrant normal financing by CFAB. We have developed a concept under which we believe CFAB could properly and constructively provide financing in certain of those cases, but the concept cannot be implemented without further amendment to CFAB's statute. We intend to ask the 1989 State Legislature for those amendments.

The 1988 Annual Meeting

In 1986 and 1987, CFAB held its Annual Meetings in three sessions each — sessions were held in Ketchikan, Cordova, Sitka, Kodiak, and Anchorage (twice). The Board of Directors and management continue to be attracted to the philosophical arguments in favor of holding meeting sessions in local communities, but it has not been a successful approach in terms of overall attendance. We have concluded to hold the 1988 meeting in one session, in Anchorage, only; but we are also exploring the feasibility of re-instituting local and informal meetings throughout the year, involving a limited number of CFAB personnel, in order to provide communications opportunities for more members. We welcome members' suggestions.

Paul A. Huppert
Chairman, Board of Directors

Edward E. Crane
President

1988 Loan Activity and Economic Impact

CFAB's Board of Directors and management continue to believe that the very existence of the Bank is a major and positive factor for participants in the resource industries which it serves — particularly those participants in the seafood industry. The number of sources of financing to that industry, especially to the harvester segment, is quite limited; and CFAB's presence in the market provides a strong competitive element.

During the past three to four years, the focus of CFAB's staff, and of the institution as a whole, has been primarily on rehabilitation and on the management of its non-earning loan accounts. The Bank has not been aggressive in seeking new business, and it appears to have been generally perceived over that period as an unattractive lender. Consequently, CFAB's outstanding loan volume has shrunk dramatically since a year-end peak of \$103.6 million at December 31, 1983.

That shrinkage slowed in Fiscal 1988. At May 31, outstanding loan balances were about 6.1 percent less than at May 31, 1987. There were 111 new term loans made during Fiscal 1988. Those loans totaled about \$7,706,000, of which \$1,303,000 was to refinance existing loans; the remaining \$6,403,000 was "new" money. Of the 111 loans made, 44 were to existing CFAB members, but 67 involved totally new members. That latter number is gratifyingly high in comparison to the experience of the previous three years.

CFAB's impact is manifested in other ways. In addition to the new term loans mentioned above (most of which were to individual fishermen), the Bank established seasonal revolving lines of credit totaling \$18.3 million for processors during Fiscal 1988. Nearly \$17 million of that amount was in the seafood industry; the remainder was for timber processing. A major percentage of the dollars borrowed by these Alaskan processors is for their purchases from fishermen, so CFAB's position in the flow of proceeds to fishermen from the ultimate purchasers of finished products is extremely important.

Balance Sheets

	<u>May 31.</u>		<u>December 31.</u>
	<u>1988</u>	<u>1987</u>	<u>1986</u>
Assets			
Cash	\$ 126,046	\$ 7,315	\$ 147,410
Temporary investments			4,150,000
Loans and other receivables, net of allowance for loan losses of \$2,197,140, \$3,367,869 and \$3,291,026	39,419,164	41,010,553	41,130,799
Accrued interest receivable	2,001,891	2,384,196	1,306,952
Investment in Spokane Bank for Cooperatives	5,526,629	5,390,548	5,390,548
Bank premises, furniture and equipment, net	169,920	297,266	351,874
Acquired assets held for sale	85,589	83,007	83,007
Other assets	13,389	23,511	28,997
	<u>\$47,342,628</u>	<u>\$49,196,396</u>	<u>\$52,589,587</u>
Liabilities			
Accounts payable and accrued expenses	\$ 138,482	\$ 231,523	\$ 191,979
Accrued interest payable	290,327	388,743	233,634
Class B preferred stock subscriptions	5,700		60,163
Notes payable	18,649,657	21,293,770	25,002,539
	<u>19,084,166</u>	<u>21,914,036</u>	<u>25,488,315</u>
Commitments and Contingent Liabilities (Note J)			
Capital and patronage			
Share capital -			
Class C special preferred stock, \$10,000 par value, authorized 4,000 shares, outstanding 3,180 shares	31,800,000	31,800,000	31,800,000
Class B preferred stock, \$100 par value, authorized 400,000 shares, outstanding 31,287, 39,693 and 40,410 shares	3,128,700	3,969,300	4,041,000
Loans receivable on Class B preferred stock	(2,075,300)	(3,448,700)	(3,698,500)
Class A membership stock, \$10 par value, authorized 10,000 shares, outstanding 1,068, 1,001 and 975 shares	10,680	10,010	9,750
	<u>32,864,080</u>	<u>32,330,610</u>	<u>32,152,250</u>
C stock retirement pool		251,919	184,930
Capital in excess of par value	95,310	89,280	86,940
Contributed capital	144,626	144,626	144,626
	<u>33,104,016</u>	<u>32,816,435</u>	<u>32,568,746</u>
Allocated undistributed patronage	825,691	825,691	825,691
Net proceeds		147,708	535,780
Unallocated patronage deficit	(5,671,245)	(6,507,474)	(6,828,945)
	<u>28,258,462</u>	<u>27,282,360</u>	<u>27,101,272</u>
	<u>\$47,342,628</u>	<u>\$49,196,396</u>	<u>\$52,589,587</u>

See notes to financial statements.

Statements of Net Proceeds

	Year ended May 31,	Five months ended May 31,	Year ended December 31,
	1988	1987	1986
Interest Income			
Interest on loans and other receivables	\$5,712,091	\$1,966,333	\$6,119,445
Interest on temporary investments	3,707	30,990	165,143
	<u>5,715,798</u>	<u>1,997,323</u>	<u>6,284,588</u>
Interest expense			
Loss on sale of assets	1,936,013	964,863	3,765,900
Provision for loan losses	37,799	4,526	1,347
	<u>(451,699)</u>	<u>49,300</u>	<u>50,470</u>
	<u>1,522,113</u>	<u>1,018,689</u>	<u>3,817,717</u>
	<u>4,193,685</u>	<u>978,634</u>	<u>2,466,871</u>
Other Expenses			
Salaries and benefits	1,233,697	512,117	1,184,760
Occupancy expense	170,808	82,599	203,379
Depreciation and amortization	92,086	45,422	131,789
Travel, lodging and meals	59,089	25,370	66,219
Professional fees	58,149	84,415	110,181
Office operations	47,182	31,951	64,246
Advertising and promotion	41,129	20,832	67,861
Directors' fees	31,725	7,500	25,650
Telephone and postage	26,899	14,399	40,484
Miscellaneous	22,680	6,321	36,522
	<u>1,783,444</u>	<u>830,926</u>	<u>1,931,091</u>
	<u>2,410,241</u>	<u>147,708</u>	<u>535,780</u>
Unusual Item - Costs and Settlement of Litigation	<u>1,721,720</u>		
Proceeds before income tax expense and extraordinary credit	688,521	147,708	535,780
Income tax expense	274,000	53,000	226,300
Proceeds before extraordinary credit	<u>414,521</u>	<u>94,708</u>	<u>309,480</u>
Extraordinary credit — Utilization of net operating loss carryforward	<u>274,000</u>	<u>53,000</u>	<u>226,300</u>
Net Proceeds	<u>\$ 688,521</u>	<u>\$ 147,708</u>	<u>\$ 535,780</u>

See notes to financial statements.

Statements of Changes in Capital and Patronage

	Share capital	C stock retirement pool	Capital in excess of par value
Balance, January 1, 1986	\$31,809,310	\$ 92,152	\$ 82,980
Issuance (redemption) of stock during the year:			
Class B preferred stock, 25,435 shares, net	(2,543,500)		
Class A stock, 44 shares	440		3,960
C Stock retirement pool:			
Class B preferred stock assessments, net of assessments receivable		92,778	
Reduction in loans receivable on Class B preferred stock	2,886,000		
Loan principal charged against allocated undistributed patronage			
Net proceeds			
Balance, December 31, 1986	<u>32,152,250</u>	<u>184,930</u>	<u>86,940</u>
Amortization of unallocated patronage deficit			
Issuance (redemption) of stock during the period:			
Class B preferred stock, 717 shares, net	(71,700)		
Class A stock, 26 shares	260		2,340
Reduction in loans receivable on Class B preferred stock	249,800		
C stock retirement pool:			
Class B preferred stock assessments, net of assessments receivable		66,989	
Patronage refunds paid			
Net proceeds			
Balance, May 31, 1987	<u>32,330,610</u>	<u>251,919</u>	<u>89,280</u>
Amortization of unallocated patronage deficit			
Issuance (redemption) of stock during the year:			
Class B preferred stock, 8,406 shares, net	(840,600)		
Class A stock, 67 shares	670		6,030
Reduction in loans receivable on Class B preferred stock	1,373,400		
C stock retirement pool:			
Retirement of Class B preferred stock assessments		(251,919)	
Net proceeds			
Amortization of unallocated patronage deficit			
Balance, May 31, 1988	<u><u>\$32,864,080</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 95,310</u></u>

See notes to financial statements.

Contributed capital	Allocated undistributed patronage	Net proceeds	Unallocated patronage deficit	Total
\$ 144,626	\$1,045,365	\$ -0-	\$(6,828,945)	\$26,345,488
				(2,543,500)
				4,400
				92,778
				2,886,000
	(219,674)			(219,674)
		535,780		535,780
144,626	825,691	535,780	(6,828,945)	27,101,272
		(321,471)	321,471	
				(71,700)
				2,600
				249,800
				66,989
		(214,309)		(214,309)
		147,708		147,708
144,626	825,691	147,708	(6,507,474)	27,282,360
		(147,708)	147,708	
				(840,600)
				6,700
				1,373,400
				(251,919)
		688,521		688,521
		(688,521)	688,521	
<u>\$ 144,626</u>	<u>\$ 825,691</u>	<u>\$ -</u>	<u>\$(5,671,245)</u>	<u>\$28,258,462</u>

Statements of Changes in Financial Position

	Year ended May 31, <u>1988</u>	Five months ended May 31, <u>1987</u>	Year ended December 31, <u>1986</u>
Source of Funds:			
From operations			
Net proceeds	\$ 688,521	\$ 147,708	\$ 535,780
Items not requiring the use of funds:			
Depreciation and amortization	92,086	45,422	131,789
Provision for loan losses	(451,699)	49,300	50,470
Loss on sale of assets	37,799	4,526	1,347
	<u>366,707</u>	<u>246,956</u>	<u>719,386</u>
Funds provided from operations			
Net proceeds from sale of assets		4,660	1,368
Proceeds from stock issuance	6,700	2,600	4,400
Decrease in cash		140,095	
Decrease in temporary investments		4,150,000	
Decrease in acquired assets held for sale			1,523,157
Decrease in loans	2,762,118	43,403	21,515,111
Recoveries on loans charged off, net		27,543	
Decrease in other assets	10,122	5,486	61,566
Decrease in accrued interest receivable	382,305		808,394
Increase in accounts payable and accrued expenses		39,544	
Increase in accrued interest payable		155,109	
Increase in Class B preferred stock subscriptions	5,700		60,163
Increase in Class B preferred stock assessments, net		66,989	92,778
Increase in Class B preferred stock, net	532,800	178,100	342,500
	<u>\$4,066,452</u>	<u>\$5,060,485</u>	<u>\$25,128,823</u>
Use of Funds:			
Loans charged off, net of recoveries	\$ 719,030	\$	\$ 200,574
Loan principal charged against allocated undistributed patronage			219,674
Increase in cash	118,731		40,637
Increase in temporary investments			950,000
Increase in accrued interest receivable		1,077,244	
Increase in investment in Spokane Bank for Cooperatives	136,081		138,125
Increase in bank premises, furniture and equipment	2,539		14,874
Patronage refunds paid		214,309	
Decrease in accounts payable and accrued expenses	93,041		116,038
Retirement of Class B preferred stock assessments	251,919		
Increase in acquired assets held for resale	2,582		
Decrease in accrued interest payable	98,416		183,146
Decrease in stock subscription payable		60,163	
Decrease in notes payable	2,644,113	3,708,769	23,205,755
	<u>\$4,066,452</u>	<u>\$5,060,485</u>	<u>\$25,128,823</u>

See notes to financial statements.

Notes to Financial Statements

Year Ended May 31, 1988, Five Months Ended May 31, 1987, and Year Ended December 31, 1986

Note A — Summary of Significant Accounting Policies:

Operations: The Alaska Commercial Fishing and Agriculture Bank (CFAB) was incorporated on May 4, 1979 to promote growth of Alaska agriculture and fishing by providing debt financing to resident-owned businesses engaged in harvesting, processing or marketing, and to promote its own growth as a strong user-oriented institution through cooperative ownership and self-governance.

Interest on loans: The accrual of income is suspended on loans for which the payment of interest is contractually past due more than 90 days.

Investment in Spokane Bank for Cooperatives: The investment in Spokane Bank for Cooperatives (SBC) is stated at cost plus noncash patronage notifications. No ready market exists for this investment. Patronage dividends from SBC reduce interest expense to SBC in the year declared.

Allowance for loan losses: The allowance for loan losses is based upon specific identification of uncollectible loans and a general reserve for those loans not specifically identified.

Acquired assets held for sale: Acquired assets held for sale include those assets acquired through foreclosure. These assets are carried at the lower of fair value or the recorded investment in the related loan. Holding costs are expensed when incurred unless such costs increase the fair value of the asset.

Bank premises, furniture and equipment: Bank premises, furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged to operations by use of the straight-line method over estimated useful lives of three to ten years. Expenditures for maintenance and repairs are charged to operating expense as incurred. Expenditures for renewals or improvements which extend the life of an asset are capitalized at cost and depreciated as stated above. Upon sale, retirement or other dispositions of property, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss recorded.

Income taxes: CFAB qualifies as a cooperative under Subchapter T of the Internal Revenue Code. Deferred income taxes may arise as a result of differences in the time of reporting for financial and Federal income tax purposes. The most significant difference relates to the allowance for loan losses. Deferred taxes have been offset by net operating loss carryforwards. At May 31, 1988, approximately \$5,500,000 of loss carryforward remains.

Change in fiscal year-end: During 1987, the Board of Directors voted to change from a fiscal year-end of December 31 to May 31 to better reflect the Bank's fiscal operating cycle. Accordingly, financial statements as of May 31, 1987 and for the five-month period then ended are presented.

Reclassifications: Certain reclassifications have been made to 1986 information to conform to 1987 and 1988 presentations.

Note B — Loans:

CFAB's loan portfolio by major category is as follows:

	May 31,		December 31,
	1988	1987	1986
Seafood harvesters	\$27,116,280	\$31,501,629	\$29,994,692
Fish processors	4,037,972	6,900,866	8,702,504
Agriculture and timber	7,638,225	7,605,989	7,596,991
Other receivables	4,899,127	1,818,638	1,826,138
	<u>43,691,604</u>	<u>47,827,122</u>	<u>48,120,325</u>
Less loans receivable on Class B preferred stock	(2,075,300)	(3,448,700)	(3,698,500)
	<u>41,616,304</u>	<u>44,378,422</u>	<u>44,421,825</u>
Less allowance for loan losses	(2,197,140)	(3,367,869)	(3,291,026)
	<u>\$39,419,164</u>	<u>\$41,010,553</u>	<u>\$41,130,799</u>

Notes to Financial Statements *continued*

In accordance with its statutory mandate and authority, CFAB's financing activity is limited to the Alaskan commercial fishing and agriculture industries. This concentration of loans in resource-based industries results in an unusual level of risk exposure.

The loan portfolio includes loans which have been classified as nonaccrual. Nonaccrual loans by major category are as follows:

	May 31,		December 31,
	1988	1987	1986
Seafood harvesters	\$ 3,982,047	\$ 5,776,534	\$ 5,311,987
Fish processors	1,122,643	3,726,235	4,441,655
Agriculture and timber	5,830,615	7,579,151	7,569,743
Less loans receivable on Class B preferred stock	(888,700)	(1,555,400)	(1,539,600)
	<u>\$10,046,605</u>	<u>\$15,526,520</u>	<u>\$15,783,785</u>

Activity in the allowance for loan losses is as follows:

	May 31,		December 31,
	1988	1987	1986
Balance at beginning of year	\$3,367,869	\$3,291,026	\$3,441,130
Charged to expense (income)	(451,699)	49,300	50,470
Recoveries on loans previously charged off	125,318	117,491	688,266
	<u>3,041,488</u>	<u>3,457,817</u>	<u>4,179,866</u>
Loans charged off	(844,348)	(89,948)	(888,840)
Balance at end of year	<u>\$2,197,140</u>	<u>\$3,367,869</u>	<u>\$3,291,026</u>

The allowance for loan losses is re-evaluated by management and increases or decreases are recorded through the current period provision for loan losses.

Loans to directors: To qualify for election to the CFAB Board of Directors, an individual must be a borrowing member. Loans to members who serve on the Board of Directors must be approved by the SBC. Loans to these members totalled \$113,897, \$129,094 and \$141,247 at May 31, 1988 and 1987, and December 31, 1986, respectively.

Note C — Investment in Spokane Bank for Cooperatives:

The Spokane Bank for Cooperatives is a member of the Farm Credit System. The Farm Credit System has incurred losses during 1986 and 1987. Continued losses may result in impairment of the investment in the Spokane Bank for Cooperatives in future years as the result of system-wide loss sharing arrangements in effect among system members.

Note D — Bank Premises, Furniture and Equipment:

The following represents a classification of bank premises, furniture and equipment by major category:

	May 31,		December 31,
	1988	1987	1986
Furniture, fixtures and equipment	\$ 833,146	\$ 868,405	\$ 893,365
Leasehold improvements	147,202	147,202	147,202
	<u>980,348</u>	<u>1,015,607</u>	<u>1,040,567</u>
Less accumulated depreciation and amortization	(810,428)	(718,341)	(688,693)
	<u>\$ 169,920</u>	<u>\$ 297,266</u>	<u>\$ 351,874</u>

Note E — Notes Payable:

Notes payable consists of:

	May 31,		December 31,
	1988	1987	1986
SBC long-term notes with interest rates ranging from 11.232% to 11.28% maturing at various dates to January, 1993	\$10,000,000	\$20,000,000	\$25,000,000
SBC short-term notes and seasonal loan with interest rates ranging from 7.26% to 9.00%, maturing at various dates in 1989	8,649,657	1,294,770	—
Other	—	—	2,539
	<u>\$18,649,657</u>	<u>\$21,293,770</u>	<u>\$25,002,539</u>

Notes to Financial Statements *continued*

The loans are secured by substantially all CFAB assets.

Principal payments required on notes payable are as follows:

<u>Year ending May 31,</u>	<u>Amount</u>
1989	\$8,649,657
1990	-
1991	-
1992	5,000,000
1993	5,000,000

Note F — Employee Benefit Plans:

CFAB has an employee benefit plan as defined under Section 401(k) of the Internal Revenue Service Code covering substantially all employees.

An employee is allowed to contribute up to 15% of his/her earnings to the maximum limit allowed by the Code. Contributions by CFAB to the plan are at the discretion of the Board of Directors. Contributions by CFAB for the year ended May 31, 1988, five months ended May 31, 1987, and year ended December 31, 1986 were \$65,539, \$26,169 and \$57,422, respectively.

The Board of Directors voted to terminate CFAB's floor retirement pension plan during 1986. As of December 31, 1986, the net assets available for benefits under the floor retirement plan was \$34,000. This amount will be refunded to CFAB upon the approval of termination by regulatory agencies. In accordance with generally accepted accounting principles, no gain will be recorded until the regulatory approval of the termination is obtained.

Note G — Capital:

Share capital: Shares owned by the State of Alaska must be repurchased by CFAB on or before July 20, 2000.

Preferential shareholders' rights on dissolution are attached in the order of Class C, Class B and Class A.

The following rights apply to the three categories of stock:

Class C - No voting or dividend rights. May only be issued to the State of Alaska.

Class B - No voting rights. Class B stock may only be held by members of CFAB. Prior to December 31, 1985, all loans required a purchase of Class B stock in an amount equal to 10% of the loan balance; however, this purchase was not funded but was evidenced by notes. On loans made subsequent to December 31, 1985, each borrower is required to make a cash purchase of Class B stock in an amount equal to 5% of the total loan. This investment will remain in place until retired by the Board of Directors.

Class A - No dividend rights. Each member of CFAB must own one share of Class A stock. Each share of stock carries one vote. To vote, a member must be engaged in commercial fishing or agriculture and must be a current borrower or have borrowed from CFAB during the preceding two years or have minimum retained patronage earnings with CFAB of \$2,500.

C Stock retirement pool: Loans made by CFAB during the period December 1982 to December 1985 were subject to a supplemental investment requirement called the C Stock Retirement Program. Members borrowing during that period were required to make annual year-end investments related to their respective usage of CFAB funds during that year. The program was discontinued, with respect to new participants, upon adoption of CFAB's current Class B Preferred Stock investment policy at January 1, 1986. In March 1988, the accumulated investments in the C Stock Retirement Pool, totaling \$251,919, were retired. Proceeds were returned in cash to members whose loans had been paid in full or were applied to the credit of members with outstanding loan accounts.

Notes to Financial Statements *continued***Note H — Income Taxes:**

Income tax expense consists of the following:

	Year ended May 31, 1988	Five months ended May 31, 1987	Year ended December 31, 1986
Current:			
Federal	\$136,000	\$ 423,000	\$179,800
State	28,000	93,000	46,500
	<u>164,000</u>	<u>514,000</u>	<u>226,300</u>
Deferred:			
Federal	77,000	(380,000)	
State	33,000	(81,000)	
	<u>110,000</u>	<u>(461,000)</u>	
	<u>\$274,000</u>	<u>\$ 53,000</u>	<u>\$226,300</u>

At May 31, 1988, CFAB had available for financial reporting purposes approximately \$5,500,000 of net operating losses carryforward which expire May 31, 2000, if not used to reduce future taxable income.

Note I — Restructure of Loans:

During the year ended May 31, 1988, the terms of nonaccrual loans totalling approximately \$1,500,000 were modified through negotiation, and the loans were restructured as a note receivable. The interest rate on that note receivable was reduced from CFAB's normal lending rate for a period of three years. Interest income of approximately \$130,000 was received and recorded on this note for the year ended May 31, 1988; if the interest rates on the original loans had remained in effect, approximately \$200,000 of interest would have been due during that period.

Note J — Commitments and Contingent Liabilities:

Contingencies: CFAB is a litigant in several legal actions arising from normal business activities including actions related to delinquent loans and foreclosures. CFAB reserves for potential losses on delinquent loans as described in Note A. As to litigation outside of delinquencies and foreclosures, management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect CFAB's financial position or its results of operations.

Commitments: CFAB has entered into certain noncancelable long-term operating lease agreements for buildings. Rental expense under these leases totalled \$165,348, \$78,558 and \$192,450 for the year, five months and years ended May 31, 1988 and 1987, and December 31, 1986, respectively. Minimum annual lease payments are as follows:

Year ending May 31,	Amount
1989	\$174,000
1990	43,000

Note K — Subsequent Event:

On July 19, 1988, the Federal Bankruptcy Court in Anchorage confirmed the Plan of Reorganization in connection with the Chapter 11 proceeding of one of CFAB's larger borrowers. CFAB subsequently received approximately \$5.7 million of cash and released all of its claims against the debtor. The entire proceeds were applied to reduce CFAB's borrowings from the Spokane Bank for Cooperatives and, in addition, CFAB's nonaccrual loans outstanding were reduced by an amount in excess of \$3.0 million.



Board of Directors
Alaska Commercial Fishing
and Agriculture Bank
Anchorage, Alaska

We have examined the balance sheets of Alaska Commercial Fishing and Agriculture Bank as of May 31, 1988, May 31, 1987 and December 31, 1986, and the related statements of net proceeds, changes in capital and patronage, and changes in financial position for the respective year, five months, and year then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Alaska Commercial Fishing and Agriculture Bank as of May 31, 1988, May 31, 1987 and December 31, 1986, and the results of its operations and the changes in its financial position for the respective year, five months, and year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Certified Public Accountants
July 1, 1988

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