

CFRAB

Overview



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December 19, 1991

Rod -
let's set
something up.

The Honorable David Finkelstein
Chairman, House Labor and Commerce Committee

The Honorable Lloyd Jones
Chairman, Senate Resource Committee

The Honorable Drue Pearce
Chair, Senate Labor and Commerce Committee

Dear Chairperson,

Some time ago we mailed you and your colleagues the enclosed letter. Representative Cliff Davidson, Chairman of the House Resources Committee, has recently responded by requesting that a CFAB representative appear before that committee in the late afternoon of January 21, 1992.

We are reminding you of the matter so that, if you believe such an occasion might have value to your committee members, you would have the opportunity to take into consideration the schedule mentioned above. Mr. Jay Nelson, of Chairman Davidson's staff, would be an appropriate contact if you are inclined to seek coordination.

In any event, please accept our best wishes to you and to your committee for an effective and productive 1992 legislative session.

Very truly yours,

Edward E. Crane
President

EEC:dmv



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August 21, 1991

The Honorable Drue Pearce
Chair, Senate Labor and Commerce Committee
3111 C Street, Suite 535
Anchorage, Alaska 99503

Dear Senator Pearce,

In recent years, I trust you have had the opportunity to become acquainted with the Alaska Commercial Fishing and Agriculture Bank (CFAB) and many of its unique features. Among the latter:

- > CFAB was established by the legislature and operates in accordance with a specific and unique statute.
- > The State of Alaska owns nearly \$32 million of non-voting CFAB equity.
- > CFAB can exercise certain privileges and responsibilities which are not available to more conventional lenders.
- > CFAB has no significant or structural relationship with any entity within the executive branch of the state government.

CFAB's statute (AS 44.81) implies, but does not specifically state, that CFAB is accountable to the Alaska Legislature (as well as to its borrowing members). CFAB's Board of Directors and its management have always felt a strong sense of accountability to the Alaska Legislature. Unfortunately, there is no established vehicle or process through which that accountability is exercised.

To date, the process usually occurs in a fragmented manner, such as when a CFAB officer appears before a legislative committee in order to promote specific legislation. Those occasions tend to be relatively often, simply because CFAB operates in a dynamic world of commercial law as well as in resource industries -- fishing and agriculture -- whose participants are subject to dramatic changes in requirements, pressures, and capacities. CFAB, on a regular basis, has sought amendments to its statute in order to adjust to changing circumstances.

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I note that during the hearings on specific legislation, the discussions tend to become sidetracked as committee members attempt to learn the basics of CFAB and to familiarize themselves with what CFAB does, why it exists, and how it was created. The net result often seems to be a commitment of legislative time and energy with -- due to the tightness of legislative committee schedules -- little in the way of satisfying results.

In view of all this, I wish to offer the legislature and the members of your committee an opportunity on a formal and regular basis to explore any issues they wish in regard to CFAB and to produce a more satisfying and effective level of accountability.

Because almost all legislation affecting CFAB is routinely referred to your committee, I wish to respectfully suggest the establishment of an annual "overview hearing" process under which one or more CFAB representatives would appear before your committee either at individual meetings or joint hearings with your House counterpart committee. The hearing could be held early in the legislative session in order to permit more formal and structured presentations and discussions. CFAB also would be willing to submit relevant material in advance so committee members have the opportunity to prepare questions and comments.

In addition to presenting general information about our organization, the CFAB representatives would be open to discussing CFAB's financial condition, the ongoing retirement of the state's \$32 million investment, the results of the annual examination conducted by the state's bank examiners, the composition of our loan portfolio, our observations on the condition and financial health of Alaska's commercial fishing and agriculture industries, and any other issues the legislators may wish to raise and explore.

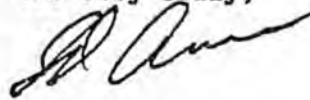
Because other committees also regularly consider CFAB legislation, I am making this same offer to Senator Lloyd Jones, Chairman of the Senate Resources Committee; Representative Cliff Davidson, Chairman of the House Resources Committee; and Representative David Finkelstein, Chairman of the House Labor and Commerce Committee.

The scheduling of the overview hearing and the time allowed for it would be entirely at your committee's convenience. We appreciate your consideration of this concept. Please inform me if you wish to accept my offer and, if so, how arrangements can be made to establish a time on your committee's agenda for the 1992 legislative session. In addition, please feel free to call us if you have questions or if you care to suggest an alternative process.

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All the officers of CFAB look forward the continuing relationship with the Alaska Legislature. We wish to find the best way to provide the accountability to which the legislature is entitled.

Yours very truly,



Edward E. Crane
President

EEC:dmv

ALASKA COMMERCIAL FISHING AND AGRICULTURE BOARD

CREDIT POLICY

ADOPTED DECEMBER 14, 1989

The cornerstone of CFAB's credit policy and lending activities is its statute, AS44.81, supplemented by other State and Federal laws or regulations which apply to lenders generally.

While it is CFAB's policy to adhere strictly to both the letter and the spirit of AS44.81, CFAB also intends that all loan applications and proposals be thoroughly investigated and analyzed to be certain that rejections are not unnecessarily or inappropriately premised on the superficial application of that statute.

Residency

CFAB is authorized to finance only residents of Alaska (or legal entities which are primarily owned and controlled by Alaska residents). The term "resident" is not extrinsically defined for CFAB, however. It shall be CFAB's policy to require applicants or principals to offer a range of evidence as to their respective residencies, including but not limited to: Place(s) of domicile; driver's license; real property ownership; voter registration; foreign income tax status; Alaska Permanent Fund dividend status; and sport fishing/hunting license, etc. Absent an awareness of contradictory factors or

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matters suggesting further investigation, CFAB shall accept all such representations at face value if they are certified as correct by the submitters. Questionable situations must be referred to a CFAB senior officer for review, and that officer's conclusion with regard to residency must be reported in a signed memorandum which documents the evidence considered.

In general, CFAB shall consider circumstances existing for a year or more in its determinations of residency. As a specific exception, however, AS44.81.210.(a)(20) provides that a loan whose purpose is to finance the purchase of an Alaska limited entry permit may be made only to a person who has continuously been a state resident for the preceding two years.

Industry Orientation

CFAB's statute permits and directs it to make loans to entities "...who are engaged in commercial agriculture or fishing, including harvesters, processors, suppliers and marketers..." Of the various terms used, only "supplier" is defined by the statute; it "...means a person whose main source of income is from providing goods or services that are directly related to commercial fishing or agriculture to individuals, corporations, partnerships or joint ventures engaged in commercial fishing or agriculture."

In its Bylaws, CFAB has defined "farming" in broad and comprehensive terms and has incorporated into it many activities related to forest

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products. In addition, the Bylaws interpret the above supplier's "main source of income" to mean "...more than one-half of that supplier's annual gross revenue..."

It is CFAB's policy to recognize "commercial fishing" to be any form of activity related to seafood or aquatic products which cannot be otherwise and affirmatively recognized as subsistence, sport, or recreational fishing.

While CFAB intends never to knowingly or inadvertently exceed the implied and expressed limitations of AS44.81, its policy is to be aggressive in seeking and accepting applications for loans and to consider the total context of its mandate to serve the entire Alaska commercial fishing and agriculture industries in making determinations as to eligibility with regard to industry.

Loan Purpose

CFAB's statute contains no general limitations with regard to the purposes of loans. There are, however, specific limitations with regard to the eligible purposes of certain loans, especially those which are secured by the pledge of a limited entry permit. It is CFAB's policy and intention to observe those specific limitations in every respect. With respect to other loans, however, CFAB shall consider the purpose of a proposed loan within the contexts of (1) the applicant's total circumstances and (2) the projected

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source(s) of repayment funds. This is especially true of loans to fishermen, since the nature of Alaska's fisheries permits participation under an extremely broad range of circumstances for individuals who are generically referred to as "commercial fishermen." For example, a loan to finance the purchase of an out-of-state condominium by an individual who teaches school for nine months annually, and fishes commercially for four weeks only, would not be considered as for an appropriate purpose. An application by that same individual for a loan to re-power a commercial fishing vessel would have a clearly valid purpose. The first example, however, might be viewed differently if the applicant were an individual who fished commercially ten months annually, whose sole -- or almost sole -- income is derived from fishing, and whose total lifestyle is tied to his or her status and activities as a commercial fisherman.

Discrimination

In the solicitation and analysis of loan applications, in the granting of loans, and in the administration of every other of its activities, CFAB shall not discriminate, nor exhibit tendencies for discrimination, in any way related to gender, race, color, age, creed, religion, national origin, or mental or physical handicap (except as the latter may be objectively perceived to be an immutable barrier to repayment performance).

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The analysis of applications for credit is by definition a highly discriminatory process, but CFAB shall limit its exercise of judgment to those objective factors which are determined, or have been determined, to clearly influence or aid in the projection of an applicant's ability and inclination to manage loan funds and make repayments in accordance with contractual terms.

Bases for Credit Relationships

CFAB's policy is to function as a commercial lender; i.e., it will make loans and disburse loan funds for its borrowers to use in the furtherance and enhancement of commercial operations which can be reasonably projected to reliably generate sufficient cash to service and amortize the debt, with an ample margin appropriate to the year-to-year uncertainties of resource-based operations. As suggested in the discussion of Loan Purpose, however, the nature of those resource-based operations together with (1) the extreme range of levels of participation, (2) the limits of alternative or supplemental income opportunities in much of Alaska, and (3) the environmental realities of Alaska's geography, often makes it difficult to clearly distinguish between an applicant's commercial activities and his or her lifestyle in total. It is intended, then, that this policy be implemented through the recognition and accommodation of a broad range of circumstances in determining that any particular loan may be properly characterized as "commercial" in nature.

Collateral for Loans

It shall be CFAB's general policy to make only secured loans, with provision for exceptions in those instances or circumstances in which CFAB's professional credit staff determines that the extension of unsecured credit is appropriate and advantageous to both CFAB and the borrower(s).

The ultimate role of collateral is to provide a source of funds for loan repayment in the event that none of the projected primary or secondary sources materialize or prove adequate. The acquisition and liquidation of collateral is often a costly and time-consuming process, destructive to the interests of both CFAB and the borrower involved. Notwithstanding the presumed or projected value of collateral offered in any particular case, then, it shall be CFAB's policy to premise its loans on the anticipated generation of cash for repayment as discussed in the Bases for Credit Relationships section; except in the most unusual of circumstances the existence of apparently ample collateral should not be viewed as a substitute for projected repayment ability under normal operating conditions. On the other hand, the absence or unavailability of presumed collateral values should not be viewed as fatal to a loan proposal when there is unusual strength or certainty with respect to primary credit factors.

In keeping with its posture as a commercial lender, CFAB's practices with regard to the taking of collateral should be directed toward assuring

that, insofar as possible, the opportunity for the borrower's other creditors or claimants to disrupt the borrower's operation is limited. This is of special concern with regard to both fishermen and fish processors, since the seasonality of their operating activities is usually highly focused and compressed. Although it shall also be CFAB's general policy to acquire an enforceable senior lien on any capital item being purchased, improved, or refinanced by a CFAB loan, the inadequacies and uncertainties of marine mortgages demand that additional collateral be sought whenever feasible in the case of a vessel loan.

Finally, a general objective with regard to loan collateral shall be that it represent a substantial equity investment by the borrower relative to the amount of loan funds involved. This is especially significant with regard to the financing of fishermen, who normally have total and absolute control over their commercial fishing operations and who carry on those operations with no opportunity or provision for observation or evaluation by CFAB.

Insurance Requirements

It is CFAB's policy that all insurable risks, direct or indirect, which are incurred through lending activities be covered by insurance policies in CFAB's favor. Insofar as possible, the amount of coverage in each case should be at least as great as CFAB's financial exposure; borrowers should be encouraged to extend that coverage to the level of their respective exposures as well.

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The foregoing statement of policy is intended to establish a clear and firm standard. It is recognized, however, that the practical availability of insurance coverage to desired levels -- in general or in specific cases -- is subject to the practices and inclinations of insurance industry members. It is also recognized that the legal, financial, and practical relationship between CFAB and a borrower may change subsequent to the establishment of a loan contract. It is intended, then, that CFAB's professional staff shall have the responsibility and authority to respond from time to time to circumstances beyond CFAB's control which preclude adherence to the letter of the stated policy.

Pricing

Except for loans which may be made under any fixed interest rate program which has been specifically approved by CFAB's Board of Directors, or loans which are subject to a fixed rate as mandated by AS45.45.010(b), all CFAB loans shall be made subject to provision for a variable rate of interest. In each case, the interest rate shall be referenced to CFAB's Variable Base Rate so that CFAB's Board of Directors, by approving a change in the Variable Base Rate, may simultaneously increase or decrease the interest rate charged to all borrowing members.

CFAB shall adopt, by approval of the Board of Directors, a schedule of loan categories or classifications which shall be based on all of -- or

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some combination of -- loan purpose, loan term, loan collateral, and loan administration and collection costs, so that the Board of Directors may establish or approve a differential schedule of interest rate surcharges (i.e., above the Variable Base Rate) which equitably reflects the relative risks and costs borne by CFAB for each of those classifications or categories.

CFAB may also develop and adopt a program of differential pricing to be applied to all borrowing members and which relate to the quantification of standard and objective credit risk factors, so that somewhat lower interest rates may be offered in those cases which clearly imply lesser credit risk for CFAB.

CFAB's overall pricing strategy, as implemented through adjustments to its Variable Base Rate, shall be to periodically forecast, on at least a one-year basis, those factors affecting its operating results and net cash flow; and to maintain a Variable Base Rate which -- on the basis of such forecasts -- will reliably result in current net margins in amounts consistent with the need to acquire an ability to retire the State of Alaska's investment in CFAB by the year 2000.

Loan Terms

Except as may be appropriate to accommodate generic needs for specific purposes, and except for a requirement that each loan shall provide

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for at least one payment of interest and principal annually, CFAB shall avoid the development or adoption of "standard" loan terms into which borrowers' needs must be conformed. This is in keeping with CFAB's creation as a user-owned cooperative whose sole purpose is to provide commercial financing to participants in resource-based industries. It is incumbent on CFAB's credit staff that its members acquire and apply an uncommon ability to analyze and define the discrete and specific needs of each applicant so that the terms of any loan granted will enhance that borrower's opportunities for success within his or her industry.

Loan Collection Activities

It shall be CFAB's policy to anticipate performance by borrowers within the terms of their respective loan contracts. At the same time, CFAB must recognize that the establishment of a loan's terms is an expression of mutual expectations with regard to events which will occur, or which will become possible, over a period of several years. When there is a failure to achieve those expectations, as manifested by non-payment of principal and/or interest amounts due to CFAB or by violation of substantive provisions of a loan contract, it shall be CFAB's policy to accept responsibility for timely investigation, analysis, and evaluation of the circumstances in order to determine whether the breach simply represent developments which require a modification of expectations or if it indicates an irremedial and worsening breakdown of the loan relationship. While accepting that responsibility, CFA'

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shall demand and expect substantive communications and other forms of cooperation by the borrower-member involved.

When it can be determined by CFAB that the breach of a loan contract is due to circumstances beyond the control of the borrower-member, or to the actions or failures of third parties, or to an inevitable but presumably temporary downturn in a segment of the fishing or agriculture industry, and when it is perceived by CFAB that there has been no significant and/or irreversible deterioration of the basic credit factors present at the time of the original loan decision, CFAB may make one or more proposals to the borrower-member to address the situation. These proposals may include, but need not be limited to: Forbearance, restructuring of payment schedule or modification of other loan terms, refinancing, waiver of breach, extension, consolidation with other debt, etc. The borrower-member is expected to pay all reasonable costs and fees associated with whatever transaction takes place, and it shall be CFAB's objective in every case -- except those in which, in CFAB's view, it is a practical impossibility -- to collect in cash all interest then due and/or in arrears.

When CFAB determines that the circumstances of a default signal an irremedial deterioration in the quality, value, and ultimate collectibility of a loan, it shall immediately evaluate the actions available to it to minimize the risk of loss. This shall include a determination of the extent to which the borrower-member is willing and able to cooperate and to assist in a

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process which will prove least damaging to his/her interests and/or the interests of other creditors. When a borrower-member is unwilling to cooperate, or takes steps to force the loan liquidation process into an adversarial mode, CFAB's actions shall be premised on the objective of minimizing the potential loss which must be borne by its other, and future, borrower-members and stockholders.

Access to Credit Facilities

CFAB shall maintain one or more offices and such staff as its Board of Directors and management determine will permit it to offer credit services to its mandated market throughout Alaska on an effective basis; CFAB's configuration and activities, however, must also be guided by the need to maintain a cost structure which can be covered through reasonable interest charges to borrower-members. It shall be CFAB's policy to aggressively seek and structure the utilization of other entities and individuals, of all forms of communications media, and of all forms of technology as may be available to assure that all potential borrower-members throughout Alaska have unhindered access to CFAB's credit services.

Referrals and Reports to Other Lenders and Credit Reporting Agencies

It shall be CFAB's policy, when requested, to assist ineligible applicants, unsuccessful applicants, and borrower-members through referrals to

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other financial institutions; however, those referrals must be made in such a manner and under such circumstances as will preclude the creation or assumption of liability for CFAB.

CFAB shall also share with other lenders and with credit reporting agencies (subject to the provisions of AS44.81.260) its experience with individual borrower members. However, such information shall not be shared -- unless it is unqualifiedly favorable -- when it is clear to CFAB that the practices, purposes, or philosophies of the inquiring party will not permit that party to place and utilize the information within the context of commercial financing to a participant in the Alaska seafood or agricultural industries.

Loan Limits

It shall be CFAB's policy to limit the credit which may be extended to any single borrower without the express approval of the Board of Directors to an amount equal to 15 percent of its total capital accounts at the time a relevant credit decision is made. Within the context of this policy, "credit" shall include outstanding loan balances, undisbursed commitment amounts, and contemplated new loan fund advances, and shall also include contingent or indirect liability to CFAB as an endorser or guarantor. "Borrower" shall include any single natural or legal entity, any affiliate or subsidiary in which the entity owns an interest greater than 20 percent, and any corporate

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parent or ownership interest of greater than 20 percent. "Total capital accounts" means all amounts carried on CFAB's records which represent equity investments by members, borrowers, the State of Alaska, or others as well as any amounts representing retained allocated or unallocated patronage earnings or other net margins, reduced by any allocated or unallocated patronage loss or other loss, and excluding any amount of Class B Preferred Stock for which CFAB has a redemption obligation in connection with any loan transaction(s).

Special Applications and Loans

It shall be CFAB's policy to not recognize any "special" applications or loans other than those which involve a Director, an entity in which a Director holds an ownership interest, or an entity of which a Director is a principal officer. All such applications or loans shall be subject to CFAB's normal evaluation and analysis processes and must conform to CFAB's normal credit standards and requirements. Such loans shall be subject to the approval of a majority of the remaining and non-involved Directors in response to a recommendation by CFAB's Senior Management.

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

CODE OF BYLAWS

ARTICLE I

Offices and Registered Agent

Section 1. Business Offices. The principal business office of the Alaska Commercial Fishing and Agriculture Bank (hereinafter referred to as the "Bank") shall be at 2550 Denali Street, Suite 1201, Anchorage, Alaska 99503, or at such other location in the State of Alaska as the Board of Directors may designate by resolution. The Bank may have such other business offices, either within or without the State of Alaska, as the Board of Directors may designate or as the business of the Bank may require from time to time.

Section 2. Registered Office and Agent. The registered office of the Bank may be, but need not be, identical with the principal business office. The address of the registered office and the designation of the Bank's registered agent may be changed from time to time by the Board of Directors by resolution and upon filing a notice of such change as may be required by law.

ARTICLE II

Members and Meetings of Members

Section 1. Stock Ownership Requirement. A member of the Bank is any individual, partnership, corporation, or joint venture that becomes a holder of one share of Class A Membership Stock in the Bank. No member may own more than one share of Class A Membership Stock in the Bank.

Section 2. Membership Agreement. Each member shall execute a membership agreement in a form as required by the Bank. Each member shall also be provided a copy of the Bank's Articles of Incorporation and Bylaws upon first becoming a member, and shall be provided copies of all amendments thereto after the adoption of such amendments.

Section 3. Membership Restrictions. Only an individual, partnership, corporation, or joint venture that is actively and currently engaged in the commercial fishing or farming industry as a producer, harvester, processor, supplier, or marketer of agricultural or aquatic products within the State of Alaska may become a holder of Class A Membership Stock. For the purposes of these Bylaws:

(a) "Farming" includes activity in connection with producing, harvesting, processing or marketing any agricultural or horticultural commodity, including the raising, shearing, feeding, caring for, training, and management of livestock, bees, poultry, and fur-bearing animals and wildlife, and the planting, cultivating, caring for, or cutting and/or processing of trees on a sustained yield basis.

(b) A "supplier" is considered engaged in the commercial fishing or farming industry in Alaska if more than one-half of that supplier's annual gross revenue is derived from providing goods or services which are directly related to commercial fishing and/or farming activity to individuals, partnerships, corporations, or joint ventures engaged in commercial fishing or farming in Alaska.

Section 4. Membership for Co-Borrowers. In an instance where an eligible individual wishes to become a member of the Bank in anticipation of a subsequent borrowing from the Bank, and in which in connection with that borrowing the Bank requires that a second person such as a spouse or parent who is not significantly involved in the member's commercial fishing or farming activity become conditionally or otherwise responsible for repayment of the loan, only the actual commercial fisherman or farmer shall become an owner of one share of Class A Membership Stock.

Section 5. Voting Limitations. No member shall be entitled to more than one vote upon each matter submitted to a vote at an annual or special meeting of members except as specifically provided in these Bylaws or in the Bank's Articles of Incorporation. At each election for directors, each member entitled to vote at such

lection shall have the right to one vote for each director position or on any matter then being voted upon, but the member shall not be entitled to cumulate the member's vote.

Section 6. Record Date. For the purpose of determining members entitled to notice of, or to vote at, any meeting or any adjournment thereof, or in order to make a determination of members for any other proper purpose, the record date for any such determination of members shall be thirty days prior to the date on which the action requiring such determination of members is to be taken. When a determination of members entitled to vote at any meeting has been made as provided in this section, such determination shall apply to any adjournment thereof.

Section 7. Voting Eligibility. In order to be eligible to vote, a member must at the date of determination as provided in Section 6 above: (a) be an active borrower from the Bank; or (b) have been an active borrower from the Bank within two years prior to the date of determination; or (c) be engaged in a business relationship with the Bank, other than as a borrower; or (d) have been engaged in a business relationship with the Bank, other than as a borrower, within two years prior to the date of determination; or (e) be the owner of \$2,500 or more of Retained Membership Earnings and/or Class B Preferred Stock.

In the event that a member is not eligible in accordance with the foregoing, the member shall not be entitled to vote on any matter except as may be provided in the Bank's Articles of Incorporation.

Section 8. Voting by Proxy. Members may not vote by proxy. However, a member which is a corporation, partnership, or joint venture may designate, by written notice to the Secretary of the Bank, a representative to cast its vote. In the absence of such written designation, a member corporation may be represented by any of its officers, a member partnership may be represented by any of its partners, and a member joint venture may be represented by any of its joint venturers.

Section 9. Annual Meetings. An annual meeting of the members of the Bank shall be held not less than ninety days and not more than two hundred and ten days following the end of each fiscal year of the Bank, for the purposes of electing Directors, receiving reports of the Bank, and transacting such other business as may properly come before the meeting.

Section 10. Special Meetings. A special meeting of the members of the Bank may be called by the Board of Directors or by the Chairman of the Board of Directors acting alone. A special meeting of the members shall be called by the Board of Directors within thirty days of the filing with the Secretary of the Bank of a petition by the lesser of (a) one hundred members of the Bank or (b) ten percent of the members of the Bank. Such petition must state the business to be properly brought before the meeting.

Section 11. Meeting Locations. The Board of Directors may designate any place, either within or without the State of Alaska, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors or by the Chairman of the Board of Directors. If a special meeting is called pursuant to a petition by members, the place of meeting shall be in Anchorage, Alaska. An annual meeting, or a special meeting called by the Board of Directors or by the Chairman of the Board of Directors, may be held in two or more sessions and in two or more places, with the meeting being recessed for the period(s) between such sessions. In the event a meeting is held in two or more sessions, nominations for director candidates from the floor of the meeting or matters properly presented from the floor for consideration by the voting members may be submitted only at the first of such sessions. Ballots cast by members at any session except the final session shall be sealed until all ballots have been cast at the final session, at which time all ballots including mail ballots shall be tallied. The results of such tally shall be announced at the final session.

Section 12. Meeting Notices. Written notice stating the place, day and hour of the meeting shall be delivered not less than fourteen days nor more than thirty days before the date of the meeting, or the date of the first session of a multi-session meeting, either personally or by mail to each member entitled to vote at the meeting. The notice of a special meeting shall also state the purpose(s) for which the meeting is called. If mailed, such notice shall be deemed to be delivered when deposited with first class postage prepaid in the United States mail, addressed to each member at that member's address appears on the records of the Bank.

Section 13. Voting List. The Bank shall prepare a complete list of members entitled to vote at each meeting or any session or adjournment thereof. The list shall be arranged in alphabetical order and shall show the name and mailing address of each member entitled to vote as well as the number of shares of each class of stock held by that respective member. The list shall be kept open at the time and place of the meeting and shall be available for inspection by any member during the whole time of the meeting.

Section 14. Mail Ballots. The Board of Directors may present for voting by mail ballot any question to be voted on at a member meeting, including the election of directors. In that event, a ballot on each question and a ballot envelope shall be mailed to each member eligible to vote, along with the notice of the meeting. In order to be valid, a mail ballot must be sealed in the ballot envelope provided; and the sealed ballot envelope bearing the eligible voter's signature must be returned to the Bank prior to the tallying of votes at the meeting.

Section 15. Quorum. Ten percent of the members of the Bank entitled to vote, represented in person or by valid mail ballots, shall constitute a quorum at any meeting of members. If less than a quorum is present in person or by mail at a meeting, the Chairman must adjourn the meeting. An adjourned meeting may be recalled to order from time to time, with or without notice. At such meeting recalled to order, if a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed. If a meeting is held in two or more sessions, a member eligible to vote and who attends any session of the meeting shall be counted in any determination of a quorum; however, a determination of a quorum shall be made only at the final session of a multi-session meeting, and a member eligible to vote and who attends two or more sessions of a multi-session meeting shall not be counted more than once for the purpose of determining the presence of a quorum. The members present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough members to leave less than a quorum.

Section 16. Attendance of Ineligible Members. A member of the Bank who is not eligible to vote as provided in Section 7 above may attend any meeting of members and may participate in any activity at, or in connection with, such a meeting except that a member not eligible to vote may not be counted in any quorum determination, nor may such a member be permitted to vote on any matter.

Section 17. Member Warranty. By subscribing or applying for, or becoming an owner of record of, one share of Class A Membership Stock of the Bank, each subscriber, applicant, or owner of record expressly warrants that he/she/it/they meet(s) the requirements expressed in Section 3 above. In addition, each member expressly agrees that if the member is determined to be ineligible to vote at a meeting of members as provided in Section 7 above, that during the period of such ineligibility the member shall have no vote in any matter, including the election of directors, to be considered or transacted at a meeting of members.

Section 18. Termination of Memberships. A member of the Bank who has no loan from the Bank, or any other financial obligation to the Bank, and who is not the owner of Class B Preferred Stock or of Retained Membership Earnings in any amount, may request termination of that membership. The Board of Directors shall, upon such request, terminate the membership by recalling the member's Class A Membership Stock Certificate and paying its par value in cash to the member.

The Board of Directors may act to terminate the membership of a member who has been determined to be ineligible to vote at two consecutive annual meetings of members, and who has no loan from the Bank or other financial obligation to the Bank, and who is not the owner of Class B Preferred Stock or of Retained Membership Earnings in any amount. Such termination shall be effected by mailing notice of cancellation of the member's Class A Membership Stock Certificate and paying its par value in cash to the member.

The Board of Directors shall act to terminate the membership of a member who has defaulted on a loan from the Bank or any other financial obligation to the Bank and with regard to whom the Bank has exercised its right of offset against the entire amount(s) of the member's Class B Preferred Stock and Retained Membership earnings. Such termination shall be effected by mailing notice of cancellation of the member's Class A Membership Stock Certificate and paying its par value into any valuation reserve account or unallocated surplus or reserve account of the Bank.

ARTICLE III

Board of Directors

Section 1. General Powers. The management of the Bank and of its assets, business, and affairs, as well as the establishment of the Bank's policies, shall be vested in its Board of Directors.

Section 2. Number of Directors. There shall be seven directors. As provided in AS 44.81.020(a), five directors shall be elected by the members of the Bank and two directors shall be appointed by the Governor of Alaska. One of the five elected directors must be an Alaskan farmer.

Section 3. Term of Office. Directors' terms of office shall be for three years. Terms of the five elected directors shall be staggered so that not less than one term and not more than two terms shall expire at the time of each annual meeting.

Section 4. Director Qualifications. Each elected director must be a member of the Bank and must remain a member of the Bank throughout his or her term as a director. For the purposes of this section, "a member of the Bank" may be an individual who is an officer of a corporation which is a member of the Bank or a principal of a partnership or joint venture which is a member of the Bank.

At the time of election, re-election, or appointment to a vacancy, each individual serving in an elected director position except that which is designated as the Alaska farmer position must meet the member voting eligibility requirements of Article II, Section 7, of these bylaws and must not be a party to any formal litigation initiated by the Bank against the member or initiated by the member against the Bank.

At the time of a call for nomination of candidates for election to the Alaska farmer director position, the Board of Directors shall determine and express qualifications for that position. Such qualifications must include membership in the Bank, must also include objective standards to assure that each candidate for that position has substantial historical and current direct and personal experience as an Alaska farmer, and must provide that the candidate not be a party to any formal litigation initiated by the Bank against the member or by the member against the Bank.

No regular, full-time, or salaried employee of the Bank is eligible to serve as a director.

Section 5. Nominations and Elections. Not less than sixty days before the date of a meeting at which directors are to be elected, the Board of Directors shall issue a call for nomination and declaration of candidates. Such call shall be mailed to each member of the Bank and shall provide for nominations or declarations to be submitted, in writing, to an Assistant Secretary of the Bank on or before the last business day which is not less than thirty days prior to the meeting date.

An individual member of the Bank, including an individual who would be eligible as a representative of a legal entity which is a member of the Bank as provided in Section 4 above, may submit his or her own name as a candidate for election. One or more members of the Bank may submit the name of another member of the Bank as a candidate for election.

It shall be the duty of the Assistant Secretary of the Bank only to determine that each member nominated or declared as a candidate for election is eligible as provided in Section 4 above.

The name and address of each eligible candidate shall be mailed with the notice of meeting to members. In the case of a mail ballot, the listing of candidates' names and addresses shall be accomplished on the mail ballot itself. If a candidate is a representative of a legal entity which is a member of the Bank as provided above, the name and address of that member, as well as a notice of the candidate's affiliation with that member, shall also be provided.

A candidate for election may be nominated from the floor at a meeting, or at the first session of a multi-session meeting.

Except for an election for the Alaska farmer director position, the election of more than one director shall be conducted on an at-large basis and neither nominations nor voting shall be for designated positions.

In the event that fewer than two eligible candidates have been nominated for each of the number of at-large positions subject to election or for election to the Alaska farmer position prior to the mailing of the meeting notice to eligible voting members, the notice shall state that no election(s) will be held. In that case, the incumbent director(s) shall continue to occupy the position(s) until the following annual meeting, at which time election(s) for the remainder of the then-unexpired term(s) shall be held. If an incumbent director declines to occupy the position for the additional year under these circumstances, the Board of Directors shall declare the position vacant and shall fill that vacancy in the manner provided in Section 8 below.

Section 6. Eligible Voter List. So that each eligible candidate for a director's position may communicate with eligible voting members in whatever manner that candidate may wish, the Bank shall provide to each eligible candidate who requests it a list of eligible voting members of the Bank which shows only the name and mailing address of each such member. If it is practicable, the Bank shall also provide with the list one complete set of mailing labels addressed to the eligible voting members of the Bank. A candidate's request for such service shall be in writing and shall include a statement that the material and information will not be used for any purpose other than communications in connection with that election.

Section 7. Removal From Office. An elected director may be removed from office, creating a vacancy, by vote of a majority of the eligible members attending or casting a mail ballot at a special meeting called for that purpose in accordance with Article II, Section 10, of these Bylaws. An elected director may be removed from office, creating a vacancy, in accordance with AS 44.81.090.

Section 8. Vacancies. Any vacancy of an elected director position must be filled by action of a majority of the remaining directors at the next regular meeting of the Board of Directors after the vacancy arises. An individual appointed by the Board of Directors to fill a vacancy shall meet the same eligibility requirements as if he/she were an eligible candidate for election by members. A director so appointed shall serve only until the next annual meeting of members, at which time an election by eligible voting members shall be held to fill the unexpired term, if any, of that director position.

Section 9. Annual Organizational Meeting. There shall be an annual organizational meeting of the Board of Directors not more than fifteen days following each annual meeting of members of the Bank. At the organizational meeting, officers of the Board shall be elected and officers of the Bank shall be appointed.

Section 10. Regular Meetings. The Board shall annually adopt a schedule of at least five regular meetings in addition to the annual organizational meeting. Regular meetings, and the annual organizational meeting, shall be held at a time and place either within or without the State of Alaska as designated by the Chairman of the Board.

Section 11. Special Meetings. A special meeting of the Board of Directors may be called by or at the request of the Chairman of the Board or any two directors. The person(s) calling a special meeting may fix the time and place either within or without the State of Alaska for the holding of that meeting.

Section 12. Meetings by Telephone. The Board of Directors may adopt a resolution which provides for a meeting other than the annual organizational meeting, or for a portion of a meeting other than the annual organizational meeting, to be held by means of a telephonic conference call.

Section 13. Meeting Notices. Written notice of any meeting of the Board of Directors shall be delivered personally to each director or by mail to each director's business address at least five days prior to the meeting. If mailed, such notice shall be deemed to be delivered when deposited with first class postage attached in the United States mail, addressed to each director at that director's business address. The notice need not specify the purpose of the meeting. Any director may waive notice of any meeting. Attendance of a director at a meeting shall constitute a waiver of notice of that meeting, unless a director attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

Section 14. Quorum. A majority of the number of directors then serving shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. If less than a quorum is present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

Section 15. Manner of Acting. The act of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 16. Conflicts of Interest. No director may vote on a transaction of the Bank if that director is a direct or indirect party to, or a direct or indirect beneficiary of, that transaction. Because the Bank is a cooperative institution, a director is not deemed for the purpose of this section to be a party to any matter which may affect that director by reason of the director's membership in, or patronage of, the Bank.

Section 17. Compensation of Directors. Members of the Board of Directors shall receive compensation not to exceed \$250.00, as determined by the Board of Directors, for each day of a meeting if they attend the meeting. Directors are also entitled to reimbursement for necessary expenses incurred on behalf of the Bank.

Directors may also receive compensation for personal time and efforts expended for the furtherance of the Bank's interests or business other than on meeting days. Compensable activities may include but not be limited to (a) travel for official purposes, including meetings; (b) Bank representation for business, ceremonial, or promotional purposes; (c) providing testimony in litigation to which the bank is a party; (d) business-related seminars, conferences, and training sessions. All such activities must be determined by the Chairman, on specific occasions or generically from time to time, to be in the interests of the Bank. Compensation for such activities may not exceed \$50 per hour, subject to a maximum payment of \$350 per day. The total of such payments, combined with the total of compensation for meeting days, shall be clearly identified as "Directors' Fees" in the annual report to the Bank's members.

Section 18. Indemnification. The Bank shall indemnify each director, officer and employee (and the heirs, executors, and administrators of each directors, officer and employee) 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 of 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 of whether they were directors, officers or employees at the time the expenses or liabilities are incurred. The foregoing right of indemnification shall not be exclusive of other rights to which any directors, officer or employee may be entitled as a matter of law.

ARTICLE IV

Officers and Committees

Section 1. Officers. The Board of Directors shall elect from among its members a Chairman, a Vice Chairman, a Secretary and a Treasurer of the Bank. One director may be elected to hold the combined offices of Secretary-Treasurer.

The Board of Directors shall appoint a President and one or more Vice Presidents of the Bank. The Board of Directors may designate any Vice President(s) as a Senior Vice President or Executive Vice President. The Board may appoint one or more Assistant Vice Presidents, one or more Assistant Treasurers, or one or more Assistant Secretaries. The Board may appoint other officers to meet the needs of the Bank as may be determined by the Board. The Board may appoint individuals to hold two or more offices, except the President may not be appointed to any other office of the Bank.

Section 2. Term of Office. Officers of the Bank shall be elected or appointed by the Board of Directors at its annual organizational meeting or as soon thereafter as is convenient. Each officer shall hold office until that officer's successor shall have been duly elected or appointed and shall have qualified or until that officer's death or until that officer shall resign or shall have been removed in the manner hereinafter provided.

Section 3. Removal. Any officer, employee or agent may be removed by the Board of Directors whenever in its judgment the best interest of the Bank will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer, employee or agent shall not of itself create contract rights.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for a term of office continuing only until the next annual organizational meeting of the Board.

Section 5. Bond. The directors may, at their discretion, require any or all officers and employees of the Bank to furnish such fidelity bond or bonds as the directors may determine; the Bank to pay all premium charges on such bonds furnished.

Section 6. The Chairman of the Board. The Chairman of the Board shall, when present, preside at all meetings of the members and of the Board of Directors. The Chairman may sign, with the Secretary or any other proper officer of the Bank thereunto authorized by the Board of Directors, certificates for shares of the Bank, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Bank, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of Chairman of the Board of Directors and such other duties as may be prescribed by the Board of Directors from time to time.

Section 7. The Vice Chairman of the Board. In the absence of the Chairman of the Board or in the event of the Chairman's death, inability or refusal to act, the Vice Chairman of the Board shall perform the duties of the Chairman of the Board and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chairman of the Board. The Vice Chairman of the Board may sign, with the Secretary or an Assistant Secretary, certificates for shares of the Bank; and shall perform such other duties as from time to time may be assigned to the Vice Chairman by the Board of Directors.

Section 8. The Secretary. The Secretary shall: (a) keep the minutes of the proceedings of the members and of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provision of these Bylaws or as required by law; (c) be custodian of the Bank records and of the seal of the Bank and see that the seal of the Bank is affixed to all documents, the execution of which on behalf of the Bank under its seal is fully authorized; (d) keep a register of the post office address of each member and shareholder; (e) sign with the Chairman of the Board, the Vice Chairman of the Board or the President certificates for shares of the Bank, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the books of the Bank; and (g) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the Board of Directors or the Chairman as appropriate.

Section 9. The Treasurer. The Treasurer shall: (a) have charge of and be responsible for all funds and securities of the Bank; (b) receive and give receipt for monies due and payable to the Bank from any source whatsoever, and deposit all such monies in the name of the Bank in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VIII of these Bylaws; and (c) in general perform all the duties as from time to time may be assigned to the Treasurer by the Board of Directors or the Chairman as appropriate.

Section 10. The President. The President shall be the chief executive officer and principal administrative officer of the Bank in control of all administrative functions and in general charge of all the ordinary business of the Bank. The President's powers shall include that of signing certificates for shares of the Bank, the right and authority to make and deliver receipts for the payment of any indebtedness owing and paid to the Bank and to execute valid releases for any and all security instruments or mortgage liens given to the Bank as security for such indebtedness. The President shall perform such duties and functions as may be assigned by the Board of Directors or the Chairman.

Section 11. Vice Presidents. The Vice Presidents or any one of them shall perform such duties as may be assigned by the Board of Directors or the President and may act in the place of the President when so authorized by the Board of Directors or the President.

Section 12. Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the Chairman of the Board, the Vice Chairman of the Board or the President, certificates for shares of

the Bank the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned or delegated to them by the Secretary or the Treasurer, respectively, the Board of Directors or the President.

Section 13. Assistant Vice Presidents. The Assistant Vice Presidents or any one of them shall perform such duties as may be assigned to them by the Board of Directors, the President or the Vice Presidents. They may act in the place of a Vice President when authorized to do so by the Board of Directors or the President.

Section 14. Executive Committee. The Board of Directors may act by resolution to create an Executive Committee of the Board of Directors. The Executive Committee shall have only those powers and authorities as may be specifically delegated to it by resolution of the Board. The Chairman of the Board shall chair the Executive Committee, and the Executive Committee shall be comprised of the Chairman, the Vice Chairman, the Secretary, and the Treasurer; however, if one director holds the combined offices of Secretary-Treasurer, then the Board of Directors shall elect one other of its members to serve on the Executive Committee if it is created.

Section 15. Other Committees. The Chairman of the Board may establish such other committees as the Chairman may from time to time determine to meet the needs of the Bank, and the Chairman shall make all appointments to such committees. Any such committee may be comprised of any combination of directors, staff persons, or members of the Bank, and it shall be chaired by a director. Each such committee shall be considered to be advisory to the Board of Directors and shall have no powers or authority to act on behalf of the Board of Directors or on behalf of the Bank except as may be specifically provided by resolution of the Board.

ARTICLE V

Business with Members; and Class B Preferred Stock

Section 1. Loans to Members. Each member who borrows from the Bank shall be required to invest in Class B Preferred Stock of the Bank at the time the loan is closed, or from time to time.

Section 2. Other Business. Each member who enters into a business relationship other than a borrowing relationship with the Bank may be required to invest in Class B Preferred Stock of the Bank.

Section 3. Basis of Investment. Any required investment in Class B Preferred Stock of the Bank shall be proportionate to the amount borrowed or anticipated to be borrowed from the Bank, or to the amount of business done or anticipated to be done with the Bank; and it shall be based on the terms and provisions of a Class B Preferred Stock Program as adopted or amended from time to time by resolution of the Board of Directors.

Section 4. Preferred Stock Program. The Class B Preferred Stock Program of the Bank shall be the principal vehicle for the investment of patron equity in the Bank in order to meet the capital needs of the Bank as those needs may be determined by the Board of Directors from time to time. All investments required and made in accordance with the provisions of the Class B Preferred Stock Program are conclusively presumed to be investments of capital in the Bank and not earnings. A description of the Class B Preferred Stock Program, or a copy of a resolution adopting, amending, or revising the Class B Preferred Stock Program, shall be provided to each new member of the Bank.

Section 5. Amendments and Revisions. Amendments or revisions to the Class B Preferred Stock Program may be adopted by resolution of the Board of Directors at any meeting, but they may be made effective only at the beginning of a fiscal year subsequent to that meeting. A copy of each amendment or revision, or of the resolution adopting an amendment or revision, shall be mailed to each member of the Bank prior to the effective date of such revision or amendment.

ARTICLE VI

Allocation of Income and Losses

Section 1. Allocation of Income. "Net Patronage Income" is hereby defined to be the net proceeds derived from all business done by the Bank during a fiscal year on a patronage basis with or for its borrowers after operating expenses, charges (including

over-advances and charges for amortizing or reducing any operating loss for any preceding year), interest and/or dividends, if any, on all classes of stock, book credits, capital funds or allocated reserves, reasonable valuation reserves and losses in excess of any such valuation reserves, have been deducted. Such Net Patronage Income shall be allocated to such borrowers in proportion to their patronage during said year and distributed in cash, book credits or allocated reserves, or any combination thereof, all as the Board of Directors shall determine. For the purpose of determining the borrowers' proportionate share of Net Patronage Income, each borrower's patronage is considered to be the amount of interest on a loan to that borrower which is paid in cash in such fiscal year but which does not exceed the amount of interest on that loan earned or accrued by the Bank during the 365 days prior to the date of the cash payment of interest. The Board may deduct from Net Patronage Income and place into an unallocated reserve reasonable reserves [not to exceed ninety percent (90%) of Net Patronage Income totaling One Million Dollars (\$1,000,000) or less; eighty percent (80%) of Net Patronage Income in excess of One Million Dollars (\$1,000,000) and less than Two Million Dollars (\$2,000,000); seventy percent (70%) of Net Patronage Income in excess of Two Million Dollars (\$2,000,000) and less than Three Million Dollars (\$3,000,000); and sixty percent (60%) of Net Patronage Income in excess of Three Million Dollars (\$3,000,000)] in anticipation of the statutorily-required retirement of Class C Stock.

Allocations described hereunder shall be paid in whole or in part in cash or in Class B Stock or in whole or in part in credits, or in such other form as the Board of Directors may deem appropriate from time to time based upon the financial needs of the Bank. The amount allocated to each patron member of the Bank and not paid in cash or in Class B Stock or in some other form as determined by the Board of Directors shall be credited to Retained Membership Earnings in the name of such patron member on the books of the Bank.

The Bank may allocate to the members who patronize it any portion of the net earnings from business done on a non-patronage basis ("Net Non-Patronage Income"), less any dividends paid on Class B Stock, or may retain such amounts and add to its unallocated surplus accounts. Any Net Non-Patronage Income allocated to borrowers shall be paid or be credited to the Retained Membership Earnings account of the member in the same manner as for Net Patronage Income.

As soon as practicable after the close of each fiscal year, a statement shall be issued to each patron member showing the amount of Retained Membership Earnings that said patron member has been credited with by the Bank in that fiscal year.

Section 2. Refunding of Excess Retained Membership Earnings. In order to maintain and further the cooperative structure and nature of the Bank, it shall refund any portion of its Retained Membership Earnings at such time as the Board of Directors finds that the current and projected financial condition of the Bank will so permit. The Board of Directors shall annually determine the current and anticipated capital requirements of the Bank and after so doing shall review the capital made available to the Bank through Retained Membership Earnings. If the Board of Directors determines that the capital made available through Retained Membership Earnings is in excess of the requirements of the Bank, any or all of such excess may be refunded to patrons as funds are available. In so doing the Board of Directors may establish priorities for payments to classes of patrons which the Board of Directors determines have made capital available in excess of their proportionate shares.

Section 3. Allocation of Losses. In the event of a net loss in any fiscal year, the Board of Directors may, in its sole discretion and authority, charge all or any part of such loss in the manner that it determines to be equitable to any one or more of the following:

- (1) Unallocated reserve, contingency or surplus accounts.
- (2) Allocated reserve, contingency or surplus accounts.
- (3) Other Retained Membership Earnings accounts.
- (4) Impairment or cancellation of capital stock.
- (5) Unallocated loss account.

Section 4. Records and Accounts. The Bank shall maintain its books and records in accordance with the provisions of the income tax codes and regulations as they may be in effect from time to time. In order to assure the Bank and its members appropriate tax treatment as a cooperative, the Bank shall account for its income and expenses on a patronage and non-patronage basis. The Bank shall maintain in the name of each patron a Retained Membership Earnings account within which each form, allocation, and amount of Retained Membership Earnings shall be shown separately.

Section 5. Tax Reporting. Each person, corporation, partnership or joint venture who hereafter becomes a member of the Bank, and each member of this Bank on the effective date of this bylaw who continues as a member after such date, shall, by such act alone, consent that the amount of any distributions with respect to that member's patronage which are made in written notices of allocation with respect to such distributions (as defined in 26 U.S.C. § 1388) and which are received by said member from the Bank, will be taken into account by said member at their stated dollar amounts in the manner provided in 26 U.S.C. § 1385(a) as to qualified written notices of allocation in the taxable year in which such written notices of allocation with respect to such distributions are received by said member and that said member will account for non-qualified written notices of allocation as required under U.S.C. § 1385(c).

Section 6. Right of Offset; Security Interest. The Bank shall have the right to offset the defaulted indebtedness of its member borrowers against the borrower's interest in the Retained Membership Earnings standing to the credit of the member borrower so in default or against said borrower's interest in his Class B Stock, or against the cash portion of said borrower's patronage dividend(s), or a combination thereof, whether now owned or hereafter acquired, when the Board of Directors, in its sole discretion and authority, deems such offset is conducive to promoting and preserving the Bank's financial condition and is not motivated by a desire to unfairly or inequitably discriminate against non-defaulting member borrowers. Each member borrower does hereby make, constitute and appoint the Bank such member borrower's true and lawful attorney-in-fact for him and in his name, place and stead, for his use and benefit, to sign, endorse and deliver to the Bank such portion of the cash portion of such member borrower's patronage dividend as may be necessary to satisfy such defaulted indebtedness.

Notwithstanding such offset practice, the Bank reserves the right to proceed against the defaulting member borrower or the member borrower's assets for payment of the member borrower's indebtedness to the Bank, even after the Bank has conducted an offset as herein described, provided, however, that at such time as said indebtedness is wholly satisfied, by way of collection in full as authorized under this paragraph, or by way of such collection when combined with amounts offset as described hereunder, the bank shall recredit the member borrower's Retained Membership Earnings in the reverse order of priority pursuant to which the same were offset, to the extent said sources, when combined with the sums collected hereby, exceed the member borrower's indebtedness to the Bank.

The offset rights created hereunder are exercisable only at the initiation of the Bank, its officers, employees and agents, and shall in no way be construed to create any rights of offset in its member borrowers.

In addition to the right of offset described herein, each member borrower hereby grants to the Bank a Uniform Commercial Code security interest in the member borrower's Retained Membership Earnings, his Class B Stock and in the cash portion of his patronage dividend, whether such interests are now owned or are hereafter acquired, to secure repayment of any and all present and future indebtedness owing by such member borrower to the Bank. In addition, each member borrower shall take any and all actions requested of it by the Bank which are necessary to perfect CFAB's security interest therein.

Section 7. Consent and Authorization. By becoming a member of the Bank, or by remaining a member of the Bank after receipt of any amendment to these Bylaws, a member agrees to be bound by the Allocation of Income and Losses provisions set forth in this article.

ARTICLE VII

Dissolution

Section 1. Voluntary Dissolution. A resolution for voluntary dissolution of the Bank may be considered only at a special meeting of members called for that purpose. In the case of a vote on a resolution for voluntary dissolution of the Bank, an owner of Class B Preferred Stock in any amount and/or of Retained Membership Earnings in any amount shall be entitled to cast one vote whether or not that owner is entitled to cast one additional vote as an eligible voting member. Passage of a resolution for voluntary dissolution requires the affirmative vote of a majority of the Class B Preferred Stock/Retained Membership Earnings votes cast and the affirmative vote of two-thirds of the eligible member votes cast.

Section 2. Distribution of Proceeds. The distribution of proceeds arising out of voluntary dissolution shall be in accordance with the Bank's Articles of Incorporation.

ARTICLE VIII

Contracts, Loans, Checks, Deposits and Investments

Section 1. Contracts. The Board of Directors may authorize any officer or officers, agent or agents, employee or employees, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Bank, and such authority may be general or confined to specific instances.

Section 2. Loans. No loans shall be contracted on behalf of the Bank and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. Checks, Drafts, Etc. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Bank, shall be signed by such officer or officers, agent or agents, employee or employees, of the Bank and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. Deposits. All funds of the Bank not otherwise employed shall be deposited from time to time to the credit of the Bank in such banks, trust companies or other depositories that the Board of Directors may select.

Section 5. Investment of Surplus Funds. Funds of the Bank which are surplus to the current loan or operating needs of the Bank may be invested so as to bring a maximum yield to the Bank, provided that such investment may only be made in such securities as would be allowed for funds of any State-chartered financial institution in the State of Alaska.

ARTICLE IX

Certificates for Shares and Transfers

Section 1. Certificates for Shares. Certificates representing shares of Class A Membership Stock of the Bank shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the Chairman of the Board, Vice Chairman of the Board or the President, and the Secretary or an Assistant Secretary and sealed with the corporate seal or facsimile thereof. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the member to whom the share represented thereby is issued and date of issue shall be entered on the records of the Bank. The member in whose name shares stand on the books of the Bank shall be deemed by the Bank to be the owner thereof for all purposes. All certificates surrendered to the Bank shall be cancelled. In case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Bank as the Board of Directors may prescribe. Ownership of Class B Preferred Stock may be shown on the records of the Bank and no certificate need be issued.

Section 2. Transfers of Class B Preferred Stock. Class B Preferred Stock shall not be transferable except (a) in the case of death of an owner, (b) by operation of law, or (c) as may be permitted by the provisions of the Class B Preferred Stock Program as they may exist from time to time. For purposes of this section the term "by operation of law" shall include, but not be limited to, transfers to trustees in bankruptcy or to successors in interest to a member which has been dissolved or liquidated, or by decree of divorce or other court order. The Bank may require such documentary evidence or execution of such documents as may be deemed necessary by the Bank as a condition precedent to any transfer.

ARTICLE X

Miscellaneous Provisions

Section 1. Fiscal Year. The fiscal year of the Bank shall begin on the first day of June and end on the last day of May in each year.

Section 2. Reports and Publications. The Board of Directors shall publish an annual report to the Bank's members. The Board of Directors may also publish such other reports as it considers desirable to carry out its purposes. The annual report shall contain financial statements including at least a balance sheet, a statement of earnings, a statement of changes in capital accounts, and a statement of changes in financial position, which have been examined by independent outside auditors. The annual report shall be mailed to each member of the Bank not later than fifteen days prior to the date of the annual meeting.

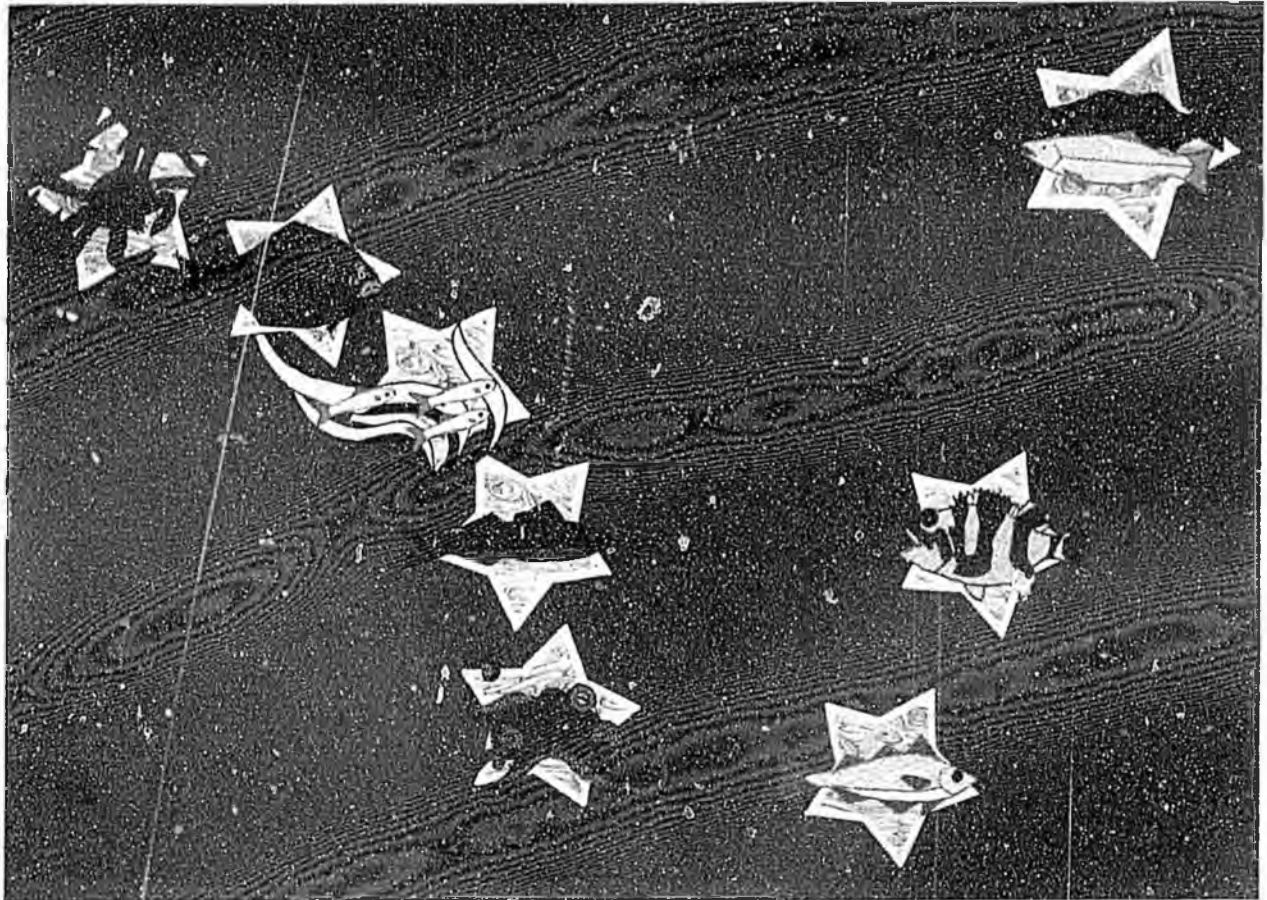
Section 3. Corporate Seal. The Board of Directors may provide for the adoption of a corporate seal.

Section 4. Waiver of Notice. Whenever any notice is required to be given to any member or director of the Bank under the provisions of these Bylaws or under the provisions of the Articles of Incorporation or under the provisions of any statute, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI

Amendments

These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors at any regular or special meeting of the Board of Directors.



1991 Annual Report

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

Alaska Commercial Fishing and Agriculture Bank

1991 Annual Report

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Cover: *Designed and created by fisherwoman Riki Ott of Cordova, this unique rendition of the Alaska state flag hangs in CFAB's Anchorage office.*

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Executive Message to Members

Fiscal 1991 was another rewarding year for CFAB, even though the bright silver linings were borne on the predictable complement of dark clouds of salmon market uncertainties.

A year ago we suggested that one characterization of Fiscal 1990 might be "the first year of 'normal' operations." It was the first year of CFAB operations which was not significantly affected by positive or negative aberrations. 1991 passed in pretty much the same way, and you may note many similarities between the discussions of the two years.

New Loan Activity

There were 101 new members of CFAB in Fiscal 1991, the second-highest number (after 102 in 1990) in any twelve-month period since 1983. An increasingly greater percentage of CFAB's new members are residents of smaller coastal communities, suggesting that the three-year-old Loan Correspondent program is gaining in effectiveness.

In reporting the amount of new loans, we exclude the volatile effects of seasonal loans to processors. On that basis, CFAB made 181 new loans totaling over \$15.0 million in Fiscal 1991. 101 of them, totaling \$7.9 million, were to new members; the remaining 80 were to existing members for about \$7.1 million.

Financial Results of Operations

The results of Fiscal 1991 operations were much like those of 1990. Net proceeds, before allowance for State and Federal income taxes, totaled just under \$1.7 million (about \$100,000 less than in 1990). The Board of Directors has concluded that \$1,318,800 of the Fiscal 1991 net proceeds should be allocated to patrons as a patronage refund.

The allocations are based on current interest, as described in CFAB's Bylaws, paid during Fiscal 1991 and total slightly more than a quarter of that interest. Moreover, the Board has concluded that 30 percent of the allocations should be distributed in cash. This means that within a few weeks before or after receipt of this Annual Report eligible patrons will be receiving notices of their respective allocation amounts, as well as checks for about 7-1/2 percent of the interest paid to CFAB during Fiscal 1991.

This is the first patronage refund, and the first cash distribution, CFAB has been in position to make since 1986. Your Board, management, and staff are pleased at this opportunity to materially recognize the commitment of CFAB's borrowing members.

CFAB's operating results are, of course, impacted significantly by its own expenses. Those expenses increased slightly in Fiscal 1991. The biggest component — over 65% — of those expenses are personnel-related. It is a challenge to maintain control over those costs, particularly in light of the rapid increases in health insurance premiums which have occurred in recent years. On the other hand, it is clear that the stability, competence, and growing experience of CFAB's staff are critical elements to CFAB's success, and we are committed to maintaining those elements.

Another particularly frustrating category of expense is Professional Fees; those are mostly attorneys' fees and other legal costs. CFAB is a fairly small business, and from a strictly functional standpoint it is a relatively simple operation. We have been utterly appalled — and it is probably a sad commentary on the state of the legal system, and of American society, today — to tally the costs and complexities of purely defensive responses to the threats and claims of "outsiders" (i.e., non-members) over seemingly innocuous matters. We are tempted to promise a reduction in these expenses; however, history seems to suggest that an inordinate level of legal costs is an inevadable facet of life as a financial institution.

Financial Condition

CFAB's overall financial condition continues to improve. Net equity has increased to over \$37.8 million, compared to \$35.7 million a year ago; \$33.9 million two years ago; and \$28.3 million three years ago.

There are two recent and significant developments which bear on CFAB's overall financial condition. First — Late in the year, CFAB's largest member-borrower and its subsidiaries sought protection under Chapter 11 of the Federal Bankruptcy Code. CFAB has an exposure of over \$11.5 million, an uncomfortably large amount. CFAB's policy is to immediately begin accounting for loans in such circumstances as non-accrual (i.e., non-interest-earning); that status is reflected in the discussion in Note B to the Financial Statements. In actuality, CFAB is presently collecting income on nearly half of those loans under a Court-approved continuing financing arrangement. It is difficult to project either the duration or the ultimate outcome of a large and complex Chapter 11 case. At this time, however, we remain confident of the validity of CFAB's position and the values of the assets securing its loans; we anticipate collection in full.

The other significant matter relates to the State of Alaska's ownership interest in CFAB. The \$31.8 million of Class C Special Preferred Stock is required by statute to be repurchased from the State no later than July, 2000. Devising the method and form for the accumulation of replacement equity, and creating a reasonable certainty of sufficient liquidity at the time of repurchase, have been much greater challenges than may meet the eye. Those challenges are impacted by Federal tax law considerations, by the need to account as a cooperative, and by the desire for equitability between generations of member-borrowers. The problems have been eased (albeit not without certain costs) by an agreement with the State of Alaska Department of Revenue established at the end of the Fiscal Year.

Under that agreement, CFAB will begin the early and incremental repurchase of the State's Class C Stock on July 1, 1991. It is anticipated that \$2.8 million of C Stock will be repurchased in Fiscal 1992, and \$3.0 million will be repurchased in each subsequent year, all in monthly increments. The payment for each monthly \$250,000 instalment will be the assumed present value of that amount, calculated from July 1, 2000, using a discount rate determined as of May 31 each year.

This arrangement holds great promise for CFAB and its borrowing members. It provides an element of certainty for financial planning purposes as well as the opportunity to spread the costs of the retirement over all future generations of member-borrowers. This means that the allocation of net proceeds may be based in part on the assumption that CFAB will have the capacity to ultimately distribute those allocations within a reasonable number of years. It also means that the Board of Directors may now more easily address the matter of establishing a pattern for the retirement of Class B Preferred Stock issued in connection with loans which have been paid in full.

1991 Legislation

The 1991 Alaska State Legislature enacted two amendments to CFAB's statute. Both had been sought by CFAB.

One which revised the confidentiality provisions of the law holds the promise of some reduction in CFAB's legal expenses, which were mentioned earlier. Since inception, CFAB has operated with a confidentiality provision which said, in effect, "Don't ever disclose anything to anybody under any circumstances." That was increasingly confounding to litigants, attorneys, judges, investigating agencies, and government regulators: every other kind of financial institution in existence is required to comply with properly issued subpoenas, summonses, and court orders, etc., and to disclose certain information about its customers. To avoid potential liabilities to individual member-borrowers,

CFAB has been routinely forced to resist requests for information; the inevitable result has been a legal confrontation culminating in a court order directing CFAB's release of the information sought. Under the newly revised statute, CFAB's borrower-members have the same protections as do borrowers of any other private institution, but there is an established legal process whereby qualified parties can obtain information.

The second statutory amendment will, hopefully, allow CFAB to initiate an effort to extend its financing services to residents participating in Interior and Western Alaska fisheries. A combination of geography, relatively low borrowing requirements, lack of CFAB experience in those fisheries, and occasional communications or cultural barriers have combined with limited CFAB resources and a few other factors to restrict the bank's lending activities in those areas. The new legislation will allow CFAB to implement a plan to establish modest "small loan funds," each to be administered with the support and assistance of some other private or public entity which operates in Interior or Western Alaska, in order to make loans to local fishermen on a simplified, non-member, basis. This is likely never to involve large totals of loan dollars, but we view it as one more constructive and significant step in meeting the intent expressed by the State Legislature when CFAB was established.

Salmon Marketing

This is a subject of great and long standing interest to your Board of Directors and management. CFAB's role and position provides a natural opportunity to observe, over time, the perceptions and expectations of individual member-borrowers and applicants, the operations and results of some processors, and a broad panoply of information — both published and private — that relates to the dynamics of world salmon markets. It is not an exaggeration to say that our views have grown increasingly pessimistic over the past two or three years: totally aside from our

concerns for Alaska fishermen as individuals, we must face the reality that a general and prolonged depression among salmon fishermen will result in great stress for CFAB as an institution.

Nearly a year ago, CFAB was among the sponsors of an Anchorage trade show and conference for Alaska fishermen. Although CFAB was but one of about 30 Anchorage-based companies which supported the event, it happened that the bank was in a position to significantly influence the content of the conference. Our anxieties expressed above led us to emphasize seafood marketing in general and salmon marketing in particular.

Conference speakers were drawn from around the United States, each selected for his or her capacity to inform fishermen about important aspects of marketing. Although conference attendance was below expectations — approximately 135 fishermen attended — there were indications that the content was well-received. A surprising number of attendees contacted CFAB in the months following the conference expressing unease, seeking additional material, and urging broader dissemination of the information. On two occasions CFAB convened small groups of those interested individuals for informal discussions.

Based on our concerns and our perceptions of the future, and encouraged by the receptiveness of the fishermen mentioned above, CFAB's Board of Directors concluded in April that the bank should assume a leadership role in this area. CFAB has engaged Eric Eckholm of Juneau to develop, organize, and lead a campaign to inform and educate more Alaska fishermen about some of the apparent realities — past, present and future — of world salmon markets. The effort will include some discussion and exploration of ways in which fishermen might respond to those realities.

The campaign will involve some combination of press releases, direct mailings, short videotapes, and "live" presentations at 20 or more regional meetings to be held during the 1991/1992 fall and winter season. We urge you to be alert to the opportunity to participate in one or more of those meetings. Some of the apparent or proven realities of the marketplace run counter to well-established beliefs and biases of Alaska fishermen and may well be viewed as offensive. However, we believe the Alaska salmon industry is at a critical crossroad. Fishermen's livelihoods, and the security of fishermen's families, are at stake; fishermen must become rationally and credibly informed in order to respond effectively.

Diversification for CFAB

A year ago, through a discussion that involved a couple of newsletters and a gratifyingly large number of written responses from members, we advised you of the intention to explore the feasibility of diversifying the scope and nature of CFAB's operations. Members were promised that the exploration would be carried out in a careful and deliberate manner and at a minimal cost.

At about that same time our apprehensions about salmon markets were becoming more intense, and we were also becoming more aware of the positive reactions of conference attendees as discussed above. Early thoughts about an informational campaign were being formulated.

The situation was rather quickly transformed into a shift of focus. The Board of Directors concluded that whatever CFAB resources might be available should be directed toward matters related to salmon marketing. Accordingly, and although the matter has not at all been forgotten, we have deferred the exploration of diversification for an indefinite time.

Director Elections

It is quite likely that members will receive this Annual Report shortly after the 1991 Call for Nominations of Director Candidates has been issued. Your Board of Directors urges you to consider the relative ease with which an eligible member may become a candidate as well as the importance to CFAB's success of an active and committed Board. The incumbent Directors are proud of their collective accomplishments and stewardship, and each elected individual is anxious to retain his position. Nevertheless, we believe sincerely that CFAB is strengthened, and the Board's effectiveness is enhanced, by periodic and competitive challenges for Board positions.

Annual Meeting

CFAB's 1991 Annual meeting will be a first of its kind. More specifically, it will be the first Annual Meeting ever held outside of Alaska. On Friday, October 18 — the second day of Fish Expo '91 — CFAB members will convene at Seattle's Executive Inn. In-person attendance at recent Annual Meetings has been sparse; we hope that associating the occasion with the larger event will provide an opportunity for greater participation. Please mark your calendars!



Gil Gunderson
Chairman, Board of Directors



Edward E. Crane
President

Balance Sheets

	May 31,	
	1991	1990
Assets:		
Cash	\$ 63,008	\$ 21,890
Loans and other receivables, net of allowance for loan losses of \$1,251,878 and \$1,205,648, respectively	52,460,285	45,300,534
Accrued interest receivable	2,194,670	1,944,488
Deferred income tax benefits	437,203	426,203
Investment in National Bank for Cooperatives	3,563,167	4,549,247
Bank premises, furniture and equipment, net	101,744	118,382
Acquired assets held for sale	133,395	133,395
Other assets	115,026	42,813
Prepaid income taxes	324,000	140,000
	<u>\$ 59,392,498</u>	<u>\$ 52,676,952</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 219,565	\$ 193,395
Accrued interest payable	264,732	229,367
Class B preferred stock subscriptions	153,610	99,077
Notes payable	20,503,621	16,359,128
Patronage refund distributable	395,643	
Dividend payable - Class B preferred stock	40,012	48,600
	<u>21,577,183</u>	<u>16,929,567</u>
Commitments and Contingent Liabilities (Note H)		
Capital:		
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
Class B preferred stock, \$100 par value, authorized 400,000 shares, outstanding 36,006 and 28,187	3,600,600	2,818,700
Loans receivable on Class B preferred stock	(293,700)	(442,700)
Class A membership stock, \$10 par value, authorized 10,000 shares, outstanding 950 and 843	9,500	8,430
	<u>35,116,400</u>	<u>34,184,430</u>
Capital in excess of par value	120,690	111,600
Contributed capital	144,626	144,626
Unallocated surplus	1,510,432	1,306,729
Allocated undistributed patronage	923,167	
	<u>37,815,315</u>	<u>35,747,385</u>
	<u>\$ 59,392,498</u>	<u>\$ 52,676,952</u>

See notes to financial statements.

Statements of Net Proceeds

	Year ended May 31,	
	1991	1990
Gross Loan Revenues:		
Interest and fees on loans and other receivables	\$ 5,211,510	\$ 4,701,341
Provision for allowance for loan loss	<u>220,700</u>	<u>204,500</u>
Net Loan Revenues	4,990,810	4,496,841
Interest expense	<u>1,448,252</u>	<u>900,648</u>
Net proceeds before other income, operating expenses, income tax expense and extraordinary credit	3,542,558	3,596,193
Other Income:		
Interest on temporary investments	878	2,379
Gain (loss) on sale of assets	(13,637)	798
Net income from acquired assets	<u>11,122</u>	<u>13,659</u>
	<u>(1,637)</u>	<u>16,836</u>
	3,540,921	3,613,029
Operating Expenses:		
Salaries and benefits	1,272,881	1,229,207
Occupancy expense	136,465	157,665
Advertising and promotion	121,691	119,014
Professional fees	101,443	93,829
Travel, lodging and meals	72,057	65,687
Office operations	45,556	47,783
Depreciation and amortization	28,590	46,116
Telephone and postage	26,052	31,822
Directors' fees	22,225	22,375
Miscellaneous	<u>25,436</u>	<u>25,581</u>
	<u>1,852,396</u>	<u>1,839,079</u>
Net proceeds before income tax expense and extraordinary credit	1,688,525	1,773,950
Income tax expense	<u>157,000</u>	<u>784,000</u>
Net proceeds before extraordinary credit	1,531,525	989,950
Extraordinary credit — Utilization of state net operating loss carryforward	<u>31,000</u>	<u>172,000</u>
Net Proceeds	<u>\$ 1,562,525</u>	<u>\$ 1,161,950</u>

See notes to financial statements.

Statements of Changes in Capital and Patronage

	<u>Share capital</u>	<u>Unallocated surplus and other capital</u>	<u>Allocated undistributed patronage</u>	<u>Net proceeds</u>	<u>Total</u>
Balance, May 31, 1989	\$ 33,481,670	\$ 439,675	\$ —	\$ —	\$ 33,921,345
Issuance (redemption) of stock during the year:					
Class B preferred stock, 1,926 shares, net.	192,600	—	—	—	192,600
Class A stock, 229 shares, net	(2,290)	9,180	—	—	6,890
Class A stock, 75 shares, cancelled	(750)	750	—	—	—
Reduction in loans receivable on Class B preferred stock	513,200	—	—	—	513,200
Net proceeds	—	—	—	1,161,950	1,161,950
Dividends declared - Class B preferred stock	—	—	—	(48,600)	(48,600)
Unallocated surplus	—	1,113,350	—	(1,113,350)	—
Balance, May 31, 1990	34,184,430	1,562,955	—	—	35,747,385
Issuance (redemption) of stock during the year:					
Class B preferred stock, 7,819 shares, net .	781,900	—	—	—	781,900
Class A stock, 101 shares, net	1,010	9,090	—	—	10,100
Class A stock, 6 shares, reinstated	60	—	—	—	60
Reduction in loans receivable on Class B preferred stock	149,000	—	—	—	149,000
Net proceeds	—	—	—	1,562,525	1,562,525
Patronage refund declared	—	—	1,318,810	(1,318,810)	—
Patronage refund distributable	—	—	(395,643)	—	(395,643)
Dividends declared - Class B preferred stock	—	—	—	(40,012)	(40,012)
Unallocated surplus	—	203,703	—	(203,703)	—
Balance, May 31, 1991	<u>\$ 35,116,400</u>	<u>\$ 1,775,748</u>	<u>\$ 923,167</u>	<u>\$ —</u>	<u>\$ 37,815,315</u>

See notes to financial statements.

Statements of Cash Flows

	<u>Year ended May 31,</u>	
	<u>1991</u>	<u>1990</u>
Cash flows from operating activities:		
Interest received	\$ 4,880,099	\$ 4,208,059
Fees received	240,724	212,353
Payments for operating expenses	(1,952,494)	(1,748,486)
Interest paid	(1,547,884)	(857,730)
Income taxes paid	(321,489)	(1,301,838)
Cash Provided by Operating Activities	1,298,956	512,358
Cash Flows from Investing Activities:		
Loan originations, net of undisbursed funds and principal repayments on member loans ..	(7,320,937)	(11,362,521)
Required investment in National Bank for Cooperatives	(107,998)	(102,988)
Proceeds from retirement of investment in National Bank for Cooperatives	1,094,078	928,367
Proceeds from lease of acquired assets	11,122	13,659
Proceeds from sale of equipment	-	798
Satisfaction of lien on acquired assets held for sale	-	12
Payments for purchase of equipment	(25,589)	(9,085)
Net Cash used in Investing Activities	(6,349,324)	(10,531,758)
Cash Flows from Financing Activities:		
Additions to notes payable, net	3,770,280	9,161,097
Repayment of capital lease	(10,787)	(12,749)
Proceeds from issuance of Class B stock	930,900	705,800
Proceeds from issuance of Class A stock	10,160	6,890
Proceeds from subscription for Class B stock	54,533	70,828
Payment of dividends to members	(48,600)	(37,328)
Proceeds from member notes, net	385,000	20,000
Net Cash Provided by Financing Activities	5,091,486	9,914,538
Net Increase (Decrease) in Cash	41,118	(104,862)
Cash, beginning of year	21,890	126,752
Cash, end of year	\$ 63,008	\$ 21,890

See notes to financial statements

	<u>Year ended May 31,</u>	
	<u>1991</u>	<u>1990</u>
Reconciliation of Net Proceeds to Net Cash Provided by Operating Activities:		
Net Proceeds	\$ 1,562,525	\$ 1,161,950
Adjustments to reconcile net proceeds to cash provided by operating activities -		
Depreciation	28,590	46,116
Deferred tax benefit	(11,000)	(186,291)
Provision for loan losses	220,700	204,500
Lease income from assets held for sale	(11,122)	(13,659)
(Gain) Loss on sale of assets	13,637	(798)
Foreclosure costs	(59,514)	(34,786)
Changes in assets and liabilities that provided (used) cash:		
Accrued interest receivable	(250,182)	(283,308)
Other assets	(72,213)	(22,477)
Accounts payable and accrued expenses	26,170	101,740
Accrued interest payable	35,365	42,918
Income taxes payable		(363,547)
Prepaid income taxes	(184,000)	(140,000)
Total Adjustments	(263,569)	(649,592)
Net Cash Provided by Operating Activities	<u>\$ 1,298,956</u>	<u>\$ 512,358</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Patronage refund distributable	<u>\$395,643</u>	
Dividends declared - Class B preferred stock	<u>\$ 40,012</u>	<u>\$ 48,600</u>

See notes to financial statements.

Notes to Financial Statements

Year Ended May 31, 1991 and 1990

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

Allowance for loan losses: The allowance for loan losses is based upon review and evaluation of nonaccrual loans, other delinquent loans, and large loans as well as application of a potential loss factor consistent with CFAB's experience.

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 taxable under Subchapter T of the Internal Revenue Code.

Deferred loan fees: Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating and Acquiring Loans and Initial Direct Costs of Leases," became effective for loan originations beginning January 1, 1988. SFAS No. 91 requires loan origination fees and direct loan origination costs, if material, to be capitalized and the net fee or cost to be amortized over the life of the related loan as an adjustment to yield. SFAS No. 91 was not applied because the effects were not material to the financial position or results of operations.

Note B — Loans:

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

	May 31,	
	1991	1990
Seafood harvesters	\$ 36,998,553	\$ 30,170,321
Fish processors	11,632,245	11,902,245
Agriculture and timber	5,324,083	3,409,048
Other receivables	<u>50,982</u>	<u>1,467,268</u>
	54,005,863	46,948,882
Less loans receivable on Class B preferred stock	<u>293,700</u>	<u>442,700</u>
	53,712,163	46,506,182
Less allowance for loan losses	<u>1,251,878</u>	<u>1,205,648</u>
	<u>\$ 52,460,285</u>	<u>\$ 45,300,534</u>

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.

Notes to Financial Statements *continued*

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

	May 31,	
	1991	1990
Seafood harvesters	\$ 1,626,012	\$ 1,341,632
Fish processors	8,007,250	898,882
Agriculture and timber	4,856,522	—
	<u>14,489,784</u>	<u>2,240,514</u>
Less loans receivable on Class B preferred stock	3,000	10,600
	<u>\$ 14,486,784</u>	<u>\$ 2,229,914</u>

Loans to one borrower make up \$12,184,891 of the total non-accrual balance at May 31, 1991. Management believes that the collateral held on these non-accrual loans is adequate and anticipates no losses.

Activity in the allowance for loan losses is as follows:

	May 31,	
	1991	1990
Balance, beginning of year	\$ 1,205,648	\$ 1,471,399
Charged to expense	220,700	204,500
Recoveries on loans previously charged off	85,045	317,950
	<u>1,511,393</u>	<u>1,993,849</u>
Less loan amounts charged off	259,515	788,201
Balance at end of year	<u>\$ 1,251,878</u>	<u>\$ 1,205,648</u>

The allowance for loan losses is periodically evaluated by management and changes 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 or be an officer or principal of a corporation, partnership, or joint venture which is a borrowing member. Loans to these directors or their interests totalled \$381,215 and \$323,485 at May 31, 1991 and 1990, respectively.

Note C — Bank Premises, Furniture and Equipment:

Bank premises, furniture and equipment consists of the following:

	May 31,	
	1991	1990
Furniture, fixtures and equipment	\$ 743,226	\$ 902,865
Leasehold improvements	142,025	147,202
	<u>885,251</u>	<u>1,050,067</u>
Less accumulated depreciation and amortization	783,507	931,685
	<u>\$ 101,744</u>	<u>\$ 118,382</u>

Note D — Notes Payable:

Notes payable consists of:

	May 31,	
	1991	1990
NBC long-term note with interest rate of 11.28%, maturing in January, 1993	\$ 5,000,000	\$ 5,000,000
NBC short-term note and seasonal loan with interest rates ranging from 6.7% to 8.5%, maturing May 1, 1992	15,068,742	11,301,440
Member notes with interest rate of 7.5% maturing July 1, 1991	408,402	20,424
Other - Capital lease	26,477	37,264
	<u>\$ 20,503,621</u>	<u>\$ 16,359,128</u>

The NBC notes are secured by substantially all CFAB assets.

Principal payments required on notes payable are as follows:

Year ending May 31,	Amount
1992	\$15,488,911
1993	5,011,768
1994	2,942

Notes to Financial Statements *continued***Note E — 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 years ended May 31, 1991 and 1990 were \$57,899 and \$56,279, respectively.

Note F — Capital:

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

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 a current borrower or have borrowed from CFAB during the preceding two years or have minimum retained membership earnings and/or Class B stock with CFAB of \$2,500.

Note G — Income Taxes:

The provision for income taxes consists of the following:

	Year ended May 31,	
	1991	1990
Current expense - Federal	\$ 137,000	\$ 798,000
Deferred benefit - Federal	(11,000)	(186,000)
Current expense - State	31,000	172,000
	<u>\$ 157,000</u>	<u>\$ 784,000</u>

The deferred income tax benefit relates principally to the timing difference arising from the effect of the Tax Reform Act of 1986 on the allowance for loan losses. Income tax expense for 1991 is reduced by the deductibility from net proceeds of the patronage refund as declared. The extraordinary credit of \$31,000 reported in the statement of net proceeds is created by utilization of a \$400,000 net operating loss carryforward for Alaska State income tax purposes. As of May 31, 1991, CFAB has \$1,504,300 net operating loss carryforward available for such utilization, expiring at May 31, 1998.

Note H — Commitments and Contingent Liabilities:

Commitments: CFAB leases office space under a noncancelable operating lease agreement which expires in 1992 and for which the remaining lease obligation is \$138,117. Rental expense under this lease totalled \$127,492 and \$151,844 for the years ended May 31, 1991 and 1990, respectively.

Contingencies: CFAB is a litigant in several legal actions arising from normal business activities, primarily 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.

Notes to Financial Statements *continued***Note 1 — Subsequent Event:**

On June 30, 1991, CFAB agreed with the Alaska Department of Revenue (ADR) to repurchase 30 shares of Class C special preferred stock on July 1, 1991 and 25 shares each month thereafter through June 2000.

The payments apply to Class C special preferred stock purchases at par discounted from July 1, 2000. The discount rate is determined annually on May 31 based on selected U.S. Treasury and Agency obligations with maturities in 2000. This annual discount rate is applied to payments scheduled to occur in the subsequent 12 month period from July through June. Discounted payment scheduled from July 1991 to June 1992, calculated using a discount rate of 8.32% are as follows -

	<u>Total discounted payments</u>
July 1991 to May 1992	\$ 1,373,796
June 1992	127,900

Payments for \$250,000 (par value) per month are anticipated from July 1992 through June 2000.

The agreement provides that, beginning in 1992, CFAB will periodically attempt to obtain term financing in an amount which will permit the repurchase of an increment of at least \$10,000,000 par value of Class C special preferred stock. The payment for such a repurchase shall be computed pursuant to the discounting procedures described above.

**Independent Auditor's Report**

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

We have audited the balance sheets of Alaska Commercial Fishing and Agriculture Bank as of May 31, 1991 and 1990, and the related statements of net proceeds, changes in capital and patronage, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Alaska Commercial Fishing and Agriculture Bank as of May 31, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Deloitte & Touche

Certified Public Accountants

Board of Directors and Staff

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Juneau

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Dean Paddock, Secretary-Treasurer
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