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SEATTLE PUBLIC LIBRARY

BUS/SCI

Annual Report
STACK

SUMMIT · SAVINGS

1988
ANNUAL REPORT



*Financial Highlights*

	1988	1987	1986
<i>At June 30,</i>			
Total Assets	\$98,394,287	\$82,400,611	\$82,871,974
Loans Receivable and Mortgage Backed Securities	84,543,443	68,322,825	72,901,564
Deposits	69,531,080	68,077,766	67,346,142
Stockholders' Equity	4,067,216	3,642,521	3,754,437
Book Value Per Share	6.50	5.82	6.02
Regulatory Net Worth to Assets	4.66%	4.94%	4.53%
<i>For the Year Ended June 30:</i>			
WEIGHTED AVERAGE YIELD:			
Loans and Mortgage Backed Securities	9.50%	9.53%	11.53%
Investments	6.85%	6.40%	6.52%
Combined	9.28%	9.22%	11.06%
WEIGHTED AVERAGE COST OF FUNDS:			
Deposits	7.28%	7.14%	8.50%
Borrowings	8.49%	8.96%	8.88%
Combined	7.49%	7.29%	8.53%
Interest Rate Margin	1.79%	1.93%	2.53%
Net Income (Loss)	\$424,695	\$(122,369)	\$531,941
Earnings (Loss) per Share:			
Net Income (Loss) before Accounting Change38	(.20)	.85
Cumulative Effect of Accounting Change30		
Net Income (Loss)68	(.20)	.85
Real Estate Loans Originated	74,669,282	94,401,716	83,409,519
Return on Average Assets47%	(.15)%	.78%
Return on Average Stockholders' Equity	11.02%	(3.31)%	15.25%

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SEATTLE PUBLIC LIBRARY

OCT 17 1988

Message to Our Shareholders

During the past year Summit's directors and management have been successful in returning the Association to profitability. Our primary goals for fiscal 1988 were to:

Increase loan production and loan sales volumes.

Reduce operating expenses.

Reduce the level of non-performing loans and real estate owned.

Restructure assets and liabilities to protect against rising interest rates — narrowing the GAP.

Throughout the year as we worked to realize these goals we were challenged by rising interest rates, increased competition, and the tedious process of resolving non-performing assets. While these obstacles prevented us from fully achieving our goals, we are pleased to report significant improvement during fiscal 1988.



Left — James D. Huber, Chairman of the Board
Right — Dale P. Harrison, President and Chief Executive Officer

Fiscal 1988 Results

Summit recorded earnings of \$424,695 or \$.68 per share for the fiscal year ended June 30, 1988. This was a considerable improvement over the \$122,369 loss incurred for fiscal 1987. Reduced operating expenses, a gain on the sale of real estate owned and the cumulative effect of a change in accounting for income taxes were major contributors to this year's profitable results.

Loan Production and Loan Sales

Loan originations totaled \$75 million during fiscal 1988, a decrease from \$94 million during fiscal 1987. While this year's loan volume is below earlier expectations, we are encouraged by the substantial increase in fourth quarter loan originations. We produced \$25 million in loans during the quarter, a 39% gain over the \$18 million produced in the fourth quarter of fiscal 1987. Hiring additional production staff early in the year, opening the Puyallup loan production office in December, and increasing management involvement in producing loans helped us record this success. We expect the improving trend in loan volume to continue.

Loan sales for the year totaled \$28 million or 38% of production. Sales are expected to increase next year as construction loans convert to saleable loans and lending volumes increase.

Expense Reduction

Expenses decreased 21% in fiscal 1988. This was accomplished by reducing staff, closing the Bel-Red Branch on January 2, 1988, and other operating expense reductions. Further reductions in operating expenses are expected as we realize the longer-term benefits of these actions and implement additional cost reduction measures.

Non-Performing Loans and Real Estate Owned

We made dramatic progress in reducing non-earning assets by \$1.7 million during fiscal 1988 — almost a 30% decrease. Few new problem loans have surfaced. Pending sales are expected to further reduce real estate owned in the near future.

Approximately \$230,000 was added to total loss provisions during the year, primarily to strengthen our general loss reserves and provide for the sale of a specific non-performing loan. We consider overall loss reserves of \$1.3 million to be adequate to absorb potential losses. The high levels of non-earning assets have been the primary detriment to Summit's performance during the past two years. The continuing improvement is encouraging.

Asset and Liability Restructuring

One of the primary objectives of Summit's management has been to maintain a close matching between the interest rate sensitivity of Summit's assets (loans) and liabilities (deposits). When interest rates increased in April 1987, long-term fixed-rate loans began accumulating in our loan portfolio. As interest rates and interest rate volatility increased during fiscal 1988 we sought a source of long-term fixed-rate funds to improve our asset/liability match and insulate Summit from the negative impact of dramatically rising interest rates.

In May of this year Summit issued a \$15 million collateralized mortgage obligation. This long-term debt instrument allowed us to pay off short-term borrowings from the Federal Home Loan Bank and decrease short-term jumbo deposits. While increasing our cost of funds in the short term, the long-term result will be improved viability of our interest income stream.

Management is placing additional emphasis on increasing our core deposits by generating new certificates of deposit, checking and money market accounts. Aggressive marketing to individuals and businesses within the Bellevue market, emphasizing customer service and competitive rates, is proving successful.

The Future

As we enter fiscal 1989 our focus will continue to be on increasing loan production and loan sales, decreasing operating expenses and reducing the level of non-performing loans and real estate owned. We are encouraged by improving trends in each of these areas.

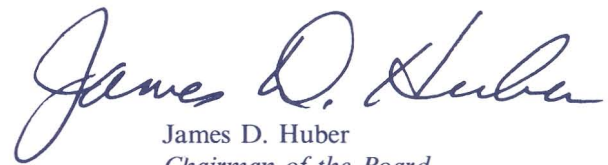
The implementation of new accounting standards for loan origination fees (FASB91 - See Note A - New Accounting Standard, Page 17) became effective for

Summit on July 1, 1988. The effect of this new regulation is to defer loan origination fees and costs over the contractual lives of the related loans. This will substantially reduce reported loan fee income for the period in which loans are originated and increase income over future periods. When a loan is sold the deferred fee can be recognized as current income. The immediate effect of this accounting change is that Summit may report a loss in the first quarter. However, as loan sales increase in subsequent quarters, profitability should return.

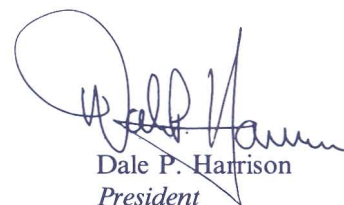
Real progress has been made this past year in improving Summit's performance. There has been a return to profitability and book value has increased to \$6.50 per share. We are convinced that even better performance and greater increase in stockholder value lie ahead.

We wish to express our appreciation to the employees of Summit Savings for their hard work and enthusiasm throughout the year. We also want to thank you, our shareholders, for your continued support.

Sincerely,



James D. Huber
Chairman of the Board



Dale P. Harrison
*President
Chief Executive Officer*

General

Summit Savings recorded net income of \$424,695 for the year ending June 30, 1988, compared to a net loss of \$122,369 for the year ending June 30, 1987, and net income of \$531,941 for the year ending June 30, 1986. The Association's operating results for the latest fiscal year were favorably affected by a significant decrease in the level of real estate owned and nonaccrual loans - a major factor in the loss experienced the previous year - and by a change in the method of accounting for income taxes. The return on average assets in fiscal 1988 was .47% compared to (.15%) in fiscal 1987 and .78% in fiscal 1986.

Summit's investment strategy during fiscal 1988 included the purchase of certificates of deposit in other associations, \$1 million of which were included in "Interest-bearing deposits" at June 30, 1988.

Mortgage loan originations totaled \$74.7 million during fiscal 1988, a 21% decrease from the \$94.4 million in loans originated during fiscal 1987. The decrease was due to rising interest rates which slowed new production and sharply decreased refinancings. In fiscal 1988, 59% of the loans originated were single-family and 22% were multi-family, compared to 75% single-family and 16% multi-family in fiscal 1987. Permanent long-term loans were 50% of total originations in fiscal 1988 compared to 74% in fiscal 1987.

Average real estate owned balances decreased \$1.3 million to \$2.1 million in fiscal 1988 from \$3.4 million in fiscal 1987. The average balances of nonaccruing loans decreased \$1.2 million to \$2.4 million in fiscal 1988 from \$3.6 million in fiscal 1987.

The Financial Services Division continued to focus on generating deposits and fee income through a diversified selection of investment options. In January of 1988 the Bel-Red Branch was merged into the Main Office in accordance with Summit's intention to offer more competitive deposit rates made possible by lower overhead.

Convertible subordinated debentures were offered in a private placement in the spring and early summer of 1987. A total of \$520,509 was subscribed. The debentures bear interest at 9% and mature December 31, 1996.

On June 2, 1988, the Association used its mortgage backed securities as collateral for the issuance of a Collateralized Mortgage Obligation (CMO). A finance subsidiary, Summit Capital Corporation, was formed to issue these general obligation bonds.

Liquidity and Capital Resources

The Association has consistently met or exceeded regulatory liquidity requirements which have been established by Federal Home Loan Bank Board regulations. The regulations require a 5% liquid asset ratio, calculated as the ratio of cash and eligible investments to net withdrawable deposits and borrowings due within one year. Summit's liquid asset ratio for the month of June 1988 was 5.12% compared to 8.10% for the month of June 1987. The policy is to maintain the maximum percentage of assets allowable in higher-yielding loans. The Association continues to evaluate its liquidity needs on an ongoing basis with the objective of maintaining liquidity consistent with anticipated funding requirements.

At June 30, 1988, the Association had commitments to fund new loans of \$4.2 million, commitments to convert construction loans into permanent loans of \$19.9 million and undisbursed loans in process of \$17.7 million. Funds for these commitments are scheduled to come primarily from loans sold and maturing.

The Association's primary sources of funds are deposits, loan principal repayments, proceeds from the sale of loans, advances from the Federal Home Loan Bank, other borrowings, and fee income.



At June 30, 1988, Summit had Federal Home Loan Bank of Seattle advances totaling \$6.6 million maturing from fiscal 1989 to 1993. Funds were also received during fiscal 1988 from a \$15.2 million CMO issued by Summit Capital Corporation.

Loan principal repayments totaled \$21.6 million during fiscal 1988, which was a substantial decrease from the \$41.8 million in principal repayments during fiscal 1987. The decrease was expected and reflects the slowdown in refinancing of high interest rate loans during the early months of fiscal 1987.

Although loans sold in fiscal 1988 totaled \$28.1 million compared to \$52.0 million in fiscal 1987, renewed emphasis on loan sales during fiscal 1989 is expected to provide a major source of funds. Loans serviced for others totaled \$104.4 million at June 30, 1988 compared to \$99.3 million at June 30, 1987.

Total assets of the Association increased to \$98.4 million at June 30, 1988, compared to \$82.4 million at June 30, 1987, primarily as a result of a \$16.2 million increase in mortgage backed securities and loans receivable. Total liabilities increased to \$94.3 million at June 30, 1988, from \$78.8 million the previous year, reflecting the issuance of the CMO. Stockholders' equity increased to \$4.1 million at June 30, 1988, from \$3.6 million at June 30, 1987, reflecting the net income for the year.

Asset and Liability Management

The objective of the Association's asset and liability management program is to achieve predictable and adequate earnings and equity, with the primary focus on interest income and market value.

During fiscal 1988 interest rate risk has been considerably improved, as evidenced by the shortening of asset repricing and lengthening of liability repricing dates. Prior to adjustments for prepayments, 62% of interest-earning assets reprice within one year at June 30, 1988, compared to 55% one year earlier, while 72%

of interest-bearing liabilities reprice within one year at June 30, 1988, compared to 87% one year earlier. This improvement has been achieved primarily through the issuance of the CMO which decreases in tandem with prepayments of the loans securing the mortgage backed securities.

Interest Income

Interest income from mortgage backed securities, loans, interest-bearing deposits and investments was \$8.3 million in fiscal 1988 compared to \$7.4 million in fiscal 1987 and \$7.8 million in fiscal 1986. The net increase from fiscal 1987 to fiscal 1988 resulted from an 11% increase in the average balances of these assets, a \$1.2 million decrease in average nonaccruing loan balances and rising interest rates. The net decrease in interest income from fiscal 1986 to fiscal 1987 resulted primarily from an increase in the Association's level of non-earning loans and from declining interest rates through March of 1987, which reduced interest income on adjustable rate loans and short-term investments. The impact of these factors was partially offset by a 14% increase in average loan and investment balances during fiscal 1987. The weighted average yield on cash, interest-bearing deposits, mortgage backed securities and loans receivable (including nonaccruing loans) during fiscal 1988 was 9.28%, compared to 9.22% in fiscal 1987, and 11.06% in fiscal 1986.

Interest Expense

Interest expense on deposits and borrowings was \$6.5 million in fiscal 1988 compared to \$5.8 million in fiscal 1987 and \$5.7 million in fiscal 1986. The increase in interest expense during fiscal 1988 was caused by a 10% growth in the balances of these liabilities and by rising interest rates. Average deposit balances remained relatively stable while the average borrowings for the year increased \$8.0 million. The lack of significant growth in interest expense in fiscal 1987 despite an 18% growth in deposits



and borrowings was the result of declining interest rates during most of the fiscal year. The average cost of deposits and borrowings during fiscal 1988 was 7.49% compared to 7.29% in fiscal 1987 and 8.53% in fiscal 1986.

Net Interest Income

Net interest income before provision for loan losses was \$1.8 million, \$1.6 million and \$2.1 million for the years ended June 30, 1988, 1987 and 1986, respectively. The increase from fiscal 1987 to fiscal 1988 resulted primarily from an increase in interest-earning assets only partially offset by a decrease in interest rate margin, which is the difference between the yields received on the Association's interest-bearing deposits, investments, mortgage backed securities and loans, including nonaccruing loans, and the rates paid for the Association's deposits and other borrowings. The decrease from fiscal 1986 to fiscal 1987 resulted primarily from a decrease in the interest rate margin and, to a lesser extent, from the fact that interest-bearing liabilities increased more rapidly than did interest-earning assets. The average interest rate margin was 1.79% in fiscal 1988, 1.93% in fiscal 1987, and 2.53% in fiscal 1986.

Provision for Losses on Loans and Real Estate Owned

The Association's evaluation of allowances for losses on mortgage loans and real estate owned is an ongoing process. Economic conditions, portfolio mix and growth, historical loss experience and an in-depth review of selected individual loans determine the amount of the loss provisions.

One measure of the quality of the Association's loan portfolio is the amount of real estate owned and loans over 90 days delinquent (net of loss allowances). The following table illustrates this information for the past two years:

	At June 30	
	1988	1987
	(in millions)	
Delinquent Loans	\$1.8	\$2.1
Real Estate Owned	2.3	3.7
Total	\$4.1	\$5.8
Percent of Total Loans, Mortgage Backed Securities and Real Estate Owned	4.7%	8.0%

The delinquent loans include a construction loan secured by a single-family residence and three loans secured by income properties. Real estate owned consists of a loan secured by a single-family residence, three condominium units, two improved multi-family parcels of land, and a loan secured by an income producing property. The total allowance for losses on loans and real estate owned is \$1.3 million at June 30, 1988, compared to \$1.1 million at June 30, 1987.

The provisions for losses on loans and real estate owned charged against income were \$230,479, \$1.1 million, and \$382,200 for the years ending June 30, 1988, 1987 and 1986, respectively.

Other Income

Other income was \$1.7 million in fiscal 1988 compared to \$3.0 million in fiscal 1987 and \$1.9 million in fiscal 1986. The overriding factor in the fluctuation was the change in gain on sale of loans. During much of fiscal 1987 interest rates were rapidly declining, permitting the large sale of loans in the secondary market. The same economic conditions did not exist in fiscal 1988 and 1986, as evidenced by gain on sale of loans of \$200,445, \$1.2 million and \$684,695 in fiscal years 1988, 1987 and 1986, respectively.



Loan fees also had a marked effect on other income. Loan fees decreased in fiscal 1988 because of a decrease in loan production, offset in part by a decrease in fees passed through to purchasers of loans sold. The increase in loan fees in fiscal 1987 over fiscal 1986 reflects increased production as well as increased extension fees and higher loan origination fees because income property loans were not sold and no portion of fees was passed through to the purchaser.

Income from the sale of insurance and investment products was \$67,167, \$131,318 and \$94,501 for fiscal years 1988, 1987 and 1986, respectively. Loan servicing income of \$236,684, \$265,015 and \$159,754 in the same three years reflects an increase in loans serviced for others, offset in fiscal 1988 by increasing amortization of deferred premium on loan sales.

Other Expense

Other expense has been most significantly affected by the net cost of operations of real estate owned and by compensation and employee benefits. Net costs of operations of real estate is comprised of the provision for losses on real estate owned as well as miscellaneous costs of operating the real estate, offset by gains on real estate sold. Net gains of \$276,420 in fiscal 1988 were the result of \$426,811 in gains on real estate sold, offset by \$96,398 for the provision for losses on real estate owned and \$53,993 of operating costs. Costs incurred in fiscal 1987 resulted from an allowance for losses of \$70,262 and operating expenses of \$106,341, offset by \$32,940 gain on sale, while costs of fiscal 1986 resulted from \$32,464 operating expenses offset by \$17,421 gain on sale. Average real estate owned balances for the three years ending June 30, 1988, 1987 and 1986 were \$2.1 million, \$3.4 million, and \$106,341, respectively. Fluctuating loan production was the major cause of a reduction of compensation and benefits by \$285,071 in fiscal 1988 and an increase of \$536,208 in fiscal 1987, compared with the respective prior years. Support staff was also reduced in 1988.

Occupancy expense is another significant factor of overall operating expense. In July 1986 the Association moved into new headquarters. Although there was one year's free rent on the building, total rent was expensed over four and a half years, beginning in January 1987 when the lease on the former premises was cancelled. In October 1987 a small loan office was opened in Puyallup and in January 1988 the Bel-Red Branch was merged into the Main Office. As a result, occupancy expense increased \$97,526 in fiscal 1988 and \$207,704 in fiscal 1987 as compared with the respective prior years.

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ERNST & WHINNEY
999 Third Avenue, Suite 3300
Seattle, Washington 98104

Board of Directors and Stockholders
Summit Savings Association
Bellevue, Washington

We have audited the accompanying consolidated statements of financial condition of Summit Savings Association and subsidiaries as of June 30, 1988 and 1987, and the related consolidated statements of operations, stockholders' equity, and changes in financial position for each of the three years in the period ended June 30, 1988. These financial statements are the responsibility of the Association'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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Summit Savings Association and subsidiaries at June 30, 1988 and 1987, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended June 30, 1988 in conformity with generally accepted accounting principles.

As discussed in Note J to the financial statements, subsequent to June 30, 1987, the Association changed its method of accounting for income taxes.

Ernst & Whinney

Seattle, Washington
August 12, 1988

	June 30	
Assets	1988	1987
Cash	\$ 1,380,140	\$ 1,763,629
Interest-bearing deposits	3,213,373	454,769
Investment securities (market value of \$2,483,177 in 1988 and \$3,972,492 in 1987) — Notes B and I	2,742,352	4,165,244
Mortgage backed securities — Note H	17,908,280	14,087,214
Loans receivable — Notes C, D and G	66,635,163	54,235,611
Accrued loan interest receivable	834,876	622,317
Accrued investment interest receivable	75,797	57,182
Real estate owned — Note D	2,263,602	3,742,795
Leasehold improvements, and furniture and equipment — Note E	302,233	450,891
Deferred premium on loan sales	1,587,032	1,967,768
Other assets — Note G	1,451,439	853,191
	\$98,394,287	\$82,400,611

	June 30	
Liabilities and Stockholders' Equity	1988	1987
LIABILITIES:		
Deposits — Note F	\$69,531,080	\$68,077,766
Advances from Federal Home Loan Bank — Note G	6,600,000	7,843,750
Consumer repurchase agreements — Note I	269,813	306,307
Collateralized mortgage obligations — Note H	14,685,901	
Convertible subordinated debentures — Note I	520,509	424,875
Accrued interest payable	604,565	93,431
Advances from borrowers for taxes and insurance	474,897	433,590
Principal and interest payable on sold loans	699,020	516,946
Accounts payable and accrued expenses	427,286	487,425
Deferred federal income taxes — Note J	514,000	574,000
	94,327,071	78,758,090
STOCKHOLDERS' EQUITY — Notes J, K, M and N:		
Preferred stock par value \$.01 per share — authorized 500,000 shares — no shares issued or outstanding.		
Common stock, par value \$.01 per share — authorized 3,500,000 shares, issued and outstanding 625,974 shares	6,260	6,260
Additional paid-in capital	2,939,357	2,939,357
Retained earnings — substantially restricted	1,121,599	696,904
	4,067,216	3,642,521
	\$98,394,287	\$82,400,611

Commitments — Notes C and L

See notes to consolidated financial statements.

	Number of Shares Outstanding	Common Stock	Additional Paid-In Capital	Retained Earnings	Total
BALANCE AT JULY 1, 1985	311,681	\$2,493,448	\$ 441,716	\$ 287,332	\$3,222,496
Par value reduced to \$.01 per share		(2,490,331)	2,490,331		
Two-for-one stock split — Note N	311,681	3,117	(3,117)		
Net income				531,941	531,941
BALANCE AT JUNE 30, 1986	623,362	6,234	2,928,930	819,273	3,754,437
Stock options exercised	2,612	26	10,427		10,453
Net loss				(122,369)	(122,369)
BALANCE AT JUNE 30, 1987	625,974	6,260	2,939,357	696,904	3,642,521
Net income				424,695	424,695
BALANCE AT JUNE 30, 1988 — Notes J and K	625,974	\$ 6,260	\$2,939,357	\$1,121,599	\$4,067,216

See notes to consolidated financial statements.

	Year Ended June 30		
	1988	1987	1986
<i>Interest Income:</i>			
Interest on loans	\$6,521,517	\$6,666,012	\$7,283,778
Interest on mortgage backed securities	1,238,745	210,608	77,738
Interest on deposits with banks	270,742	199,977	233,480
Interest and dividends on investment securities	242,175	307,932	199,661
	<u>8,273,179</u>	<u>7,384,529</u>	<u>7,794,657</u>
<i>Interest Expense:</i>			
Interest on deposits:			
Checking	61,734	53,832	49,657
Statement savings	22,694	17,677	16,375
Money market certificates and investment accounts	665,921	1,013,913	863,068
Certificates	4,494,453	4,088,593	4,423,945
	<u>5,244,802</u>	<u>5,174,015</u>	<u>5,353,045</u>
Interest on borrowed funds	1,127,014	602,652	383,492
Interest on collateralized mortgage obligations	124,696		
	<u>6,496,512</u>	<u>5,776,667</u>	<u>5,736,537</u>
NET INTEREST INCOME	<u>1,776,667</u>	<u>1,607,862</u>	<u>2,058,120</u>
Provision for loan losses	134,072	995,087	382,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>1,642,595</u>	<u>612,775</u>	<u>1,675,920</u>
<i>Other Income:</i>			
Loan fees	1,164,321	1,291,686	850,306
Loan servicing income	236,684	265,015	159,754
Gain on sale of loans	200,445	1,185,624	684,695
Investment securities gains (losses)	(58,994)	(63,181)	12,480
Other	189,027	295,229	215,744
	<u>1,731,483</u>	<u>2,974,373</u>	<u>1,922,979</u>

	Year Ended June 30		
	1988	1987	1986
<i>Other Expense:</i>			
Compensation and employee benefits	1,762,619	2,047,690	1,511,482
Advertising	91,951	52,877	101,580
Depreciation and amortization	175,429	185,275	140,153
Data processing	143,140	128,168	126,645
Occupancy	464,937	367,411	159,707
Professional services	147,293	228,192	164,486
Insurance	166,747	181,185	124,032
Net cost of (income from) operations of real estate owned (including gains on sale of \$426,811, \$32,940, and \$17,421, respectively)	(276,420)	143,663	15,043
Other	333,687	474,056	324,330
	3,009,383	3,808,517	2,667,458
INCOME (LOSS) BEFORE INCOME TAXES AND ACCOUNTING CHANGE	364,695	(221,369)	931,441
Provision (benefit) for deferred federal income taxes — Note J	130,000	(99,000)	399,500
INCOME (LOSS) BEFORE ACCOUNTING CHANGE	234,695	(122,369)	531,941
Cumulative effect of benefit of change in accounting for income taxes — Note J	190,000		
NET INCOME (LOSS)	\$ 424,695	\$ (122,369)	\$ 531,941
Earnings (loss) per share:			
Net income (loss) before accounting change	\$.38	\$ (.20)	\$.85
Cumulative effect of accounting change30		
Net income (loss)	\$.68	\$ (.20)	\$.85

See notes to consolidated financial statements.

	Year Ended June 30		
	1988	1987	1986
Source of Funds:			
From operations:			
Income (loss) before accounting change	\$ 234,695	\$ (122,369)	\$ 531,941
Add (deduct) items recognized in net income which did not affect funds:			
Interest credited to deposits	5,249,181	5,179,460	5,359,775
Provision for depreciation	143,892	142,404	96,722
Amortization of organization costs	32,153	42,871	42,871
Accretion of deferred loan fees	(173,375)	(208,673)	(190,428)
Amortization of deferred premium on loan sales	448,466	343,913	47,187
Premium amortization (discount accretion) on investment securities	1,669	(88,614)	(10,882)
(Increase) decrease in accrued interest receivable	(231,174)	69,453	(370,173)
Increase (decrease) in accrued interest payable .	511,134	(117,571)	(6,541)
Gains on real estate sold		(35,650)	(17,421)
Gains on loans and mortgage backed securities sold	(67,730)	(1,818,770)	(604,067)
Loss on leasehold improvements abandoned or sold	22,116	45,192	
Provision for losses on loans and real estate...	230,479	1,065,349	382,200
Increase (decrease) in deferred federal income tax	(60,000)	(99,000)	399,500
Write-down of securities due to permanent impairment of value		98,384	
	<u>6,106,811</u>	<u>4,618,748</u>	<u>5,128,743</u>
FUNDS PROVIDED FROM OPERATIONS BEFORE ACCOUNTING CHANGE	6,341,506	4,496,379	5,660,684
Cumulative effect of accounting change	190,000		
FUNDS PROVIDED FROM OPERATIONS	6,531,506	4,496,379	5,660,684
Decrease in cash and short-term investments			1,903,317
Investment securities matured and sold	6,394,348	2,107,985	4,888,263
Loan and mortgage backed security principal reductions and transfers to real estate owned	24,657,035	45,857,977	28,215,930
Loans and mortgage backed securities sold	28,132,233	52,020,724	44,716,692
Proceeds from sale of real estate owned	4,307,056	2,709,429	799,489
Proceeds from sale of subordinated debentures	95,634	424,875	
Proceeds from collateralized mortgage obligations	14,685,901		
Decrease in construction loans disbursed due from participants		249,889	772,810
Increase in deposits before interest credited			14,979,570
Proceeds from advances from Federal Home Loan Bank	26,600,000	34,843,750	25,000,000
Increase in short-term borrowings			1,436,792
Proceeds from reverse repurchase agreements	40,069,973		
Proceeds from short-term bank borrowings	8,000,000	5,000,000	
Increase in advances from borrowers for taxes and insurance	41,307	314,874	109,564
Increase in principal and interest payable on loans sold .	182,074	198,379	315,360
Increase in accounts payable and accrued expenses		13,661	302,106
Proceeds from exercise of stock options		10,453	
	<u>\$159,697,067</u>	<u>\$148,248,375</u>	<u>\$129,100,577</u>

	Year Ended June 30		
	1988	1987	1986
<i>Application of Funds:</i>			
Increase in cash and interest-bearing deposits	\$ 2,375,115	\$ 181,730	
Purchase of investment securities	4,973,125	3,945,641	\$ 5,738,751
Loans originated, net of changes in loans in process	67,360,837	93,332,212	93,885,247
Loans purchased	1,609,746		6,430,303
Additions to real estate owned	2,924,270	4,228,961	3,542,763
Additions to leasehold improvements, furniture and equipment	17,350	309,885	104,550
Increase in other assets	630,401	132,071	398,963
Decrease in deposits before interest credited	3,795,867	4,447,836	
Repayment of Federal Home Loan Bank Advances	27,843,750	35,000,000	19,000,000
Repayment of reverse repurchase agreements	40,069,973		
Repayment of short-term bank advances	8,000,000	5,000,000	
Decrease in consumer repurchase agreements and other borrowings	36,494	1,670,039	
Decrease in accounts payable and accrued expenses	60,139		
	<u>\$159,697,067</u>	<u>\$148,248,375</u>	<u>\$129,100,577</u>

See notes to consolidated financial statements

**NOTE A — Summary of Significant Accounting Policies**

June 30, 1988 and 1987

The accounting principles followed by the Association and its subsidiaries and the methods of applying them conform with generally accepted accounting principles and with general practice within the savings and loan industry. The more significant accounting policies are summarized below.

Organization: Summit Savings Association was incorporated as a Washington State chartered savings and loan association on May 29, 1981. Costs of \$214,355 incurred during the formation period have been capitalized and were amortized, using the straight-line method, over a period of five years. Accumulated amortization for the years ended June 30, 1988, 1987 and 1986 was \$214,355, \$182,202 and \$139,331, respectively.

Principles of Consolidation: The accompanying consolidated financial statements include Summit Savings Association and its wholly-owned subsidiaries, Summit Services, Inc. and Summit Capital Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

Investment Securities: Investments in U.S. Government Securities are stated at cost, adjusted for any discount or premium over the life of the security. These investments are not adjusted to the lower of cost or market because it is generally management's intention to hold the securities to maturity. The cost of investments sold is computed using the specific identification method. In 1987, other investments were written down as a decline in market value was considered by management to be a permanent impairment of value. The write-downs are included in "Investment securities gains (losses)."

Futures Contracts: The Association has invested in futures contracts to hedge a portion of its investment security portfolio against interest rate fluctuations. Gains and losses on hedging transactions are deferred as an adjustment of the recorded amount of the hedged item and amortized as a yield adjustment over their remaining lives. If investments which have been hedged by futures contracts are disposed of, any unamortized gains or losses on such contracts will be included in the determination of the gain or loss from the disposition.

Mortgage Backed Securities: Mortgage backed securities are recorded at cost less principal repayments as it is management's intention to hold the securities to maturity.

Interest on Loans and Loan Fees: Interest on loans is recorded as income as borrowers' monthly payments become due. Allowances are established for uncollected interest on mortgage loans on which the interest is determined to be uncollectable.

The Association charges fees for originating loans. These fees are for inspection of property and other miscellaneous services. In accordance with generally accepted accounting principles, loan fees which exceed the direct cost of underwriting and closing loans are deferred and amortized to income over the anticipated life of the loan using the interest method.

Gain on Sale of Loans: The Association sells whole or participating interests in many of the loans it originates, but retains the right to service such loans. Gains or losses are recognized and a premium or discount is recorded at the time of the sale in an amount reflecting the difference between the contractual interest rate of the loans sold and the rate provided to the investor, adjusted for a normal servicing fee. The deferred premium or discount is amortized by the interest method over the estimated remaining life of the loan.

Real Estate Owned: Real estate owned (REO) consists of both real estate acquired in exchange for loans receivable and real estate acquired through foreclosure or deed in lieu of foreclosure. Real estate acquired in exchange for loans receivable is recorded at the lower of cost or the fair value, net of allowance for losses (net realizable value). Real estate acquired through foreclosure or deed in lieu of foreclosure is recorded at the lower of the loan balance on the property (including related foreclosure costs) at the date of acquisition or the net realizable value.

NOTE A — Summary of Significant Accounting Policies (Continued)

Leasehold Improvements, and Furniture and Equipment: Leasehold improvements, and furniture and equipment are recorded at cost. Amortization of leasehold improvements is computed by the straight-line method over the shorter of the estimated useful life or the remaining term of the lease. Depreciation of furniture and equipment is computed on the straight-line method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred. Gains and losses on disposals are recognized in the year of disposal.

Income Taxes: The Association files a consolidated federal income tax return with its subsidiaries. Investment tax credits are recognized using the flow-through method in the year utilized.

Earnings (Loss) Per Share: Earnings per share have been computed based on common stock equivalents and common stock outstanding for the years ending June 30, 1988 and 1986. Loss per share for the year ended June 30, 1987 is computed on the number of shares outstanding. On February 21, 1986 the Association had a two-for-one stock split for stockholders of record as of February 7, 1986. Stock options and warrants (Note M) and earnings per share information for the current and prior periods reflect the stock split.

New Accounting Standard: On December 31, 1986, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases* ("Statement"). The Statement requires that nonrefundable fees associated with originating loans be deferred and recognized as income as adjustments to yield over the contractual lives of the related loans. Moreover, the Statement provides that direct loan origination costs be deferred and recognized as a reduction in loan yield over the lives of the related loans. The Statement will be implemented beginning July 1, 1988, without retroactive application. Implementation will substantially reduce the Association's reported loan fee income for the period in which loans are originated and increase reported interest income over future periods.

Financial Statement Reclassifications: Certain amounts in the June 30, 1986 and 1987 financial statements have been reclassified to conform with the presentation of these amounts in the June 30, 1988 financial statements.

NOTE B — Investment Securities

The recorded and aggregate market values of investment securities at June 30, 1988 and 1987 consisted of the following:

	1988		1987	
	Recorded Value	Market	Recorded Value	Market
U.S. Treasury and Agency	\$2,742,352	\$2,483,177	\$3,232,671	\$3,039,919
Other			932,573	932,573
	<u>\$2,742,352</u>	<u>\$2,483,177</u>	<u>\$4,165,244</u>	<u>\$3,972,492</u>

**NOTE C — Loans Receivable**

Loans receivable at June 30, 1988 and 1987 consisted of the following:

	1988	1987
Mortgage loans	\$41,678,938	\$31,073,891
Construction loans	43,005,564	33,828,628
Other loans	757,761	1,383,037
	85,442,263	66,285,556
Less:		
Loans in process of completion	(17,699,769)	(11,081,093)
Deferred loan fees	(355,559)	(325,409)
Allowance for loan losses	(751,772)	(643,443)
	\$66,635,163	\$54,235,611

Changes in the allowance for loan losses were as follows:

Balance at July 1, 1985	\$100,000
Provision charged to operations	382,200
Transfer from loans to REO	(79,682)
Balance at June 30, 1986	402,518
Provision charged to operations	995,087
Transfer from loans to REO	(754,162)
Balance at June 30, 1987	643,443
Provision charged to operations	134,081
Transfer from loans to REO	(11,133)
Losses realized on loans	(14,619)
Balance at June 30, 1988	<u>\$751,772</u>

Loans serviced for the benefit of others totaled \$104,372,980 at June 30, 1988, \$99,259,944 at June 30, 1987 and \$43,446,757 at June 30, 1986.

Certain officers and directors of Summit Savings Association were loan customers of the Association in the ordinary course of business. At June 30, 1988 and 1987, such loans totaled approximately \$313,000 and \$913,000, respectively. Loans originated during 1988 totaled approximately \$783,000, payments received during 1988 totaled approximately \$722,000, and loans sold totaled \$661,000.

Loan commitments outstanding at June 30, 1988 were approximately \$24,103,000 of which \$1,369,000 were 15 to 30 year term fixed-rate commitments with rates ranging from 9.50% to 11.00%.

NOTE D — Real Estate Owned

Real estate owned at June 30, 1988 and 1987 consisted of the following:

	1988	1987
Real estate acquired in exchange for loans receivable		\$2,462,576
Real estate in judgment	\$ 212,907	
Less allowance for estimated losses	(8,987)	
	<u>203,920</u>	<u>2,462,576</u>
Real estate acquired through foreclosure or deed in lieu of foreclosure	2,610,834	1,751,820
Less allowance for estimated losses	(551,152)	(471,601)
	<u>2,059,682</u>	<u>1,280,219</u>
	<u>\$2,263,602</u>	<u>\$3,742,795</u>

Changes in the allowance for losses on real estate owned and real estate in judgment were as follows:

Balance at July 1, 1985	\$ 40,000
Transfer from loans to REO	79,682
Losses realized on real estate sold	(39,682)
Balance at June 30, 1986	80,000
Provision charged to operations	70,262
Transfer from loans to REO	754,162
Losses realized on real estate sold	(432,823)
Balance at June 30, 1987	471,601
Provision charged to operations	96,398
Transfer from loans to REO	11,133
Net losses realized on real estate sold	(18,993)
Balance at June 30, 1988	<u>\$560,139</u>

NOTE E — Leasehold Improvements, and Furniture and Equipment

Leasehold improvements, and furniture and equipment at June 30, 1988 and 1987 consisted of the following:

	Estimated Useful Lives	1988	1987
Leasehold improvements	Life of lease	\$ 97,149	\$136,713
Furniture and equipment	3-5 years	624,640	642,238
		<u>721,789</u>	<u>778,951</u>
Allowance for depreciation		(419,556)	(328,060)
		<u>\$302,233</u>	<u>\$450,891</u>

NOTE F — Deposits

Deposits by interest rate at June 30, 1988 and 1987 consisted of the following:

		1988		1987	
	Stated Rate at June 30, 1988	Amount	Percent	Amount	Percent
Business checking	0.00%	\$ 51,050	.1%	\$ 50,313	.1%
Non-interest checking	0.00	204,577	.3	182,120	.3
Treasury, tax, and loan deposits	0.00	27,496		33,249	
Checking with interest	5.25	1,097,226	1.6	1,261,214	1.9
Statement savings	5.50	418,521	.6	496,967	.7
Money market checking	5.30	628,041	.9	567,184	.8
Money market investment				8,773,716	12.9
Money market plus	4.55-5.65*	9,473,363	13.6	5,864,645	8.6
		11,900,274	17.1	17,229,408	25.3
Certificates:					
	5.01 - 6.00	401,226	.6	162,932	.2
	6.01 - 7.00	4,916,440	7.1	25,072,544	36.8
	7.01 - 8.00	44,723,207	64.3	17,519,536	25.7
	8.01 - 9.00	6,028,277	8.7	1,731,170	2.6
	9.01 - 10.00	1,303,088	1.9	1,769,490	2.6
	10.01 - 11.00	8,185		2,285,390	3.4
	11.01 - 12.00	100,383	.1	201,289	.3
	12.01 - 13.00			1,956,007	2.9
	13.01 - 14.00	150,000	.2	150,000	.2
		57,630,806	82.9	50,848,358	74.7
		\$69,531,080	100.0%	\$68,077,766	100.0%

* Tiered rates

Certificate accounts will mature in the years ending June 30, as follows:

	1988		1987	
	Amount	Percent	Amount	Percent
1988			\$48,757,566	95.9%
1989	\$51,964,861	90.2%	1,322,737	2.6
1990	2,014,132	3.5	668,055	1.3
Thereafter	3,651,813	6.3	100,000	.2
	\$57,630,806	100.0%	\$50,848,358	100.0%

Federal Reserve Board regulations require that the Association maintain certain reserve balances on deposit with the Federal Reserve Bank. At June 30, 1988 this amount was approximately \$400,000.

NOTE G — Advances from Federal Home Loan Bank

Advances from the Federal Home Loan Bank of Seattle at June 30, 1988 and 1987 consisted of the following:

Payable during period ending June 30	Average interest rate at June 30, 1988	1988	1987
1988			\$1,843,750
1989	9.88%	\$1,000,000	1,000,000
1990	8.95	2,000,000	2,000,000
1992	8.15	3,000,000	3,000,000
1993	9.45	600,000	
		<u>\$6,600,000</u>	<u>\$7,843,750</u>

Advances are collateralized by mortgage loans with a market value of not less than 120% of outstanding Bank advances and by Federal Home Loan Bank stock with a recorded value of \$945,000, which is included in "Other assets".

NOTE H — Collateralized Mortgage Obligations

On June 2, 1988 the Association's wholly-owned subsidiary, Summit Capital Corporation, issued \$15,225,913 in collateralized mortgage obligations, Series 1 (the "Bonds"). These bonds are general obligations of Summit Capital Corporation and are collateralized by Federal Home Loan Mortgage Corporation (FHLMC) participation certificates, with aggregate unpaid principal balances of \$17,920,334 and an aggregate market value of \$16,196,195 at June 30, 1988.

Bonds at June 30, 1988 consisted of the following:

	Interest Rate	Stated Maturity	Principal Amount
Sequence 1-A	9.70%	April 1, 2013	\$14,750,000
Sequence 1-Z	9.95	January 1, 2018	487,751
Unamortized discount			(551,850)
			<u>\$14,685,901</u>

All net cash flow from the pledged mortgage backed securities together with the reinvestment income thereon will be applied to prepay the bonds. As a result, it is expected that the actual life of the bonds will be substantially less than their stated maturity.

The maturities of the bonds (assuming no prepayments on the mortgage backed securities collateralizing the bonds and further assuming the reinvestment of scheduled distributions at the assumed reinvestment rates) for the succeeding five years are as follows:

Year Ending June 30	
1989	\$ 128,684
1990	117,354
1991	131,818
1992	148,004
1993	166,110
Thereafter	14,545,781
	<u>\$15,237,751</u>

NOTE I — Consumer Repurchase Agreements and Subordinated Debentures

Consumer repurchase agreements bear interest rates of 5.25% at June 30, 1988 and 1987 and are collateralized by U.S. Government securities with a book value of \$499,465 and \$499,301 at June 30, 1988 and 1987, respectively.

Reverse repurchase agreements averaged \$971,609 during fiscal 1988, with a maximum outstanding at any month-end of \$6,000,000. There were no reverse repurchase agreements outstanding at year-end. Collateral for the reverse repurchase agreements was controlled by the investment bankers.

During the years ended June 30, 1988 and 1987, the Association sold \$520,509 of 9% convertible subordinated debentures due December 31, 1996. The debentures are convertible at any time prior to maturity, unless previously redeemed, into common stock of the Association at a conversion price of \$5.50 per share. The debentures are redeemable in whole or in part, at the option of the Association, at premiums at any time after January 1, 1990. The debentures are subordinated in right of payment to all of the Association's existing and future indebtedness.

NOTE J — Income Taxes

The Association has qualified under provisions of the Internal Revenue Code which permit it to deduct from taxable income an allowance for bad debts which differs from the provision for such losses charged to income. Accordingly, retained earnings at June 30, 1988 includes approximately \$1,030,000 for which no provision for federal income taxes has been made. If this portion of retained earnings is used for any purpose other than to absorb bad debt losses, an additional deferred tax liability of approximately \$350,000 would have been required.

Deferred federal income tax provisions (benefits) result from temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts on financial statements that will result in differences between income for tax purposes and income for financial statement purposes in future years. Cumulative temporary differences as of June 30, 1988 were approximately \$5,000,000. Temporary differences and their tax effects for the years ended June 30, 1988, 1987 and 1986 are as follows:

	1988	1987	1986
Market value adjustment for investment securities	\$ 45,300	\$ (45,300)	
FHLB stock dividends	30,500	48,300	
Gain on sale of loans	(49,400)	678,400	\$ 148,700
Loan fees	93,500	(27,600)	(19,500)
Current year effect of changing from accrual to cash basis reporting for tax purposes	(220,200)	375,800	554,900
Tax net operating loss carryforward	228,300	(1,128,000)	(283,800)
Other	2,000	(600)	(800)
Cumulative effect of benefit of change in accounting for income taxes	(190,000)		
Total	<u>\$ (60,000)</u>	<u>\$ (99,000)</u>	<u>\$ 399,500</u>

NOTE J — Income Taxes (Continued)

The provision for deferred federal income taxes is different from that which would result by applying the statutory income tax rate to pretax income or loss. A reconciliation of the difference for the years ended June 30, 1988, 1987 and 1986 follows:

	1988	1987	1986
Statutory rate	34%	46%	46%
Tax (benefit) at statutory rate	\$ 123,997	\$(101,829)	\$ 428,463
Bad debt deduction based on a percentage of income or experience method (net of minimum tax)	(55,400)	(488,987)	(172,159)
Surtax exemption		20,250	(20,250)
Investment tax credit			(4,255)
Loan loss reserve addition	78,400	490,061	175,720
Other	(16,997)	(18,495)	(8,019)
PROVISION (BENEFIT) FOR DEFERRED FEDERAL INCOME TAXES BEFORE ACCOUNTING CHANGE	130,000	(99,000)	399,500
Cumulative effect of benefit of change in accounting for income taxes	(190,000)		
Total	\$ (60,000)	\$ (99,000)	\$ 399,500

At June 30, 1988, the following federal income tax carryforwards were available:

	Expiration Dates	Amount
Net Operating Loss Carryforwards	1992	\$ 813,000
	1993	1,789,400
	1994	516,400
	2000	10,100
	2001	14,400
	2002	102,700
		<u>\$3,246,000</u>
Investment Tax Credit Carryforwards	1998	\$ 4,267
	1999	5,287
	2000	5,778
	2001	1,796
		<u>\$ 17,128</u>

In 1988 the Association adopted Statement of Financial Accounting Standards No. 96, *Accounting for Income Taxes*, effective July 1, 1987. The most significant change for the Association under this statement is that deferred tax liabilities are adjusted in the period of change in tax laws or rates. As the Association had originally provided for deferred tax liabilities at higher than current rates, the adoption of this statement resulted in a reduction in deferred income taxes payable. The impact of the change on years prior to fiscal 1988 was \$190,000 which is reported as the cumulative effect of an accounting change. The adoption of this statement had an immaterial impact on fiscal 1988 income before the cumulative effect of accounting change. Prior period financial statements have not been restated.

**NOTE K — Stockholders' Equity**

Stockholders' equity in the consolidated financial statements differs from that reported to the Federal Home Loan Bank and is reconciled as follows:

	1988	1987
Balance per regulatory report at June 30	\$4,587,725	\$4,067,396
Subordinated debentures	(520,509)	(424,875)
Balance per accompanying financial statements at June 30	<u>\$4,067,216</u>	<u>\$3,642,521</u>

The Association's regulatory capital requirement, was \$3,182,504 at June 30, 1988 and \$4,030,662 at June 30, 1987. The Association's net worth which includes \$185,000 of non-specified loan loss reserves at June 30, 1988 and \$100,000 at June 30, 1987, exceeded this requirement by \$1,590,221 in 1988 and \$136,734 in 1987.

In connection with obtaining an organizing permit from the State of Washington, the Association agreed to " earmark", for initial operating expenses, \$.75 per share (\$212,513) of the additional paid-in capital resulting from the sale of common stock. These funds are restricted as to distribution to stockholders unless approval is obtained from the State.

NOTE L — Lease Commitments

On July 1, 1986, the Association entered into a 5-year lease for an administrative and branch facility. Two floors of a new building were leased and approximately 25% of the space was subleased during fiscal 1988. Rent is as follows: Zero for the first year, \$31,147 per month for the second and third years, and \$33,093 per month for the fourth and fifth years. Rent expense for the year ended June 30, 1987 includes \$162,657 of pro-rated rent expense to be paid in future years, which is included in future minimum rental requirements. The Association also has the option to extend the lease for two additional five-year periods following the expiration of the initial lease.

On September 28, 1987, the Association entered into a 1-year lease for a loan office in Puyallup. The rent is \$900 per month and there are no renewal provisions.

Rent expense for the years ending June 30, 1988, 1987 and 1986 was approximately \$371,000, \$251,000 and \$106,000, respectively. Future minimum rental commitments are as follows:

Years Ending June 30	Amount
1989	\$ 330,000
1990	348,700
1991	348,700
	<u>1,027,400</u>
Proceeds from sublease	(187,600)
	<u><u>\$ 839,800</u></u>

NOTE M — Stock Options and Warrants

The Association granted options to officers and full-time employees under its Incentive Stock Plan adopted September 19, 1984. Under this plan, 87,388 shares of the Association's common stock are reserved for future issuance. The option price at which the common stock may be purchased upon exercise of an option must not be less than the fair market value of such shares at the time the option is granted. Options granted are for five years. The last of the outstanding options expire February 17, 1992.

Changes in stock options are as follows:

Option Shares	1988	1987
Outstanding beginning of fiscal year	56,688	54,800
Granted		13,500
Exercised		(2,612)
Expired	(4,325)	(9,000)
Outstanding June 30	52,363	56,688
Exercisable June 30	16,613	10,874

At June 30, 1988, 35,025 shares were available for future grants under the Incentive Stock Plan. The price of options outstanding and the price of options exercisable at June 30, 1988 ranged from \$3.19 to \$8.56.

NOTE N — Capital Stock

On November 8, 1985, the Association's authorized common stock was increased from 625,000 shares to 3,500,000 shares, and the par value was reduced from \$8.00 per share to \$.01 per share. The amount of \$2,490,331 was transferred from common stock to additional paid-in capital to reflect the reduction in par value. On the same day, the Association authorized 500,000 shares of a new class of capital stock entitled "Preferred Stock" at \$.01 par value per share.

On January 24, 1986, the Board of Directors declared a two-for-one stock split payable February 21, 1986 to shareholders of record on February 7, 1986. The par value of the new shares issued totaled \$3,117 and this amount was transferred from additional paid-in capital to the common stock account.

All references in the financial statements with regard to common stock prices and per share amounts have been restated to reflect the foregoing common stock transactions.

Directors:

JAMES D. HUBER
Chairman of the Board
President
ATCON Services, Inc.

DALE P. HARRISON
President
Chief Executive Officer

WILLIAM P. HURME
President
Altis Properties, Ltd.

DOUG T. MERGENTHALER
President
Ashton Corporation

WILLIAM P. NEWMAN
Senior Vice President
Westin Hotels & Resorts

PAUL E. NOLAN
President
Nolan Development, Inc.

NORMAN D. WINTON
Division Vice President
Measurex Corporation

Officers:

DALE P. HARRISON
President
Chief Executive Officer

MARIE T. GUDGER
Senior Vice President
Treasurer

JUDITH F. HAY
Senior Vice President
Financial Services

RICK E. LEWIS
Senior Vice President
Income Property Lending

KATHY J. BURKE
Vice President
Residential Loan Production

KATHIE L. HILTERBRAND
Vice President
Secondary Marketing

MERRI ANN SIMONSON
Vice President
Loan Operations

BARBARA J. TANGEMEN
Assistant Vice President
Branch Operations

PATRICIA L. WALDOW
Assistant Vice President
Controller

MARK WALPOLE
Assistant Vice President
Data Processing Manager

RINNEA WYNIA
Assistant Vice President

BROOK L. DYKES
Corporate Secretary
Human Resources Manager

Summit's Board of Directors



*Front row (from left to right): James D. Huber, Dale P. Harrison
Back row (from left to right): Paul E. Nolan, Norman D. Winton, Doug T. Mergenthaler, William P. Hurme
Not shown: William P. Newman*

Corporate Headquarters

11711 S.E. 8th Street
Bellevue, Washington 98005
(206) 451-3585

Stock Listing

NASDAQ
Symbol: SMMT

Independent Public Accountants

Ernst & Whinney
999 Third Avenue, Suite 3300
Seattle, Washington 98104

Stock Transfer Agent

First Jersey National Bank
Attn: Shareholder Services
520 Pike Tower, Suite 2134
Seattle, Washington 98101-4004

Legal Counsel

Foster, Pepper & Shefelman
1111 Third Avenue
Seattle, Washington 98101

Annual Meeting

The 1988 Annual Meeting of Stockholders of Summit Savings will be held at the Bellevue Athletic Club, 11200 S.E. 6th, Bellevue, Washington on Thursday, November 10, 1988 at 3:00 p.m. Questions relating to stock and requests for copies of Annual Report to Stockholders, Annual Report on Form 10-K, interims and other published reports, which will be furnished without charge, should be addressed to:

Brook L. Dykes
Corporate Secretary
11711 S.E. 8th Street
Bellevue, Washington 98005

Stock Information

Summit's common stock is listed on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol "SMMT." The number of holders of record of the Association's common stock at June 30, 1988 was approximately 500.

The following are based on the last reported sale prices in the NASDAQ National Market System for the fiscal quarters indicated as reported by the National Association of Securities Dealers:

	1988		1987	
Quarter Ended:	High	Low	High	Low
September 30	\$5.00	\$3.63	\$8.88	\$5.38
December 31	3.75	2.13	6.50	4.50
March 31	4.38	2.38	7.25	5.00
June 30	4.25	3.25	6.13	3.13

To date no cash dividends have been paid. It has been the Association's policy to retain all earnings to fund additional growth.