1987

Annual Reports
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SUMMIT · SAVINGS

1987 ANNUAL REPORT

PROPERTY OF
SEATTLE PUBLIC LIBRARY

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1987 ANNUAL REPORT

PROPERTY OF
SEATTLE PUBLIC LIBRARY

JUN 15 1988

Summit Savings opened for business in April 1983 as a public stock savings and loan association. In four short years, Summit has grown impressively in assets, in the size and expertise of its staff, and in influence in the community.

SUMMIT SERVICE . . . A STRATEGY IN SHARP FOCUS:

Summit continues to develop, focused on financial specialization and personal service. Our growth is built on the performance of our people, products and services. Instead of mounting high-cost branch operations, Summit markets and operates as the financial institution that "comes to you."

The resulting productivity keeps us competitive in a crowded marketplace, and benefits stockholders and customers alike.

SUMMIT SPECIALTIES:

Real Estate Lending Division —

Summit Real Estate Lending Specialists are active in the following markets:

- Home Loans
- Income Property Loans
- Custom Construction Loans
- Speculative Construction Programs

Financial Services Division —

Summit Investment Specialists market a select menu of personal investment products with highly competitive interest rates and benefits.

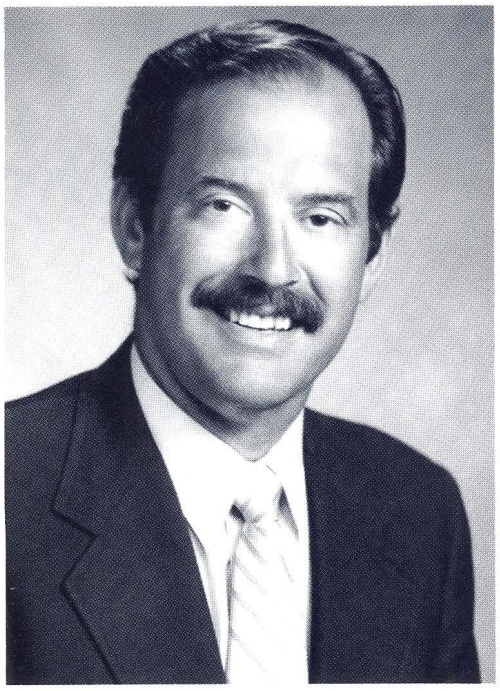
- Money Market Accounts
- Certificates of Deposit
- Mutual Funds
- Tax Exempt Trusts
- Single Premium Life Investments
- Fixed and Variable Annuities

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

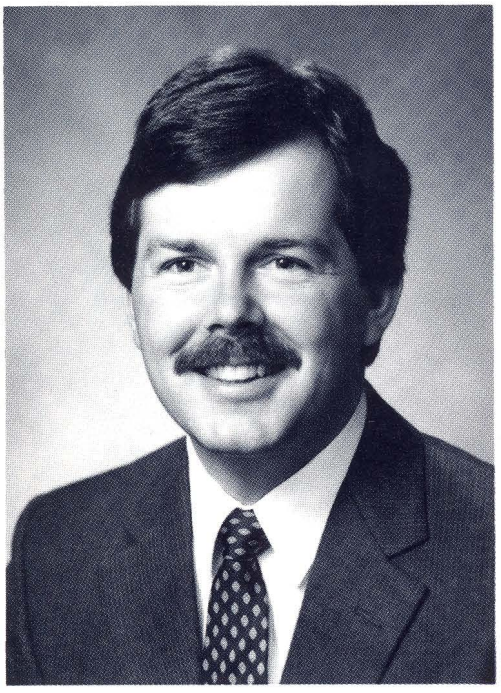
BEL-RED ROAD OFFICE
13866 Bel-Red Road
Bellevue, Washington 98005
(206) 643-2700

Summit Savings in 1987 — Our Personal Best to You.

Summit's staff of professionals are constantly working to improve the already high level of Summit service . . . to give their clients their personal best.



JAMES D. HUBER
Chairman of the Board



DALE P. HARRISON
President and Chief Executive Officer

The mission of Summit Savings is to be a highly profitable financial institution in Western Washington focused on mortgage banking, real estate lending, and the generation and sale of savings and related investment products.

Message to Our Shareholders

The results for fiscal 1987 are far from outstanding. Summit Savings recorded a loss of $122,369 or $.20 per share for the year ended June 30, 1987. Problem loans had a major impact on our results, overshadowing a relatively strong year operationally. Almost without exception these loans were originated during our first two years and do not reflect changes in underwriting, personnel and product mix initiated over the last two years. Aggressive management and the establishement of reserves for losses on loans and real estate owned of $1.1 million are actions we have taken to put this problem behind us.

Fixing the Problems

Significant personnel changes have occurred within the lending division this past year. While change is not easy, we found it to be necessary and the result has been good for our company. The quality and experience level of our loan production team have increased. We have initiated effective sales management techniques to assist Summit's new lending officers in achieving their production goals. A secondary marketing manager has also been hired to enhance the pricing and delivery of our product. In addition, there has been an overall streamlining of operations to promote productivity and excellence in customer service.

Significant changes have also been made in the management of our delinquent loans and real estate owned. A new loan servicing manager with extensive real estate loan management experience was employed in May 1987. In addition to focusing on the resolution of current problems, she has initiated preventative measures to keep loans from becoming problems in the future. These actions are getting results. Thirty and sixty day delinquent loans have recently decreased substantially and several loans that have been tied up in tedious legal proceedings are now very close to being resolved.

In July 1987, we completed a profitable sale of a $2.5 million multi-family building site in Redmond, Washington that had been carried on Summit's books as a non-earning asset for the past year. This sale brightens Summit's prospects for fiscal 1988 as the proceeds are now being reinvested in earnings assets.

Additions to loan and real estate owned loss reserves, lost interest income and expenses associated with problem assets reduced income by approximately $1.9 million during fiscal 1987. This clearly illustrates the very positive impact that continued reduction in these problem assets will have on future income.

Solid Gains In Market Share

Last year we firmly established Summit Savings in the Puget Sound real estate lending market. Summit's product line now includes conventional and FHA/VA permanent loans, custom and speculative construction loans and construction and permament loans on income properties.

Summit's lending team originated $94.4 million in real estate loans during fiscal 1987. This was a 13% increase over the previous years production but, more importantly, 74.5% of this year's production was in residential loans, up from 43% in fiscal 1986. Mortgage banking activities increased 16% as $52.0 million in loans were sold during the year, representing 55% of the Association's total loan production. Summit is now servicing almost $100.0 million in loans for others.

The Financial Services Division has further refined its product mix and delivery systems. We now have four investment specialists who market a select menu of savings products, annuities, life insurance and mutual funds. Their efforts generated $131,000 in fee income this year, a 39% increase over last year. They continue to provide excellent customer service and consistently demonstrate selling and marketing skills that set them apart from their competition.

Mortgage banking — the origination, sale and servicing of loans — is extremely important to us. The Association generates fee income from loan originations, gains from the sale of the loans, and it provides an ongoing stream of annual income from the servicing of the loans. Mortgage banking is an excellent means of increasing profitability while allowing us to govern our asset growth to insure adequate capital levels.

Fiscal 1988

During the fourth quarter, $424,875 in Convertible Subordinated Debentures due in 1996 were issued in a private placement. Additional subscriptions are expected to be received in the first quarter of fiscal 1988. While recorded as a long-term debt on the Association's books, according to regulatory accounting principles (RAP) these funds are considered additional capital, thus increasing our capital to assets ratio as calculated by the Federal Home Loan Bank.

Higher interest rates and increased competition have recently caused a decrease in our lending activity. However, we are confident that by striving to provide more personal and timely service to our customers, and by expanding into new markets in the Puget Sound area, Summit's real estate lending activity will continue to increase.

Last year our Message to Shareholders highlighted Summit Savings' mission statement. It is highlighted again this year to emphasize our continued belief that Summit's strategic direction is the correct one. Our primary goal is to maximize long-term value to our shareholders. We sincerely believe the strategies Summit is pursuing will accomplish this objective. We have taken measures which can achieve substantial improvement in earnings during the coming year and we intend to deliver.

Dale P. Harrison
President
Chief Executive Officer

James D Huber
Chairman of the Board

General

The results of the Association's operations depend primarily on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Operating results are also affected by income from the origination, servicing and sale of loans, by revenue from investment services, and by operating expenses and tax provisions.

For the year ending June 30, 1987, Summit Savings incurred a loss of $122,369. Net income for the years ending June 30, 1986 and 1985 was $531,941 and $344,917, respectively. The Association's operating results for the latest fiscal year were materially adversely affected by increases in the level of nonaccrual loans and real estate owned which resulted in decreased net interest spread and income, and increased provisions for losses on loans and real estate owned. As a result of the operating loss in fiscal 1987, the return on average assets was (.15%) compared to .78% in fiscal 1986 and .88% in fiscal 1985. The return on average equity was (3.31%) for fiscal 1987, 15.25% for fiscal 1986 and 11.50% for fiscal 1985.

Mortgage loan originations totaled $94.4 million during fiscal 1987, a 13% increase over the $83.4 million in loans originated during fiscal 1986. In fiscal 1987, 75% of loans originated were residential and 65% of loans originated were sold, compared to 43% residential and 51% sold in fiscal 1986. Permanent long-term loans were 74% of total production in fiscal 1987 and 71% in fiscal 1986, confirming the shift away from construction loan production.

In fiscal 1987 the Association began forming mortgage backed securities and selling these in the secondary mortgage markets. At June 30, 1987, a total of $14.1 million remained in portfolio. Management's decision not to sell the loans was based on changing market conditions and the asset level of the Association at the time.

During fiscal 1987, the Association continued to hold a $2.5 million multi-family site purchased in May 1986. This asset was sold in July 1987.

In fiscal 1987, Summit's Financial Services Division continued to focus on generating deposits and fee income through diversified selection of investment options. The division continued to enhance the product line which includes single premium investments, fixed and variable annuities, mutual funds, tax exempt trusts and discount brokerage services as well as the traditional bank investments.

Convertible subordinated debentures were offered in a private placement in the spring of 1987. At June 30, 1987, a total of $424,875 had been subscribed. The debentures bear interest at 9% and mature December 31, 1996.

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 estimated 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 is effective for fiscal years beginning after December 15, 1987. Retroactive application of the provisions in the Statement is encouraged but not required. When implemented, the Statement will have the general effect of reducing the Association's reported loan fee income for the period in which loans are originated and increasing reported income over future periods.

The Tax reform Act of 1986 (the "Act") will have certain impacts on the Association and its subsidiaries. Significant provisions of the Act applicable to the Association follow. The bad debt reserve deduction using the percentage-of-taxable income method will be lowered from 40% to 8% effective for the year ending June 30, 1988. However the Association must maintain only 60% of qualifying assets to attain the full 8% deduction as compared to the present 82% level. The Association's maximum marginal tax rate will be reduced from 46% to 34% effective July 1, 1987. The Association is currently using the cash method of accounting for federal income

tax reporting purposes. The Act requires the Association to change to the accrual method of accounting for income tax purposes, effective for the year ending June 30, 1988. The accrued income and expenses which have not been recognized for federal income tax reporting purposes at June 30, 1987 will be recognized in taxable income over the next four years.

Liquidity and Capital Resources

The Association has consistently met or exceeded prescribed 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 1987 was 8.1% compared to 5.2% for the month of June 1986. The Association's 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.

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 and interest and fee income.

Total deposits increased from $67.3 million to $68.1 million during the year ended June 30, 1987. The deposits were generated from the local market without the use of brokers or investment banking firms. Certificate accounts with fixed terms and rates comprised 74.7% of total deposits as of June 30, 1987, compared to 76.5% as of June 30, 1986. This reflects Summit's emphasis on generating low-transaction investment accounts versus the higher transaction checking-type accounts. (See Note F of the consolidated financial statements.) Large deposits (greater than $100,000) which are generated from such varied sources as individuals, city, county, and state governments, pension plans and local corporations comprise 12.4% of total deposits as of June 30, 1987, compared to 11.5% of deposits as of June 30, 1986. The Association is continuing its efforts to increase the level of retail "core" deposits which provide a stable source of funds as well as opportunities to cross sell other investment products.

At June 30, 1987, Summit had Federal Home Loan Bank of Seattle (FHLB) advances totaling $7.8 million, maturing from 1988 to 1992. Some of the advances were obtained to provide a positive spread on the mortgage backed securities being held in the portfolio.

Loan principal repayments totaled $45.9 million during fiscal 1987, which was a substantial increase over the $28.2 million in principal repayments during 1986. These repayments reflect the refinancing of high interest rate loans during a period of declining interest rates and the payoff of construction loans which in the past have comprised a majority of the loans in the portfolio. While this large turnover of assets has allowed Summit to reprice a significant portion of assets each year, the current emphasis on the origination of permanent loans will eventually decrease the level of annual repayments.

Increased emphasis on the sale of loans will provide a continuing source of funds in the future. Loans sold in 1987 totaled $52.0 million, compared to $44.7 million of loans sold in fiscal 1986. Loans serviced for others totaled $99.3 million at June 30, 1987 compared to $43.4 million at June 30, 1986.

Total assets of the Association decreased slightly to $82.4 million at June 30, 1987, compared to $82.9 million at June 30, 1986, while stockholders' equity decreased to $3.6 million from $3.8 million as a result of the fiscal 1987 net operating loss. Asset growth was deliberately controlled by management in order to maintain adequate capital ratios. Limiting asset growth and obtaining financing in the form of convertible subordinated debentures have increased the net worth to assets ratio to 4.9% at June 30, 1987, from 4.5% at June 30, 1986, as calculated by the Federal Home Loan Bank Board (see Note J of the consolidated financial statements for the FHLB equity calculation).

While not considered capital, reserves for losses on loans and real estate owned provide a measure of protection for the retained earnings of the Association. Total reserves for losses at June 30, 1987, were $1.1 million, compared to $482,518 at June 30, 1986.

Asset and Liability Management

The objective of the Association's asset and liability management program is to provide a stable interest rate margin which together with fee income will enable the Association to operate profitably through volatile interest rate cycles. The primary goals of the program are to shorten average interest rate maturities of assets and lengthen average maturities of liabilities. Constant monitoring of the pricing of loans and deposits and of the mix of loan origination and deposit generation, and sale of fixed rate loans in the secondary market are among the strategies employed to lessen interest rate risk.

Construction loans on residential and income-producing properties with rates which adjust with changes in general interest rates comprise 50% of loans receivable and mortgage backed securities at June 30, 1987 compared to 51% at June 30, 1986. These loans provide assets whose interest rates increase or decrease in tandem with those of the majority of deposit accounts.

As of June 30, 1987, 50% of interest earning assets reprice within one year, while 89% of interest bearing liabilities reprice within one year, compared to 67% of interest earning assets repricing within one year, and 89% of interest bearing liabilities repricing as of June 30, 1986. The decrease in the percent of assets repricing within one year is caused in part by the holding of $14.1 million of mortgage backed securities and $2.2 million of long-term investments. To lessen the effect of this mismatch, the Association obtained $5.0 million of FHLB advances, maturing April 1988 through April 1992, which assures a positive interest spread on a portion of the securities for a limited time.

Interest Income

Interest income from loans and investments was $7.4 million in fiscal 1987 compared to $7.8 million in fiscal 1986 and $4.9 million in fiscal 1985. The net decrease from fiscal 1986 to fiscal 1987 resulted primarily from an increase in the Association's level of non-earning loans and real estate owned 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 increase in interest income from fiscal 1985 to fiscal 1986 was primarily attributable to an 85% increase in average loan and investment balances, only partially offset by declining interest rates. The average yield on investments and loans (including nonaccrual loans) during fiscal 1987 was 9.22% compared to 11.06% in fiscal 1986 and 12.88% in fiscal 1985.

Interest Expense

Interest expense on deposits and borrowings was $5.8 million in fiscal 1987 compared to $5.7 million in fiscal 1986 and $3.5 million in fiscal 1985. The lack of 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 increase in interest expense from fiscal 1985 to fiscal 1986 was primarily caused by a 90% growth in combined deposit and borrowing balances during fiscal 1986. The average cost of deposits and borrowings during fiscal 1987 was 7.29% compared to 8.53% in fiscal 1986 and 9.79% in fiscal 1985.

Net Interest Income

Net interest income before provision for loan losses was $1.6 million, $2.1 million and $1.4 million for the years ended June 30, 1987, 1986 and 1985, respectively. The decrease in net interest income before provision for loan losses from fiscal 1986 to fiscal 1987 resulted primarily from a decrease in the interest rate margin (the difference between the yields received on the Association's loans and investments, including non-accruing loans, and the rates paid for the Association's deposits and other borrowings) and, to a lesser extent, from the fact that interest bearing liabilities increased more rapidly than did interest earning assets. The increase in net interest income before provision for loan losses from fiscal 1985 to fiscal 1986 resulted primarily from an increase in interest earning assets only partially offset by a decrease in interest rate margin. The average interest rate margin was 1.93% in fiscal 1987, 2.53% in fiscal 1986

and 3.45% in fiscal 1985. Average interest earning assets increased to $80.1 million in fiscal 1987 from $70.5 million in fiscal 1986 and from $37.8 million in fiscal 1985. Average interest bearing liabilities increased to $79.2 million in fiscal 1987, from $67.3 million in fiscal 1986 and from $35.6 million in fiscal 1985.

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, and historical loss experience determine the amount of loss provision.

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

	At June 30 (in millions)	
	1987	1986
Delinquent Loans	**$2.5**	$3.2
Real Estate Owned	**3.7**	3.0
Total	**$6.2**	$6.2
Percent of Total Loans, Mortgage Backed Securities and Real Estate Owned	**8.6%**	8.2%

The delinquent loans consist of six construction loans, three secured by office buildings and three secured by single family residences. The real estate owned consists of eight construction loans secured by single family residences, and two secured by improved parcels of land. The total provision for losses on loans and real estate owned was $1.1 million in fiscal 1987 compared to $482,518 in fiscal 1986 and $233,324 in fiscal 1985. The loan and real estate owned loss reserves are deemed adequate to cover anticipated losses from the disposition of these assets.

Other Income

Other income was $3.0 million in fiscal 1987 compared to $1.9 million in fiscal 1986 and $1.2 million in fiscal 1985. The increases in both years were primarily due to continuing increases in mortgage banking activities as evidenced by gain on loan sales of $1.2 million in fiscal 1987 compared to $684,695 in fiscal 1986 and $11,827 in fiscal 1985 and loan servicing income of $265,015, $159,754 and $49,725 for fiscal years 1987, 1986 and 1985, respectively. The increase in loan fees in fiscal 1987 reflects 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. The slight decrease in loan fees in fiscal 1986 reflected the shift in emphasis from commercial and construction loan production, with their higher loan fees, to residental production. In fiscal 1987, a mutual fund was marked to market, a decrease of $98,384, for a net loss on investment securities of $63,181. Other income increased to $295,229 in fiscal 1987 from $215,744 in fiscal 1986 and $110,341 in fiscal 1985 due primarily to $131,318 of income from sale of insurance and securities investment products in fiscal 1987 and $94,501 in fiscal 1986.

Other Expense

Other expense was $3.8 million in fiscal 1987 compared to $2.7 million in fiscal 1986 and $1.9 million in fiscal 1985. The increase in other expenses in fiscal 1987 were primarily due to increases in compensation and professional services, and increases in occupancy and depreciation incurred in conjunction with the move to new administrative headquarters. The increases in fiscal 1986 were primarily due to increases in compensation and professional services, caused in part by the formation of a Residential Lending Department and the initiation of new products in the Financial Services Division. FSLIC special assessments increased insurance expense by $91,302 in fiscal 1987, $74,284 in fiscal 1986 and $23,270 in fiscal 1985.

	1987	1986	1985
At June 30,			
Total Assets	**$82,400,611**	$82,871,974	$53,443,907
Loans Receivable and Mortgage Backed Securities	**68,322,825**	72,901,564	45,556,074
Deposits	**68,077,766**	67,346,142	47,006,797
Stockholders' Equity	**3,642,521**	3,754,437	3,222,496
Book Value Per Share	**5.82**	6.02	5.17*
Regulatory Net Worth to Assets	**4.94%**	4.53%	6.03%
For the Year Ended June 30:			
WEIGHTED AVERAGE YIELD:			
Loans and Mortgage Backed Securities	**9.53%**	11.53%	13.71%
Investments	**6.40%**	6.52%	8.32%
Combined	**9.22%**	11.06%	12.88%
WEIGHTED AVERAGE COST OF FUNDS:			
Deposits	**7.14%**	8.50%	9.79%
Borrowings	**8.96%**	8.88%	9.63%
Combined	**7.29%**	8.53%	9.79%
Interest Rate Margin	**1.93%**	2.53%	3.09%
Net Income (Loss)	**$ (122,369)**	$ 531,941	$ 344,917
Net Income (Loss) per Share	**(.20)**	.85	.55*
Real Estate Loans Originated	**94,401,716**	83,409,519	63,776,794
Return on Average Assets	**(.15)%**	.78%	.88%
Return on Average Stockholders' Equity	**(3.31)%**	15.25%	11.50%

* Restated to reflect a two-for-one stock split in fiscal year 1986.

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Auditors' Report

ERNST & WHINNEY
1800 First Interstate Plaza
1201 Pacific Avenue
Tacoma, Washington 98402

Board of Directors and Stockholders
Summit Savings Association
Bellevue, Washington

We have examined the consolidated statements of financial condition of Summit Savings Association and subsidiary as of June 30, 1987 and 1986, and the related consolidated statements of stockholders' equity, operations, and changes in financial position for each of the three years in the period ended June 30, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Summit Savings Association and subsidiary at June 30, 1987 and 1986, 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, 1987 in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Tacoma, Washington
August 7, 1987

Consolidated Statements of Financial Condition

Assets	June 30 1987	June 30 1986
Cash and deposits in other banks	**$2,218,398**	$ 2,036,668
Investment securities (market value of $3,972,492 in 1987 and $2,328,552 in 1986) — Notes B & H	**4,165,244**	2,337,358
Mortgage backed securities (market value of $12,705,940) — Note G	**14,087,214**	
Loans receivable — Notes C, D and G	**54,235,611**	72,901,564
Accrued loan interest receivable	**622,317**	671,000
Accrued investment interest receivable	**57,182**	77,952
Real estate owned — Notes D and H	**3,742,795**	3,012,039
Leasehold improvements, and furniture and equipment — Note E	**450,891**	328,602
Deferred premium on loan sales	**1,967,768**	492,911
Other assets	**853,191**	1,013,880
	$82,400,611	$82,871,974

Liabilities and Stockholders' Equity	June 30 1987	June 30 1986
LIABILITIES:		
Deposits — Note F	**$68,077,766**	$67,346,142
Advances from Federal Home Loan Bank — Note G	**7,843,750**	8,000,000
Short-term borrowings — Note H	**306,307**	1,976,346
Subordinated Debentures — Note H	**424,875**	
Accrued interest payable	**93,431**	211,002
Advances from borrowers for taxes and insurance	**433,590**	118,716
Principal and interest payable on sold loans	**516,946**	318,567
Accounts payable and accrued expenses	**487,425**	473,764
Deferred federal income taxes — Note I	**574,000**	673,000
	78,758,090	79,117,537
STOCKHOLDERS' EQUITY — Notes J, L and M:		
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 at June 30, 1987, and 623,362 shares at June 30, 1986	**6,260**	6,234
Additional paid-in capital	**2,939,357**	2,928,930
Retained earnings	**696,904**	819,273
	3,642,521	3,754,437
	$82,400,611	$82,871,974

Commitments — Notes C and K

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
BALANCE AT JULY 1, 1984	283,351	$2,266,808	$ 395,680	$215,091	$2,877,579
10% stock dividend	28,330	226,640	46,036	(272,676)	
Net Income				344,917	344,917
BALANCE AT JUNE 30, 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	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

See notes to consolidated financial statements.

Consolidated Statements of Operations

	Year Ended June 30		
	1987	1986	1985
Interest Income:			
Interest on loans	**$6,666,012**	$7,283,778	$4,397,825
Interest on mortgage backed securities	**210,608**	77,738	
Interest on deposits with banks	**199,977**	233,480	308,563
Interest and dividends on investment securities	**307,932**	199,661	177,102
	7,384,529	7,794,657	4,883,490
Interest Expense:			
Interest on deposits:			
Checking	**53,832**	49,657	35,855
Statement savings	**17,677**	16,375	12,829
Money market certificates and investment accounts	**1,013,913**	863,068	845,325
Certificates	**4,088,593**	4,423,945	2,476,181
	5,174,015	5,353,045	3,370,190
Interest on borrowed funds	**602,652**	383,492	100,572
	5,776,667	5,736,537	3,470,762
NET INTEREST INCOME	**1,607,862**	2,058,120	1,412,728
Provision for loan losses	**995,087**	382,200	156,398
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**612,775**	1,675,920	1,256,330
Other Income:			
Loan fees	**1,291,686**	850,306	977,098
Loan servicing income	**265,015**	159,754	49,725
Gain on sale of loans	**1,185,624**	684,695	11,827
Gains (losses) on investment securities	**(63,181)**	12,480	55,540
Other	**295,229**	215,744	110,341
	2,974,373	1,922,979	1,204,531

Consolidated Statements of Operations

	Year Ended June 30		
	1987	1986	1985
Other Expense:			
Compensation and employee benefits	**2,047,690**	1,511,482	986,625
Advertising	**52,877**	101,580	126,546
Depreciation and amortization	**185,275**	140,153	127,627
Data processing	**128,168**	126,645	107,920
Occupancy	**367,411**	159,707	146,134
Professional services	**228,192**	164,486	88,224
Insurance	**181,185**	124,032	51,945
Net cost of operations of real estate owned	**143,663**	15,043	
Other	**474,056**	324,330	249,783
	3,808,517	2,667,458	1,884,804
INCOME (LOSS) BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	**(221,369)**	931,441	576,057
Provision (Benefit) for deferred federal income taxes — Note I	**(99,000)**	399,500	233,324
INCOME BEFORE EXTRAORDINARY ITEM	**(122,369)**	531,941	342,733
FHLMC stock distribution, net of deferred federal income taxes of $1,176			2,184
NET INCOME (LOSS)	**$(122,369)**	$531,941	$344,917
Earnings (loss) per share:			
Net income (loss) before extraordinary item	**$ (.20)**	$ .85	$ .55
Extraordinary item			—
Net income (loss)	**$ (.20)**	$ .85	$ .55

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Year Ended June 30		
	1987	1986	1985
Source of Funds:			
From operations:			
Income (loss) before extraordinary item	**$ (122,369)**	$ 531,941	$ 342,733
Add (deduct) items recognized in net income which did not affect funds:			
Interest credited to deposits	**5,179,460**	5,359,775	3,346,260
Provision for depreciation	**142,404**	96,722	84,755
Amortization of organization costs	**42,871**	42,871	42,871
Accretion of deferred loan fees	**(208,673)**	(190,428)	(102,285)
Amortization of deferred premium on loan sales	**343,913**	47,187	
Discount accretion on investment securities	**(88,614)**	(10,882)	(41,371)
Increase (decrease) in accrued interest receivable	**69,453**	(370,173)	(200,579)
Increase (decrease) in accrued interest payable	**(117,571)**	(6,541)	111,651
Gains on real estate sold	**(35,650)**	(17,421)	
Gains on loans and mortgage backed securities sold	**(1,818,770)**	(604,067)	
Loss on leasehold improvements abandoned	**45,192**		
Provision for losses on loans and real estate	**1,065,349**	382,200	156,398
Increase (decrease) in deferred federal income taxes	**(99,000)**	399,500	234,500
Market value adjustment of investment securities	**98,384**		
	4,618,748	5,128,743	3,632,200
FUNDS PROVIDED FROM OPERATIONS BEFORE EXTRAORDINARY ITEM	**4,496,379**	5,660,684	3,974,933
Extraordinary item			2,184
FUNDS PROVIDED FROM OPERATIONS	**4,496,379**	5,660,684	3,977,117
Decrease in cash and short-term investments		1,903,317	1,404,199
Investment securities matured and sold	**2,107,985**	4,888,263	5,136,893
Loan and mortgage backed security principal reductions and transfers to real estate owned	**45,857,977**	28,215,930	17,275,530
Loans and mortgage backed securities sold	**52,020,724**	44,716,692	10,466,136
Proceeds from sale of real estate owned	**2,709,429**	799,489	678,281
Proceeds from sale of subordinated debentures	**424,875**		
Decrease in construction loans disbursed due from participants	**249,889**	772,810	
Increase in deposits before interest credited		14,979,570	20,936,118
Proceeds from advances from Federal Home Loan Bank	**34,843,750**	25,000,000	2,000,000
Increase in other short-term borrowings		1,436,792	387,066
Proceeds from reverse repurchase agreements			2,144,600
Increase in advances from borrowers for taxes and insurance	**314,874**	109,564	
Increase in principal and interest payable on loans sold	**198,379**	315,360	
Increase in accounts payable and accrued expenses	**13,661**	302,106	
Proceeds from exercise of stock options	**10,453**		
	$143,248,375	$129,100,577	$64,405,940

Consolidated Statements of Changes in Financial Position

	Year Ended June 30		
	1987	1986	1985
Application of Funds:			
Increase in cash and short-term investments	**$ 181,730**		
Purchase of investment securities	**3,945,641**	$ 5,738,751	$ 5,670,906
Loans originated, net of changes in loans in process	**93,332,212**	93,885,247	54,066,624
Loans purchased		6,430,303	
Additions to real estate owned	**4,228,961**	3,542,763	1,065,705
Additions to leasehold improvements, furniture and equipment	**309,885**	104,550	218,628
Increase in other assets	**132,071**	398,963	1,234,348
Decrease in deposits before interest credited	**4,447,836**		
Repayment of Federal Home Loan Bank advances	**35,000,000**	19,000,000	
Decrease in other borrowings	**1,670,039**		
Repayment of reverse repurchase agreements			2,144,600
Decrease in accounts payable and accrued expenses			5,129
	$143,248,375	$129,100,577	$64,405,940

See notes to consolidated financial statements.

Note A — Summary of Significant Accounting Policies

June 30, 1987 and 1986

The accounting principles followed by the Association and its subsidiary 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 incurred during this period of $214,355 have been capitalized and are being amortized, using the straight-line method, over a period of five years. Accumulated amortization for the years ended June 30, 1987, 1986 and 1985 was $182,202, $139,331 and $96,460 respectively.

Principles of Consolidation: The accompanying consolidated financial statements include Summit Savings Association and its wholly-owned subsidiary, Summit Services, Inc. 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. Other investment securities are recorded at the lower of cost or market and the resulting gains and losses are included in "Gains (losses) on investment securities."

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 or Loss on Sale of Loans: The Association sells, without recourse, whole or participating interests in many of the loans it originates. Cash proceeds received for such sales are equivalent to the principal amount of the underlying loans, but effective interest rates reflect current market conditions. The resulting gains or losses are recognized and a corresponding deferred premium or discount is recorded at the time of the sale. The Association's cost of servicing sold loans is considered in the determination of gains or losses for each year. The deferred premium or discount is amortized by the interest method over the estimated remaining life of the loans.

Real Estate Owned: Real estate owned 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 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 and depreciation are 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 investment tax credit was repealed by the Tax Reform Act of 1986 for property placed in service after December 31, 1985, except for properties covered by transitional rules and certain other expenditures under the new law. The Association files a consolidated federal income tax return with its subsidiary.

Earnings (Loss) Per Share: Loss per share is computed on the number of shares outstanding. Earnings per share have been computed based on common stock equivalents and common stock outstanding for the years ended June 30, 1986 and 1985. On September 5, 1984 a 10% stock dividend was distributed. 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 L) and earnings per share information for the current and prior periods reflect the stock dividend and stock split.

Financial Statement Reclassifications: Certain amounts in the June 30, 1985 and 1986 financial statements have been reclassified to conform with the presentation of these amounts in the June 30, 1987 financial statements.

NOTE B — Investment Securities

The recorded and aggregate market values of investment securities at June 30, 1987 and 1986 consisted of the following:

	1987		1986	
	Recorded Value	**Market**	Recorded Value	Market
U.S. Treasury and Agency	**$3,232,671**	**$3,039,919**	$2,337,358	$2,328,552
Other	**932,573**	**932,573**		
	$4,165,244	**$3,972,492**	$2,337,358	$2,328,552

NOTE C — Loans Receivable

Loans receivable at June 30, 1987 and 1986 consisted of the following:

	1987	1986
Mortgage loans	**$31,073,891**	$40,441,119
Construction loans	**33,828,628**	41,767,771
Other loans	**1,383,037**	740,820
	66,285,556	82,949,710
Less:		
Loans in process of completion	**(11,081,093)**	(9,389,366)
Deferred acquisition credits	**(325,409)**	(256,262)
Allowance for loan losses	**(643,443)**	(402,518)
	$54,235,611	$72,901,564

NOTE C — Loans Receivable (continued)

Changes in the allowance for loan losses were as follows:

Balance at July 1, 1984	$ -0-
Provision charged to operations	156,398
Transfer from Loans to REO	(56,398)
Balance at June 30, 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

The average yield earned on loans and mortgage backed securities was 9.53% in 1987 and 11.53% in 1986.

Loans serviced for the benefit of others totaled $99,259,944 at June 30, 1987, $43,446,757 at June 30, 1986 and $8,239,745 at June 30, 1985.

Certain officers and directors of Summit Savings Association were loan customers of the Association in the ordinary course of business. At June 30, 1987 and 1986, such loans totaled approximately $913,000 and $1,067,000, respectively. Loans originated during 1987 totaled approximately $299,000. Payments received during 1987 totaled approximately $453,000.

Loan commitments outstanding at June 30, 1987 were approximately $15,009,700 of which $2,194,300 were 15 to 30 year term fixed rate commitments with rates ranging from 8.75% to 10.875%.

NOTE D — Real Estate Owned

Real estate owned at June 30, 1987 and 1986 consisted of the following:

	1987	1986
Real estate acquired in exchange for loans receivable	**$2,462,576**	$2,463,400
Real estate acquired through foreclosure or deed in lieu of foreclosure	**1,751,820**	628,639
Less allowance for estimated losses	**(471,601)**	(80,000)
	1,280,219	548,639
	$3,742,795	$3,012,039

NOTE D — Real Estate Owned *(continued)*

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

Balance at July 1, 1984	$ -0-
Provision charged to operations	
Transfer from Loans to REO	56,398
Losses realized on real estate sold	(16,398)
Balance at June 30, 1985	40,000
Provision charged to operations	
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

NOTE E — Leasehold Improvements, and Furniture and Equipment

Leasehold improvements, and furniture and equipment at June 30, 1987 and 1986 consisted of the following:

	Estimated Useful Lives	**1987**	1986
Leasehold improvements	Life of lease	**$136,713**	$117,001
Furniture and equipment	3-5 years	**642,238**	439,406
		778,951	556,407
Allowance for depreciation		**(328,060)**	(227,805)
		$450,891	$328,602

NOTE F — Deposits

Deposits by interest rate at June 30, 1987 and 1986 consisted of the following:

		1987		1986	
	Stated Rate	**Amount**	**Percent**	Amount	Percent
Balance by interest rate:					
Business checking	0.00%	**$ 50,313**	**.1%**	$ 72,195	.1%
Non-interest checking	0.00	**182,120**	**.3**	327,283	.5
Treasury, tax and loan deposits	0.00	**33,249**		20,540	
Checking with interest	5.25	**1,261,214**	**1.9**	910,108	1.4
Statement savings	5.50	**496,967**	**.7**	264,542	.4
Money market checking	5.75	**567,184**	**.8**	427,032	.6
Money market investment	6.15	**8,773,716**	**12.9**	10,377,524	15.4
Money market plus	6.60	**5,864,645**	**8.6**	3,434,691	5.1
		17,229,408	**25.3**	15,833,915	23.5
Certificates:					
	5.01 - 6.00	**162,932**	**.2**	343,423	.5
	6.01 - 7.00	**25,072,544**	**36.8**	4,310,810	6.4
	7.01 - 8.00	**17,519,536**	**25.7**	16,512,834	24.5
	8.01 - 9.00	**1,731,170**	**2.6**	18,464,871	27.4
	9.01 - 10.00	**1,769,490**	**2.6**	5,874,854	8.7
	10.01 - 11.00	**2,285,390**	**3.4**	2,318,018	3.5
	11.01 - 12.00	**201,289**	**.3**	1,530,241	2.3
	12.01 - 13.00	**1,956,007**	**2.9**	1,845,176	2.7
	13.01 - 14.00	**150,000**	**.2**	312,000	.5
		50,848,358	**74.7**	51,512,227	76.5
		$68,077,766	**100.0%**	$67,346,142	100.0%

The average cost of deposits was 7.14% for 1987 and 8.50% for 1986.

Certificate accounts will mature in the following years ending June 30:

	1987		1986	
	Amount	**Percent**	Amount	Percent
1987			$44,651,464	86.7%
1988	**$48,757,566**	**95.9%**	5,460,395	10.6
1989	**1,322,737**	**2.6**	1,100,064	2.1
Thereafter	**768,055**	**1.5**	300,304	.6
	$50,848,358	**100.0%**	$51,512,227	100.0%

NOTE G — Advances from Federal Home Loan Bank

Advances from the Federal Home Loan Bank of Seattle at June 30, 1987 and 1986 consisted of the following:

Payable during period ending June 30	Interest rates at June 30, 1987	**1987**	1986
1987			$6,000,000
1988	7.439%	**$1,843,750**	
1989	9.875	**1,000,000**	1,000,000
1990	8.950	**2,000,000**	1,000,000
1992	8.150	**3,000,000**	
		$7,843,750	$8,000,000

Advances are collateralized by mortgage loans, and by mortgage backed securities with a market value of not less than 120% of outstanding Bank advances and Federal Home Loan Bank stock of $566,300.

Collateral is held by the Federal Home Loan Bank.

NOTE H — Short-Term Borrowings and Subordinated Debentures

Short-term borrowings at June 30, 1987 and 1986 consisted of the following:

	1987	1986
Consumer repurchase agreements	**$306,307**	$ 366,104
Notes payable		568,000
Federal Home Loan Bank Demand Deposit Account overdraft		1,042,242
	$306,307	$1,976,346

Consumer repurchase agreements bear interest rates of 5.25% at June 30, 1987 and 5.75% at June 30, 1986 and are collateralized by U.S. Government securities with a book value of $499,301 and $608,965 at June 30, 1987 and 1986, respectively.

The 12% notes payable represented the underlying debt on real estate acquired in exchange for loans receivable, and were repaid during fiscal 1987.

The overdraft in the Federal Home Loan Bank account at June 30, 1986 was a negative book balance only and did not result in an actual overdraft at the Federal Home Loan Bank.

During the year ended June 30, 1987, the Association sold $424,875 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 in all of the Association's existing and future indebtedness.

NOTE I — 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, 1987 includes approximately $950,000 for which no provision for federal income taxes has been made. If, in the future, this portion of retained earnings is used for any purpose other than to absorb bad debt losses, federal income taxes may be imposed at the then applicable rates.

Deferred federal income taxes (benefit) are provided for income and expenses recognized in different periods for financial reporting purposes than for purposes of computing income taxes currently payable. The sources of the timing differences and their tax effects for the years ended June 30, 1987, 1986 and 1985 are as follows:

	1987	1986	1985
Market value adjustment for investment securities	**$ (45,300)**		
FHLB Stock dividends	**48,300**		
Gain on sale of loans	**678,400**	$148,700	
Loan fees accounted for in a different period for financial reporting than for tax purposes	**(27,600)**	(19,500)	$193,500
Current year effect of changing from accrual to cash basis reporting for tax purposes	**375,800**	554,900	514,600
Tax net operating loss carryforward	**(1,128,000)**	(283,800)	(489,800)
Other	**(600)**	(800)	16,200
Total	**$ (99,000)**	$399,500	$234,500

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, 1987, 1986 and 1985 follows:

	1987	1986	1985
Tax (benefit) at statutory rate of 46%	**$(101,829)**	$428,463	$264,985
Bad debt deduction based on a percentage of income or experience method (net of minimum tax)	**(488,987)**	(172,159)	(92,212)
Surtax exemption	**20,250**	(20,250)	(20,250)
Investment tax credit		(4,255)	(7,536)
Loan loss reserve addition	**490,061**	175,720	64,400
Other	**(18,495)**	(8,019)	23,937
PROVISION (BENEFIT) FOR DEFERRED FEDERAL INCOME TAXES BEFORE EXTRAORDINARY ITEM	**(99,000)**	399,500	233,324
Extraordinary item			1,176
TOTAL	**$ (99,000)**	$399,500	$234,500

At June 30, 1987, investment tax credits of approximately $20,000 are available to offset future taxes payable for federal tax purposes through the year 2001. Net operating loss carryforwards of approximately $5,150,000 are available to offset taxable income generated in years through 1992.

NOTE J — Stockholders' Equity

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

Balance per regulatory report at June 30, 1987	$4,067,396
Subordinated debentures	(424,875)
Balance per accompanying financial statements at June 30, 1987	$3,642,521

The Association's regulatory capital requirement was $4,030,662 at June 30, 1987. The Association's net worth which includes $100,000 of nonspecified loan loss reserves, exceeded this requirement by $136,734.

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 K — Lease Commitments

The Association has an eight-year lease (including assumption of an underlying land lease for the same period) on a branch facility. The rent for the first three years was approximately $35,000 per year. Thereafter, the annual rental is subject to increase based upon the increase in the Consumer Price Index over the same period of time (but not to exceed 25% above the initial rental). The Association also has an option to extend the lease for two additional five-year periods following the expiration of the initial lease term. In addition, the Association has a three-year option to purchase the building improvements on the leased premises. The price would be determined by the average of three separate appraisals.

On July 1, 1986, the Association entered into a five-year lease on a new administrative and branch facility. Two floors of a new building were leased and approximately 25% of the space has been subleased to others. 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, and 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.

Rent expense for the years ending June 30, 1987, 1986 and 1985 was approximately $251,000, $106,000 and $93,000, respectively. Future minimum rental commitments are as follows:

Years Ending June 30	Amount
1988	$ 416,400
1989	415,300
1990	438,700
1991	424,800
Thereafter	-0-
	1,695,200
Proceeds from commitment to sublet	(252,917)
	$1,442,283

NOTE L — Stock Options and Warrants

In connection with its original public stock offering, the Association granted to the underwriter a warrant, which expired February 5, 1987, entitling the underwriter to purchase from the Association, at the price of $5.46 per share, 38,112 shares of Common Stock.

The Association granted options to officers and full-time employees under its Incentive Stock Plan adopted September 19, 1984. Under this plan, 57,388 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	**1987**	1986
Outstanding beginning of fiscal year	**54,800**	20,000
Granted	**13,500**	36,000
Exercised	**(2,612)**	
Expired	**(9,000)**	(1,200)
Outstanding June 30	**56,688**	54,800
Exercisable June 30	**10,874**	5,000

At June 30, 1987, 700 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, 1987 ranged from $3.19 to $8.56. The price of options exercised during the year ended June 30, 1987 ranged from $3.19 to $4.25.

NOTE M — Capital Stock

On September 5, 1984, a 10% stock dividend was distributed to stockholders of record on August 14, 1985.

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

DALE P. HARRISON
President
and Chief Executive Officer

WILLIAM P. HURME
President
Altis Properties, Ltd.

DOUG T. MERGENTHALER
President
Ashton Corporation

PAUL E. NOLAN
President
Nolan Construction Company

ROBERT G. STEWART
President
Stewart-Greacen Company

NORMAN D. WINTON
Senior Vice President
Chief Operating Officer
Impact Systems, Inc.

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
Chief Lending Officer

KATHY J. BURKE
Vice President
Business Development

BARBARA COYNE
Vice President
Loan Operations

MELISSA LURIE
Assistant Vice President
Commercial Lending

MERRI ANN SIMONSON
Assistant Vice President
Loan Servicing Manager

BARBARA J. TANGEMAN
Assistant Vice President
Branch Operations

PATRICIA L. WALDOW
Assistant Vice President
Controller

MARK K. WALPOLE
Assistant Vice President
Data Processing Manager

RINNEA WYNIA
Assistant Vice President
Closing Department Manager

BROOK L. DYKES
Corporate Secretary
Human Resources Manager

D. JEANNE LAWSON
Assistant Secretary

Summit's Board of Directors

Front row (from left to right): Paul E. Nolan, Robert G. Stewart, Doug T. Mergenthaler
Back row (from left to right): Dale P. Harrison, James D. Huber, William P. Hurme

ROBERT G. STEWART stepped down as a director of Summit Savings in August, 1987. On behalf of the directors and employees of Summit Savings we wish to express our appreciation to Rob for his faithful service as a founder, past chairman and director. His counsel and support were instrumental in setting Summit's course and he will be missed.

Best wishes Rob.

Summit's Senior Management

From left to right: Marie T. Gudger, *Senior Vice President, Treasurer;* Dale P. Harrison, *President, Chief Executive Officer;* Judith F. Hay, *Senior Vice President, Financial Services;* Rick E. Lewis, *Senior Vice President, Chief Lending Officer.*

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

Independent Public Accountants
Ernst & Whinney
1800 First Interstate Plaza
1201 Pacific Avenue
Tacoma, Washington 98402

Legal Counsel
Foster, Pepper & Riviera
1111 Third Avenue
Seattle, Washington 98101

Stock Listing
NASDAQ
Symbol: SMMT

Stock Transfer Agent
First Jersey Shareholder Services
Pike Tower
520 Pike Street
Suite 2134
Seattle, Washington 98101

Annual Meeting

The 1987 Annual Meeting of Stockholders of Summit Savings will be held at the Bellevue Athletic Club, 11200 S.E. 6th, Bellevue, Washington on Thursday, November 12, 1987 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 traded on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol "SMMT." The following are based on the reported sale prices (adjusted for a two-for-one stock split effective February 21, 1986) in the NASDAQ National Market System by the National Association of Securities Dealers. The approximate number of holders of record of the Association's common stock at June 30, 1987 was 500.

	Price for Fiscal Year Ending			
	1987		1986	
	High	**Low**	High	Low
Quarter Ended				
September 30	**$8.88**	**$5.38**	$3.94	$3.00
December 31	**6.50**	**4.50**	4.00	3.75
March 31	**7.25**	**5.00**	7.50	3.75
June 30	**6.13**	**3.13**	9.25	5.50

The Association's stock is not actively traded.

Dividends

No cash dividends have been paid.