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Annual
Reports

S U M M I T
A N N U A L
R E P O R T

19



90

PROPERTY OF
SEATTLE PUBLIC LIBRARY

S U M M I T S A V I N G S

| <i>Dollars in thousands, except per share data</i> | | 1990 | 1989 | 1988 |
|--|---|-----------|------------|----------|
| AT JUNE 30 | Total Assets | \$113,339 | \$109,970 | \$98,394 |
| | Loans Receivable and Mortgage-Backed Securities | 94,296 | 79,789 | 84,543 |
| | Deposits | 81,586 | 80,267 | 69,531 |
| | Advances from the Federal Home Loan Bank | 7,600 | 9,600 | 6,600 |
| | Shareholders' Equity | 8,859 | 2,915 | 4,067 |
| | Book Value Per Share | 4.41 | 4.66 | 6.50 |
| | Shareholders' Equity to Assets | 7.82% | 2.65% | 4.13% |
| FOR THE YEAR ENDED JUNE 30 | Weighted Average Yield: | | | |
| | Loans and Mortgage-Backed Securities | 11.08% | 10.58% | 9.50% |
| | Cash and Debt Securities | 8.32 | 8.29 | 6.85 |
| | Combined | 10.54 | 10.33 | 9.28 |
| | Weighted Average Cost of Funds: | | | |
| | Deposits | 8.55 | 8.17 | 7.28 |
| | Borrowings | 9.99 | 9.93 | 8.48 |
| | Combined | 8.89 | 8.59 | 7.49 |
| | Interest Rate Spread | 1.65 | 1.74 | 1.79 |
| | Net Interest Margin | 2.03 | 1.87 | 2.03 |
| | Net Income (Loss) | \$ 553 | \$ (1,152) | \$ 425 |
| | Earnings (Loss) per Share | | | |
| | Net Income (Loss) before Accounting Change | .42 | (1.84) | .38 |
| | Cumulative Effect of Accounting Change | | | .30 |
| | Net Income (Loss) | .42 | (1.84) | .68 |
| | Real Estate Loans Originated | 100,638 | 41,063 | 74,669 |
| | Return on Average Assets | .50% | (1.11)% | .47% |
| | Return on Average Shareholders' Equity | 9.40% | (32.99)% | 11.02% |

A year ago we set a goal of a rapid return to operating profitability. We are pleased to report

that we were successful in achieving that goal. Earnings for fiscal 1990 were \$553,211 or \$.42 per share as compared to a loss of \$1,151,896 or \$1.84 per share in fiscal 1989. We have every reason to believe that fiscal 1991 will see continued earnings improvement.

We also set out to restructure our company. During the year we were successful in raising \$5,400,000 in new capital which, when combined with our earnings, brings our capital ratio to a very healthy 7.8 percent. As a result, Summit Savings now exceeds all of the fully phased-in capital requirements of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA).

Other measures taken in restructuring include a new focus on residential real estate lending.

This resulted in real estate loan production of \$100,637,942—90 percent of which is comprised of 1 to 4 single-family loans. This compares to fiscal 1989 real estate loan production of \$41,063,175—70 percent of which was in the 1 to 4 single-family category.

We were successful in reducing the non-earning real estate owned (REO) category to 16 percent of its 1989 level, from \$2,982,056 to \$477,603. The invested proceeds realized from the sale of REO combined with our new capital has helped to offset the effect of replacing higher-risk, higher-yielding commercial loans with lower-risk, but lower yielding residential real estate loans. Non-performing assets (REO plus non-accruing loans) totaled \$2,136,629 at June 30, 1990 compared to \$3,888,172 at June 30, 1989. All in all, we feel asset quality has improved significantly and we are committed to continuing that improvement as we go forward.

Changing our deposit mix was another important part of our restructuring effort. High

cost jumbo certificates were reduced from 19 percent of total deposits to less than 10 percent. Total deposits increased only \$1,319,000 during the year, primarily as a result of this restructuring strategy. This new deposit mix is healthier and we believe will provide a more reliable, lower cost source of funds.

In July we began offering consumer loans. The initial response is very positive. Consumer

lending broadens our scope of business while adding to the many products and services already available to Summit customers. Because of our extensive experience in underwriting real estate secured loans, we have initially limited our entry into consumer lending to equity loans, either lines of credit or set loans secured by customers' home equity. We are confi-

dent that these loans will be a profitable addition to our menu of services.

In March of this year, John Cadigan was elected Chairman of the Board. Jim Huber, our

Chairman of the past seven years, remains on the Board and Summit looks forward to his continued contribution. L. Michael Riley joined the Board in April, replacing Norman Winton who resigned in December after relocating to California. Mike brings an extensive background in banking and accounting; he is a great addition to the Summit team. We wish to thank Jim and Norm for their contributions and welcome Mike to the Board.

At fiscal year end we relocated our offices and main branch to the Summit Building.

The new facility offers us greater visibility, easier access and provides a significantly better work environment. We are pleased to report that this move was accomplished with a projected reduction in our occupancy expense. We believe our new building to be symbolic of a revitalized, stronger, more focused Summit Savings.

The coming year promises to be exciting. Our new location will enhance our ability

to continue building our business, improving upon our primary activities of residential loan production and deposit generation. Expansion to Whatcom County, one of our region's fastest growing areas, promises positive gains. Our new loan production center opened in August, with plans now under consideration for a full-service branch.

While many challenges remain for the thrift industry we are fortunate to be well-located

in the vibrant and dynamic local economy of the Pacific Northwest. With our new capital and the solid foundation it provides us, Summit is poised to take advantage of any opportunities the current environment might offer.

Our sincere thanks to our customers, dedicated staff and our shareholders. We have worked

very hard to make Summit a good place to save and do business. And we encourage you to get to know us better by doing all of your banking with Summit. In doing so, you directly contribute to the value of your investment and the strength of your company.



JOHN D. CADIGAN
Chairman of the Board



JAMES F. GRABICKI
President
Chief Executive Officer

IN A COMPETITIVE MARKETPLACE,
VISIBILITY IS VITAL. IN THE HEART
OF BELLEVUE, LOCATED BETWEEN
THE MAJOR DOWNTOWN INTER-
SECTIONS, OUR NEW HEADQUARTERS
OFFERS JUST THAT. THE SUMMIT
BUILDING SAYS SOMETHING ABOUT
THE WAY WE VIEW OURSELVES
TODAY; WE ARE PROUD OF ALL THAT



WE'VE ACCOMPLISHED THIS PAST
YEAR. OUR NEW LOCATION STANDS
AS AN AFFIRMATION OF THE TEAM-
WORK AND SPIRIT THAT OUR PEOPLE
BRING TO THEIR JOBS. LOOKING
AHEAD, SUMMIT WILL BE AN EVEN
MORE VITAL PART OF THIS DYNAMIC
COMMUNITY THAN EVER BEFORE.

GROWTH, SERVICE AND HOMETOWN BANKING

Growth and its effect on the Pacific Northwest is a complex and controversial topic.

But during the past year, those effects have been felt in many positive and promising ways at Summit Savings. Growth has challenged our employees and managers. We have sharpened our competitive skills, developed insights into our marketplace and enhanced our ability to serve our customers.

Indicators tell us that while the past few years have seen an unprecedented

surge in economic activity and opportunity, the coming years will, by comparison, offer solid, healthy but more moderate growth. And in view of that future, Summit is in an excellent position to implement our experience, extend our service territory and grow with the communities we know so well.

What those communities have come to value at Summit is our orientation

to personal, one-to-one service. Convenient bank-by-mail. Telephone banking. Lending and investment specialists that travel to meet with clients in their homes and offices. Our services are designed to provide a sense of continuity

THE QUALITY OF LIFE IN THE
 NORTHWEST HAS BECOME A
 NATIONAL TOPIC. WITH A TEN-YEAR
 LOW IN UNEMPLOYMENT,
 INCREASING PACIFIC RIM TRADE, AN
 ANNUALIZED INCREASE IN MANU-
 FACTURING EMPLOYMENT OF
 9.4 PERCENT, AND AN INFUX OF
 MORE THAN 73,000 NEW RESIDENTS
 LAST YEAR, THE AREA IS WORKING



TO BALANCE AN ENVIABLE LIFESTYLE
 AND AN ECONOMY THAT HAS DRIVEN
 HOME PRICES UP 40 PERCENT OVER
 A YEAR AGO. THANKS LARGELY TO
 OUR FOCUS ON RESIDENTIAL LEND-
 ING, HOME LOANS WERE UP OVER
 200% IN 1990. THE OUTLOOK IS
 MODERATING, BUT STILL STRONG.

and our people are there to provide a friendly voice. That commitment to service helps build the confidence and long-term relationships so critical to a successful service company. And few people have demonstrated that commitment as clearly as our staff. In a changing environment, Summit will not abandon its sense of belonging to the communities we serve.

TEAMWORK AND RESULTS

Assets can be measured and analyzed many ways. And while the quality that people bring to their work may sometimes be hard to quantify, there is no question that one of our greatest assets must be our people. 1990 was a demanding year for the Summit team. Our loan originations more than doubled even though our lending focus narrowed. We began offering consumer loans, brought on a new chairman and moved our main branch and corporate headquarters. These changes demanded extra effort and commitment on the part of every Summit employee. The results are tangible. Our new offices have lowered our

SUMMIT'S GROWTH IS DUE TO A
SOMEWHAT UNIQUE APPROACH. AN
IMPORTANT PART OF OUR SERVICE
STRATEGY IS BASED ON THE EXTEN-
SIVE USE AND PROMOTION OF OUR
AUTOMATED TELLER MACHINE
NETWORK. THE BENEFITS ARE
OBVIOUS: WE ARE ABLE TO EXTEND
OUR EFFECTIVE MARKET RANGE
WHILE AVOIDING THE EXPENSES
ASSOCIATED WITH AN EXTENSIVE
BRANCH OFFICE NETWORK. AT THE
SAME TIME WE ARE DRAWING BUSI-
NESS FROM AS FAR NORTH AS
BELLINGHAM AND AS FAR SOUTH AS



OLYMPIA WHILE PROVIDING OUR
CUSTOMERS WITH THE CON-
VENIENCE AND SERVICE THAT IS
CENTRAL TO OUR CONTINUING
SUCCESS. THE NETWORK KEEPS US
IN CONSTANT TOUCH, 24 HOURS A
DAY, AS LONG AS THERE IS AN
EXCHANGE MACHINE CLOSE BY.

occupancy expense and raised our profile in the community. Our new chairman has brought valuable experience and insight to our operations. Without the spirit of teamwork and dedication of our people, what were consistently positive results might have turned out much differently.

The team effort comes through at every level of our business. It's part of our philosophy. It helps us accomplish more for our customers and our shareholders. It lets us compete more effectively. It means we can be more efficient. It means we can share the sense of accomplishment that 1990 has brought and meet the challenge and promise that 1991 brings. Ultimately, it makes us better at what we do.

THE VIEW FROM HERE

Our return to profitability was the result of many steps Summit has taken in the past year. With our renewed focus on home loans, we were able to get back to the basics of what a savings institution is all about.

THE I-5 CORRIDOR HAS GAINED NATIONAL ATTENTION AS ONE OF THE NATION'S MOST RAPIDLY GROWING AREAS. FROM THE OREGON BORDER NORTH TO THE CANADIAN BORDER, THE ECONOMIC STRENGTH OF THIS REGION IS EXPECTED TO CONTINUE TO EXPAND WELL INTO THE MID-NINETIES. BELLINGHAM, THE LARGEST CITY IN WHATCOM COUNTY, HAS BECOME ONE FOCAL POINT OF THIS DRAMATIC GROWTH. JUST LAST YEAR, HOUSING STARTS THROUGHOUT WHATCOM COUNTY WERE UP ALMOST 44 PERCENT FROM THE PRIOR YEAR. THAT STATISTIC MAY BE THE STRONGEST REASON WE



OPENED OUR NEW LENDING OFFICE IN AUGUST, WITH PLANS UNDER CONSIDERATION TO EXPAND. ANOTHER IS OUR FAMILIARITY WITH THE MARKET: OUR PRESIDENT, JIM GRABICKI, WAS PRESIDENT OF MT. BAKER BANK, WITH HEADQUARTERS IN BELLINGHAM, FOR FIVE YEARS.

Today, Summit already exceeds compliance with fully phased-in FIRREA

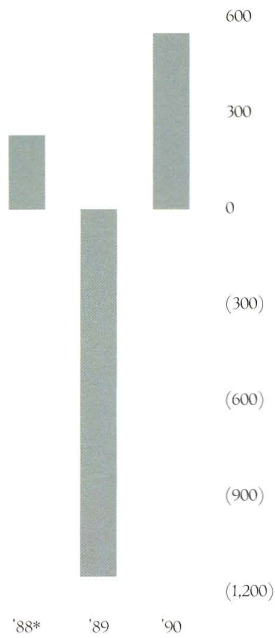
requirements. Our deposit mix is on solid ground. With consumer loans we are broadening our product and service mix. Our new Bellingham lending office and the prior experience of our senior management with the Bellingham market gives us the opportunity to expand our service territory with little risk; the office opened in August of this year to a very positive response.

Our name implies a certain viewpoint. A view from the summit offers sights

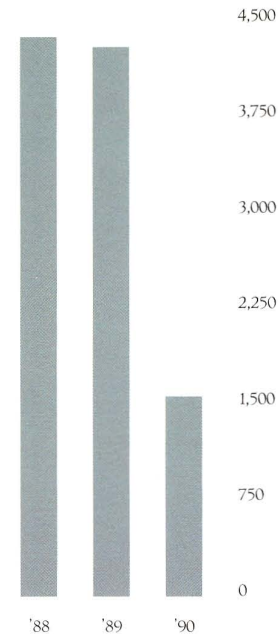
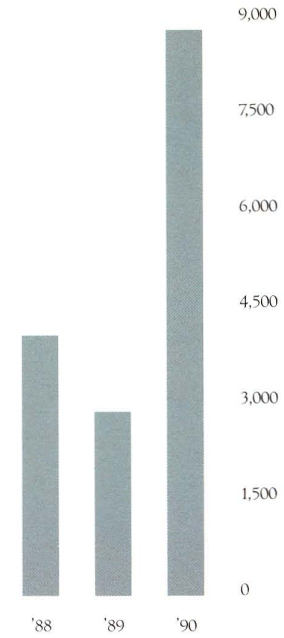
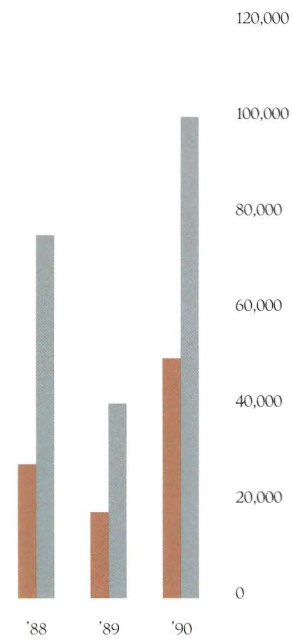
that aren't available from ground level. It provides a perspective that stretches beyond the immediate. We haven't reached the summit of our business yet. But we are on our way. We won't overlook the day-to-day details of our business. If anything, we will continue to refine our focus. But the summit lies ahead. It will mean hard work and dedication to reach it. We see the potential. And we know that today we have the people, the experience and the ability to fulfill that potential.

FINANCIAL CHARTS

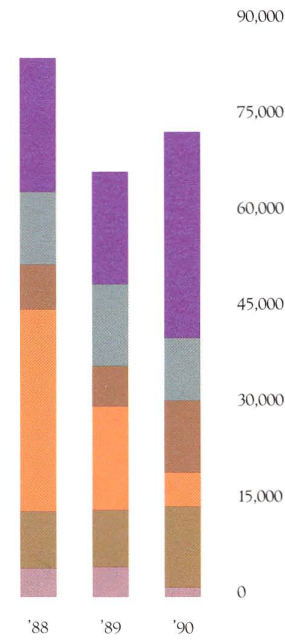
EARNINGS

Dollars in thousands

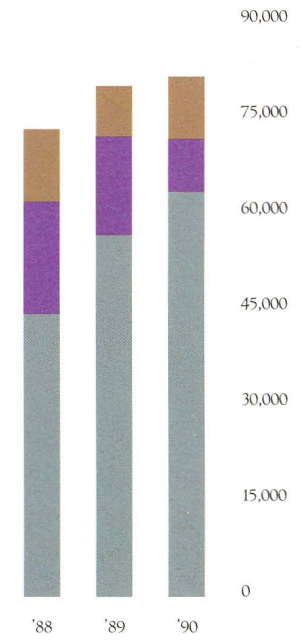
* BEFORE CUMULATIVE EFFECT OF
CHANGE IN ACCOUNTING FOR INCOME
TAXES OF \$190,000

NINETY DAY DELINQUENT
LOANS AND REO*Dollars in thousands*SHAREHOLDERS'
EQUITY*Dollars in thousands*LOAN PRODUCTION
AND SALES*Dollars in thousands*

■ REAL ESTATE LOAN PRODUCTION
■ SALES

LOAN
PORTFOLIO MIX*Dollars in thousands*

■ 1-4 FAMILY PERMANENT
■ 1-4 FAMILY CONSTRUCTION
■ MULTI-FAMILY PERMANENT
■ OTHER CONSTRUCTION
■ OTHER INCOME PROPERTY LOANS
■ LAND

DEPOSIT
MIX*Dollars in thousands*

■ DEMAND ACCOUNTS AND
STATEMENT SAVINGS
■ JUMBO CERTIFICATES
■ OTHER CERTIFICATES OF DEPOSIT

Description of Business

Summit Savings Association ("Summit" or "Association") is a Washington chartered stock savings and loan association, established in 1981. To better serve its customers in the Puget Sound area, Summit's Bellevue offices were relocated in June 1990 to a more accessible location. In August 1990 a loan office was opened in Bellingham, Washington.

The Association has two wholly-owned subsidiaries. Life insurance and annuities are sold through its subsidiary, Summit Services, Inc. In June 1988 a finance subsidiary, Summit Capital Corporation, was formed to issue collateralized mortgage obligations.

Summit's primary business is to attract savings deposits from the general public and to originate permanent mortgage and construction loans secured by single-family residences. Many of these loans are then sold in the secondary mortgage market. This represents a change in direction from past years when commercial and multi-family real estate loans were emphasized.

The Association is regulated, supervised and examined by the State of Washington, as well as by federal regulators. During 1989, the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) significantly altered the regulatory environment. FIRREA's key provisions replaced the Federal Home Loan Bank Board (FHLBB) with the Office of Thrift Supervision (OTS), abolished the Federal Savings and Loan Insurance Corporation (FSLIC), vested the prior insurance responsibilities of the FSLIC in the Federal Deposit Insurance Corporation (FDIC) and placed the Federal Home Loan Banks (FHLBs) under the jurisdiction of the Federal Housing Finance Board. As a result, Summit is now examined by the OTS, with oversight by the FDIC. Its deposits are insured by the FDIC under the Savings Association Insurance Fund.

FINANCIAL CONDITION

Assets

Total assets of the Association increased to \$113.3 million at June 30, 1990 compared to \$110.0 million at June 30, 1989, primarily as a result of a \$14.5 million increase in loans receivable and mortgage-backed securities, partially offset by an \$8.4 million decrease in debt securities and a \$2.5 million decrease in real estate owned.

The increase in loans receivable and mortgage-backed securities is attributable primarily to new loan production and construction loan disbursements of \$94.3 million and purchases of loans and mortgage-backed securities of \$13.0 million, offset by principal repayments of \$36.5 million and sales of \$56.7 million. The reserve for loan losses increased from \$375,000 to \$421,000 due to write-offs of \$62,000 and an increase of \$108,000 in the loss reserves.

Real estate owned decreased from \$3.0 million to \$478,000 primarily as the result of the sale of five properties. These properties were sold in excess of their June 30, 1989 net book value. At June 30, 1990, real estate owned consists of two properties — a commercial building and an undeveloped parcel of land adjacent to a shopping center. No new properties were added to real estate owned in fiscal 1990.

Liabilities and Shareholders' Equity

Total liabilities decreased \$2.6 million from \$107.1 million to \$104.5 million. The decrease was due primarily to decreases in FHLB advances and other liabilities and a decrease in the balance of the collateralized mortgage obligations, offset in part by a \$1.3 million increase in deposits. The decrease in other liabilities is primarily due to an \$837,000 decrease in principal and interest payable on loans sold resulting from the transfer of payments received to a deposit account in the purchaser's name.

The deposit growth was achieved with a 1.9 million increase in lower cost deposits. Jumbo certificates with minimum balances of \$100,000 were reduced from 19.2% to 9.9% of total deposits. Certificates maturing within one year were reduced from 89.4% to 44.8%.

Shareholders' equity increased \$6.0 million from \$2.9 million to \$8.9 million. Net proceeds from the sale of 1.4 million shares of stock added \$5.4 million to shareholders' equity which was further augmented by net income of \$553,000.

RESULTS OF OPERATIONS

General

The Association recorded net income of \$553,000 for the year ended June 30, 1990 compared to a net loss of \$1.2 million for the year ended June 30, 1989, and net income of \$425,000 for the year ended June 30, 1988. The net income earned in fiscal 1990 reflects a \$467,000 increase in net interest income after provision for loan losses, a \$654,000 increase in other income, a \$1.1 million decrease in other expense and a \$477,000 decrease in income tax benefit. Underlying factors in these improved operating results were an increase in production and sales of mortgage loans and a decrease in real estate owned and non-accruing loans. The net loss in fiscal 1989 resulted primarily from additions of \$1.3 million to the provisions for losses on loans and real estate owned. The operating results for fiscal 1988 were favorably affected by a gain of \$398,000 on the sale of a parcel of real estate owned, which offset additions to the provisions for losses on loans and real estate owned of \$230,000, and a change in the method of accounting for income taxes. See Note K to the consolidated financial statements.

Interest Income and Expense

Combined interest income from mortgage-backed securities and loans receivable decreased \$86,000 in fiscal 1990 compared to fiscal 1989 and increased \$1.7 million in fiscal 1989 compared to fiscal 1988. The decrease in fiscal 1990 was due to a \$4.8 million decrease (from \$89.1 million to \$84.3 million) in average balances, only partially offset by an increase from 10.6% to 11.1% in average interest yield. The increase in 1989 was due to an increase of \$7.5 million (from \$81.7

million to \$89.2 million) in average balances and an increase from 9.5% to 10.6% in average interest yield in fiscal 1989 compared to fiscal 1988.

Interest income from cash, interest-bearing deposits, debt securities and FHLB stock increased \$802,000 in fiscal 1990 compared to fiscal 1989 and \$370,000 in fiscal 1989 compared to fiscal 1988. The increase in fiscal 1990 was due to an increase of \$9.6 million (from \$10.7 million to \$20.3 million) in average balances while average interest yield remained at 8.3% for both fiscal 1990 and 1989. The increase in fiscal 1989 was due to an increase of \$3.2 million (from \$7.5 million to \$10.7 million) in average balances and an increase from 6.9% to 8.3% in average interest rates earned.

Deposit interest expense increased \$468,000 in fiscal 1990 compared to fiscal 1989 and \$919,000 in fiscal 1989 compared to fiscal 1988. The increase in fiscal 1990 was due to a \$2.2 million increase (from \$75.4 million to \$77.6 million) in average deposit balances and an increase in average interest rates paid from 8.2% to 8.5%. The increase in fiscal 1989 was due to an increase of \$3.4 million (from \$72.0 million to \$75.4 million) in average deposit balances and an increase in average interest rates paid from 7.3% to 8.2%.

Interest on borrowings decreased \$4,000 in fiscal 1990 compared to fiscal 1989 and increased \$1.1 million in fiscal 1989 compared to fiscal 1988. The decrease in fiscal 1990 was due to a decrease of \$205,000 (from \$23.3 million to \$23.1 million) in average borrowing balances, offset by an increase from 9.9% to 10.0% in average rates paid. The increase in fiscal 1989 was due to an increase in average borrowings of \$8.6 million (from \$14.7 million to \$23.3 million) and an increase in average interest rates paid from 8.5% to 9.9%. The increases in balances and rates in fiscal 1989 were due in part to issuing a collateralized mortgage obligation in June 1988.

Net interest income before provision for loan losses increased \$252,000 in fiscal 1990 compared to fiscal 1989 and \$56,000 in fiscal 1989 compared to fiscal 1988. Net interest income is affected by the ratio of average interest-earning assets to average interest-bearing liabilities, which was 102.5%, 98.5% and 99.9% in fiscal 1990, 1989 and 1988, respectively. The interest rate spread (the difference between the yields received on the Association's interest-bearing deposits, debt securities, mortgage-backed securities and loans, including non-accruing loans, and the rates paid for the Association's deposits and borrowings) was 1.65%, 1.74% and 1.79% in fiscal years 1990, 1989 and 1988, respectively. The net interest margin (net interest income to average interest-earning assets) for the years ended June 30, 1990, 1989 and 1988 was 2.03%, 1.87% and 2.03%, respectively.

Provision for Losses on Loans and Real Estate Owned

One measure of the quality of the 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:

| <i>At June 30/Dollars in millions</i> | <i>1990</i> | <i>1989</i> | <i>1988</i> |
|---------------------------------------|-------------|-------------|-------------|
| Real estate owned | \$.5 | \$3.0 | \$2.3 |
| Non-accruing loans | <u>1.1</u> | <u>.8</u> | <u>1.8</u> |
| Total | \$1.6 | \$3.8 | \$4.1 |
| Percent of total assets | 1.4% | 3.5% | 4.1% |

Another measure of the quality of the Association's assets is the amount of problem assets classified in accordance with OTS guidelines:

| <i>At June 30/Dollars in millions</i> | <i>1990</i> | <i>1989</i> | <i>1988</i> |
|---------------------------------------|-------------|-------------|-------------|
| Classified assets | \$4.9 | \$5.0 | \$8.2 |
| Percent of total assets | 4.3% | 4.5% | 8.4% |

The Association evaluates reserves for losses on loans and real estate owned on an ongoing basis. Economic conditions, portfolio mix and growth, historical loss experience and an in-depth review of selected individual loans and properties determine the amount of the loss provisions.

The provision for losses on loans was \$108,000, \$323,000 and \$134,000 for the years ended June 30, 1990, 1989 and 1988, respectively, while loans charged off during the same periods were \$62,000, \$700,000 and \$25,000, respectively. The general loan loss reserve at June 30, 1990, was \$346,000 compared to \$330,000 at June 30, 1989 and \$185,000 at June 30, 1988. In 1989, after an extensive review of the loan portfolio, the general loan loss reserve was increased for possible future losses. The relatively small increase in fiscal 1990 compared to the prior year reflects the decreasing risk in the mortgage loan portfolio evidenced by a decrease in construction and land development loans.

The net recovery of losses on real estate owned was \$118,000 in fiscal 1990. Provisions for estimated losses on real estate owned were \$927,000 and \$96,000 for fiscal years 1989 and 1988, respectively. The recovery and provisions are included in "Net loss (gain) on sale, revaluation and operation of real estate owned." Since initial write-downs to fair value are charged through the loan loss reserve at the date real estate is acquired by the Association, any additions to or subtractions from the reserve for estimated losses on real estate owned represent changes in net realizable value occurring thereafter. The unusually large provision in fiscal 1989 reflects the effects of the rezoning of an improved multi-family parcel of land and operating losses anticipated on a commercial property acquired through foreclosure. The reserve for estimated losses on real estate owned at June 30, 1990, 1989 and 1988 was \$464,000, \$1.0 million and \$174,000, respectively.

Other Income and Expense

Other income increased \$654,000 in fiscal 1990 compared to fiscal 1989 and decreased \$1.1 million in fiscal 1989 compared to fiscal 1988. The fluctuations were primarily due to changes in loan origination fees, loan servicing income and gain on sale of loans.

In fiscal 1989 the Association implemented a new accounting standard for loan origination fees. The change required that loan origination fees and certain direct costs of originating loans be deferred and recognized as a yield adjustment over the life of the loan. Loan fees in 1988 were not restated to reflect the change.

Loan servicing income increased \$199,000 and \$43,000 for the years ended June 30, 1990 and 1989, respectively, compared to one year earlier. The increase in fiscal 1990 reflects an adjustment in the amortization of excess servicing premiums on loan sales resulting from a determination through ongoing analysis that repayments on loans serviced for others were not being received as rapidly as anticipated.

The Association sells a portion of newly originated loans and their servicing in the secondary mortgage market. Gain

on loan sales consists primarily of the premium paid for the loan by the purchaser and the recognition into income of the deferred loan fee. Loan sales increased \$36.8 million (from \$17.9 million to \$54.7 million) in fiscal 1990 compared to fiscal 1989 and decreased \$21.2 million (from \$39.1 million to \$17.9 million) in fiscal 1989 compared to fiscal 1988. This was the primary reason for the \$511,000 increase in gain on loan sales in fiscal 1990 compared to fiscal 1989 and the \$65,000 decrease in fiscal 1989 compared to fiscal 1988. Falling interest rates during the first half of fiscal 1990 further increased gain on loan sales.

The primary factor in the \$1.1 million decrease in other expense for fiscal 1990 compared to fiscal 1989 and the \$794,000 decrease in fiscal 1989 compared to fiscal 1988 is the fluctuation in net loss (gain) on sales, revaluation and operation of real estate owned. As previously discussed, there was a net recovery of losses on real estate owned of \$118,000 for the year ended June 30, 1990. This was primarily due to sales of properties at prices greater than anticipated. The provision for estimated losses on real estate owned was \$927,000 and \$96,000 during the years ended June 30, 1989 and 1988, respectively. In fiscal 1988 a gain of \$398,000 was recorded from the sale of a parcel of land acquired in exchange for a loan receivable. In addition, expense to operate and maintain these properties was \$121,000, \$49,000 and \$54,000 in fiscal 1990, 1989 and 1988, respectively.

Other significant factors affecting operating expense in fiscal 1990 were a \$99,000 decrease in occupancy expense caused by subletting office space and the writeoff of the remaining deferral of one year's free rent when the Association moved to new headquarters, and a \$38,000 decrease in professional fees paid to others. In fiscal 1989 compensation and employee benefits decreased \$456,000 because of the implementation of the new accounting for loan fees which required the deferral of direct costs of originating loans, and depreciation and amortization decreased \$54,000 because of fully depreciated assets.

Federal Income Taxes

There was no provision for federal income tax in fiscal 1990 due to the retroactive application of Internal Revenue Service interpretive rulings in fiscal 1990 which allowed for the recalculation of the tax bad debt deduction for fiscal 1987. This recalculation resulted in approximately \$1.8 million in additional tax losses, which were carried forward and partially utilized to offset all book taxable income for fiscal 1990. The remainder of the tax loss carryforward is available to offset future book taxable income. The effective benefit rate of 29% in fiscal 1989 and the effective tax rate of 36% in fiscal 1988 differed from the statutory tax rate of 34% primarily as a result of the tax treatment of additions to the loan and real estate owned reserves. (See Note K to the consolidated financial statements for additional information.)

LIQUIDITY AND CAPITAL RESOURCES

The Association is required by applicable federal regulations to maintain in cash and liquid assets a monthly average of 5% of net withdrawable accounts plus borrowings payable on demand or within one year. The Association's liquidity ratio was 13.9% and 21.6% for the months of June 1990 and 1989, respectively.

The primary sources of funds are principal and interest payments on mortgage loans and mortgage-backed securities, sale of loans in the secondary market, sales and maturities of debt securities, FHLB advances and deposits.

The repayment of principal and interest on loans and mortgage-backed securities continues to be an important source of funds, totaling \$36.5 million and \$40.1 million in fiscal 1990 and 1989, respectively. The sale and maturity of debt securities has become an increasingly important source of funds, totaling \$31.8 million and \$11.7 million in fiscal 1990 and 1989, respectively.

The Association's ability to continue to originate loans is dependent on its ability to sell loans in the secondary mortgage market. Most of the Association's new originations are underwritten, documented and priced for sale in the secondary market. Loan sales in fiscal 1990 and 1989 were \$54.7 million and \$17.9 million, respectively.

In fiscal 1990 the Association issued 1.4 million additional shares of common stock which contributed \$5.4 million to capital. In fiscal 1989 liquidity was enhanced by a \$10.7 million increase in deposits and a \$3.0 million increase in FHLB advances. Summit has a line of credit with the FHLB in an amount equal to 20% of total assets, less advances outstanding.

On November 6, 1989, the OTS issued a new regulation prescribing uniformly applicable capital standards for savings associations. The standards include a tangible capital requirement of 1.5% of adjusted total assets, a core capital requirement of 3% of adjusted tangible assets and a phased-in, risk-based capital requirement, which requires a risk-based capital level of 6.4% until December 31, 1990, 7.2% from December 31, 1990 to December 30, 1992 and 8% thereafter. At June 30, 1990, Summit exceeded the fully phased-in capital requirements by \$5.2 million. See Note L to the consolidated financial statements.

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.

Interest rate risk, as measured by calculating the dollar difference between liabilities and assets repricing or maturing over a one-year period, has been kept within the acceptable ratio of 15% of assets established by the Board of Directors. Interest spread, although lower in fiscal 1990 than in fiscal 1989, is gradually but steadily increasing as a result of decreasing non-accruing loans and restructuring the deposit mix.

Liquidity is adequate for the foreseeable needs of the Association and is well above that required by federal regulators.

Credit risk has been reduced as evidenced by the loan portfolio mix. At June 30, 1990, construction loans comprised 20.6% of the portfolio compared to 46.3% at June 30, 1989 and 1-4 family permanent and construction loans comprised 59.1% compared to 50.1% at June 30, 1988. Of the \$100.6 million of real estate loans originated in fiscal 1990, 90% were 1-4 family.

REPORT OF DELOITTE & TOUCHE,
INDEPENDENT AUDITORS

Board of Directors
Summit Savings Association
400 112th Avenue N.E.
Bellevue, WA 98004

We have audited the accompanying consolidated statement of financial condition of Summit Savings Association and subsidiaries as of June 30, 1990, and the related statements of operations, shareholders' equity and cash flows for the year then ended. 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 audit. The financial statements of Summit Savings Association for the years ended June 30, 1989 and 1988 were audited by other auditors whose report, dated August 4, 1989, expressed an unqualified opinion on those financial statements and included a paragraph referring to the changes in accounting as described in Notes A and K to the financial statements.

We conducted our audit 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial condition of Summit Savings Association and subsidiaries as of June 30, 1990, and the results of their operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Deloitte & Touche

AUGUST 7, 1990
SEATTLE, WASHINGTON

| <i>June 30/Dollars in thousands</i> | | 1990 | 1989 |
|-------------------------------------|--|------------------|------------------|
| ASSETS | Cash | \$ 1,186 | \$ 2,984 |
| | Interest-bearing deposits | 10,485 | 8,992 |
| | Debt securities: | | |
| | Held for investment (market value of \$2,562 and \$8,067) | 2,723 | 8,207 |
| | Held for sale (market value of \$2,990) | | 2,961 |
| | Federal Home Loan Bank stock, at cost | 1,186 | 1,071 |
| | Mortgage-backed securities, net: | | |
| | Held for investment (market value of \$17,887 and \$15,812) | 19,004 | 17,036 |
| | Held for sale (market value of \$2,010) | 2,005 | |
| | Loans receivable, net: | | |
| | Held for investment | 67,634 | 61,623 |
| | Held for sale | 5,653 | 1,130 |
| | Accrued interest receivable | 1,029 | 981 |
| | Real estate owned, net | 478 | 2,982 |
| LIABILITIES | Excess servicing premium on loan sales | 1,088 | 1,190 |
| | Other assets | 868 | 813 |
| | | <u>\$113,339</u> | <u>\$109,970</u> |
| | Deposits | \$ 81,586 | \$ 80,267 |
| | Advances from Federal Home Loan Bank | 7,600 | 9,600 |
| | Short-term borrowings | 261 | 409 |
| | Collateralized mortgage obligations | 13,366 | 14,048 |
| | Convertible subordinated debentures | 521 | 521 |
| | Accrued interest payable | 662 | 694 |
| | Other liabilities | 484 | 1,516 |
| | | <u>104,480</u> | <u>107,055</u> |
| SHAREHOLDERS' EQUITY | 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 2,008,974 and 625,974 shares | 20 | 6 |
| | Additional paid-in capital | 8,316 | 2,939 |
| | Retained earnings (deficit) | 523 | (30) |
| | | <u>8,859</u> | <u>2,915</u> |
| | | <u>\$113,339</u> | <u>\$109,970</u> |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

| <i>Year Ended June 30/Dollars in thousands except per share data</i> | | 1990 | 1989 | 1988 |
|--|---|---------------|-------------------|---------------|
| INTEREST INCOME | Loans receivable | \$ 7,907 | \$ 8,036 | \$6,521 |
| | Mortgage-backed securities | 1,436 | 1,393 | 1,239 |
| | Debt securities | 223 | 523 | 152 |
| | Interest-bearing deposits | 1,346 | 234 | 271 |
| | Federal Home Loan Bank stock | 116 | 126 | 90 |
| | | <u>11,028</u> | <u>10,312</u> | <u>8,273</u> |
| INTEREST EXPENSE | Deposits | 6,632 | 6,164 | 5,245 |
| | Borrowings: | | | |
| | Federal Home Loan Bank advances | 791 | 750 | 882 |
| | Short-term borrowings | 9 | 11 | 194 |
| | Collateralized mortgage obligations | 1,460 | 1,503 | 125 |
| | Convertible subordinated debentures | 51 | 51 | 50 |
| | | <u>8,943</u> | <u>8,479</u> | <u>6,496</u> |
| | NET INTEREST INCOME | 2,085 | 1,833 | 1,777 |
| | Provision for loan losses | <u>108</u> | <u>323</u> | <u>134</u> |
| | NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | <u>1,977</u> | <u>1,510</u> | <u>1,643</u> |
| OTHER INCOME | Loan origination fees | | | 1,011 |
| | Loan servicing income | 479 | 280 | 237 |
| | Gain on sale of loans | 646 | 135 | 200 |
| | Debt securities gains (losses) | 32 | | (59) |
| | Other | 161 | 249 | 342 |
| | | <u>1,318</u> | <u>664</u> | <u>1,731</u> |
| OTHER EXPENSE | Compensation and benefits | 1,291 | 1,307 | 1,763 |
| | Occupancy | 379 | 478 | 465 |
| | Insurance | 196 | 184 | 167 |
| | Data processing | 141 | 137 | 143 |
| | Professional services | 161 | 199 | 147 |
| | Net loss (gain) on sale, revaluation, and operation of real estate owned | 2 | 976 | (277) |
| | Other | 572 | 522 | 601 |
| | | <u>2,742</u> | <u>3,803</u> | <u>3,009</u> |
| | INCOME (LOSS) BEFORE INCOME TAXES AND ACCOUNTING CHANGE | 553 | (1,629) | 365 |
| | Provision (benefit) for deferred federal income taxes | | (477) | 130 |
| | INCOME (LOSS) BEFORE ACCOUNTING CHANGE | 553 | (1,152) | 235 |
| | Cumulative effect of benefit of change in accounting for income taxes — Note K | | | 190 |
| | NET INCOME (LOSS) | <u>\$ 553</u> | <u>\$ (1,152)</u> | <u>\$ 425</u> |
| | Earnings (loss) per share: | | | |
| | Net income (loss) before accounting change | \$.42 | \$ (1.84) | \$.38 |
| | Cumulative effect of accounting change | | | .30 |
| | Net income (loss) | <u>\$.42</u> | <u>\$ (1.84)</u> | <u>\$.68</u> |

See notes to consolidated financial statements.

| <i>Dollars in thousands</i> | NUMBER OF SHARES OUTSTANDING | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS (DEFICIT) | TOTAL |
|-----------------------------|------------------------------------|-----------------|----------------------------------|-----------------------------------|----------|
| Balance at July 1, 1987 | 626 | \$ 6 | \$2,939 | \$ 697 | \$ 3,642 |
| Net income | — | — | — | 425 | 425 |
| Balance at June 30, 1988 | 626 | 6 | 2,939 | 1,122 | 4,067 |
| Net loss | — | — | — | (1,152) | (1,152) |
| Balance at June 30, 1989 | 626 | 6 | 2,939 | (30) | 2,915 |
| Proceeds from sale of stock | 1,380 | 14 | 5,364 | | 5,378 |
| Stock options exercised | 3 | | 13 | | 13 |
| Net income | — | — | — | 553 | 553 |
| Balance at June 30, 1990 | 2,009 | \$20 | \$8,316 | \$ 523 | \$ 8,859 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | <i>Year Ended June 30/Dollars in thousands</i> | 1990 | 1989 |
|----------------------|--|-----------|------------|
| OPERATING ACTIVITIES | Net income (loss) | \$ 553 | \$ (1,152) |
| | Adjustments to reconcile net income (loss) to net cash used by operating activities: | | |
| | Amortization of fees, discounts and premiums, net | (685) | (43) |
| | Gain on sale of assets, net | (54) | |
| | Federal Home Loan Bank stock dividends | (115) | (126) |
| | Excess servicing gains on loans sold | (54) | (11) |
| | Increase in accrued interest receivable | (48) | (70) |
| | Provisions for (recovery of) losses on loans and real estate owned | (10) | 1,250 |
| | Net increase in other assets | (55) | (6) |
| | Decrease in accrued interest payable | (32) | (57) |
| | Decrease in other liabilities | (1,032) | (452) |
| | Net Cash Used by Operating Activities | (1,532) | (667) |
| INVESTING ACTIVITIES | Proceeds from debt securities sold and maturing | 31,832 | 11,701 |
| | Purchases of debt securities | (22,965) | (18,968) |
| | Principal collected on mortgage-backed securities | 1,335 | 873 |
| | Mortgage-backed securities purchased | (7,262) | |
| | Mortgage-backed securities sold | 1,961 | |
| | Principal collected on loans receivable | 35,176 | 39,186 |
| | Proceeds from sale of loans receivable | 54,707 | 17,936 |
| | Loans originated, net of changes in loans in process | (94,301) | (53,008) |
| | Loans purchased | (5,776) | (262) |
| | Proceeds from sale of real estate owned | 2,666 | 514 |
| | Additions to real estate owned, net | (26) | (2,159) |
| | Net Cash Used by Investing Activities | (2,653) | (4,187) |
| FINANCING ACTIVITIES | Net increase (decrease) in demand deposits, NOW accounts and savings | 1,925 | (3,941) |
| | Net increase (decrease) in certificates of deposit | (606) | 14,677 |
| | Proceeds from advances from Federal Home Loan Bank | | 15,000 |
| | Repayment of advances from Federal Home Loan Bank | (2,000) | (12,000) |
| | Net increase (decrease) in short-term borrowings | (148) | 139 |
| | Decrease in collateralized mortgage obligations | (682) | (638) |
| | Net proceeds from issue of additional stock and exercise of stock options | 5,391 | |
| | Net cash provided by financing activities | 3,880 | 13,237 |
| | Increase (decrease) in cash and cash equivalents | (305) | 8,383 |
| | Cash and cash equivalents at beginning of year | 11,976 | 3,593 |
| | Cash and cash equivalents at end of year | \$ 11,671 | \$ 11,976 |
| | Supplemental Cash Flow Information | | |
| | Cash paid during the year for: | | |
| | Interest | \$ 8,975 | \$ 8,390 |
| | Federal income taxes | 11 | 10 |

See notes to consolidated financial statements.

Year Ended June 30/Dollars in thousands

1988

| | | |
|----------------------|---|------------------|
| SOURCE OF FUNDS | From operations: | |
| | Income before accounting change | \$ 235 |
| | Add (deduct) items recognized in net income which did not affect funds: | |
| | Interest credited to deposits | 5,249 |
| | Provision for depreciation | 144 |
| | Amortization of organization costs | 32 |
| | Deferred loan fee accretion | (173) |
| | Amortization of excess servicing on loan sales | 449 |
| | Premium amortization on debt securities | 2 |
| | Increase in accrued interest receivable | (231) |
| | Federal Home Loan Bank stock dividend | (90) |
| | Increase in accrued interest payable | 511 |
| | Gains on loans and mortgage-backed securities sold | (68) |
| | Loss on leasehold improvements, furniture and equipment abandoned or sold | 22 |
| | Provision for losses on loans and real estate | 230 |
| | Increase in deferred federal income tax | (60) |
| | | <u>6,017</u> |
| | Funds Provided from Operations before Accounting Change | 6,252 |
| | Cumulative effect of accounting change | <u>190</u> |
| | Funds Provided from Operations | 6,442 |
| | Debt securities matured and sold | 6,394 |
| | Loan and mortgage-backed security principal reductions and transfers to real estate owned | 24,657 |
| | Loans and mortgage-backed securities sold | 28,132 |
| | Proceeds from sale of real estate owned | 4,307 |
| | Proceeds from sale of convertible subordinated debentures | 96 |
| | Proceeds from collateralized mortgage obligations | 14,686 |
| | Proceeds from advances from Federal Home Loan Bank | 26,600 |
| | Proceeds from reverse repurchase agreements | 40,070 |
| | Proceeds from short-term bank borrowings | 8,000 |
| | Increase in advances from borrowers for taxes and insurance | 41 |
| | Increase in principal and interest payable on loans sold | <u>182</u> |
| | | <u>\$159,607</u> |
| APPLICATION OF FUNDS | Increase in cash and interest-bearing deposits | \$ 2,375 |
| | Purchase of debt securities | 4,973 |
| | Loans originated, net of changes in loans in process | 67,361 |
| | Loans purchased | 1,610 |
| | Additions to real estate owned | 2,924 |
| | Additions to leasehold improvements, furniture and equipment | 17 |
| | Purchase of Federal Home Loan Bank stock | 289 |
| | Increase in other assets | 252 |
| | Decrease in deposits before interest credited | 3,796 |
| | Repayment of Federal Home Loan Bank advances | 27,844 |
| | Decrease in other short-term borrowings | 36 |
| | Repayment of reverse repurchase agreements | 40,070 |
| | Repayment of short-term bank borrowings | 8,000 |
| | Decrease in accounts payable and accrued expenses | <u>60</u> |
| | | <u>\$159,607</u> |

See notes to consolidated financial statements.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: 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. Certain reclassifications have been made to the 1989 and 1988 financial statements to conform to the 1990 presentation.

Debt Securities: Debt securities are designated at the date of purchase as securities held for investment or securities held for sale. Securities held for sale are recorded at the lower of aggregate cost or market. Securities held for investment are recorded at cost, net of discounts and premiums, which are amortized to maturity. The cost of investments sold is computed using the specific identification method. At June 30, 1990 and 1989, the Association had the intent and ability to hold to maturity debt securities not specifically designated as held for sale, and neither a disposal nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

Mortgage-Backed Securities: Mortgage-backed securities are designated at date of purchase as securities held for investment or securities held for sale. Securities held for investment are recorded at cost less principal repayments. Securities held for sale are recorded at the lower of cost or market on an aggregate portfolio basis. At June 30, 1990 and 1989, the Association had the intent and ability to hold to maturity mortgage-backed securities not specifically designated as held for sale, and neither a disposal nor conditions that could lead to a decision not to hold these securities to maturity were reasonably foreseen.

Loans Receivable: Each loan receivable is designated, as a loan held for sale or as a portfolio loan. Loans held for sale are recorded at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements calculated on an aggregate portfolio basis. Portfolio loans are stated at the principal amount outstanding, net of deferred fees and discounts.

Reserve for Loan Losses: A reserve for losses is provided for specific loans when any significant permanent decline in value is deemed to have occurred. The reserve is established by charges against operations in the period those losses are identified. The level of specific reserves is based on detailed

analysis of individual loans for which full collectibility may not be assured. This analysis includes determination of the existence and net realizable value of the collateral, principally through real estate appraisals or discounted cash flows, and guarantees securing such loans.

General loan loss reserves are established to provide for inherent loan portfolio risks not specifically provided for. The level of general reserves is based on analysis of potential exposures existing in the Association's loan portfolio, including evaluation of identified risk factors, historical trends, current market conditions and other relevant factors.

The level of general and specific reserves is based on management's continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including actual loan loss experience and current and anticipated economic conditions.

Loan Origination Fee Income: Effective July 1, 1988, the Association implemented Statement of Financial Accounting Standards (SFAS) No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases," which changed the generally accepted accounting principles applicable to loan fees. Loan origination fees and certain direct loan origination costs are deferred and the net amount is amortized as an adjustment of the yield over the contractual life of the loan. This accounting change resulted in an estimated increase in pre-tax net loss of \$53,000 for the year ended June 30, 1989.

Prior to July 1, 1988, the Association recognized loan fees as current income at the time loans were originated to the extent they were a reimbursement of related origination costs. Excess fees, if any, were accounted for as an adjustment of the loan yield and recognized over the approximate average life of the loan.

Excess Servicing Premium on Loan Sales: Premiums on the sale of loans represent the present value of the portion of estimated future cash flows retained on loans sold (based upon certain prepayment assumptions and net of a normal servicing fee), which are recognized as gains on sale of loans at the time the sales occur. Such premiums are amortized in proportion to and over the estimated period such cash flows will be received. The unamortized balance of such premiums totaled \$1.1 million and \$1.2 million at June 30, 1990 and 1989, respectively. During fiscal 1990, 1989 and 1988, amortization of such premiums totaled \$156,000, \$408,000 and \$448,000, respectively. Management periodically re-evaluates the recoverability of the recorded premium balance and the level of amortization.

Real Estate Owned: Real estate owned consists of real estate acquired through foreclosure or deed in lieu of foreclosure. It is recorded at the lower of the loan balance on the property at the date of acquisition or the fair value which becomes the new cost basis. Any anticipated losses at the date of acquisition are recognized as loan losses prior to transfer to real estate owned. Any additional anticipated losses identified in subsequent ongoing analysis of the property are recorded in operations when identified and reflected as a reserve on real estate owned.

Earnings (Loss) Per Share: Earnings per share is computed based on common stock equivalents and common stock outstanding. Loss per share is computed on the number of shares outstanding.

Statement of Cash Flows: In November 1987, the Financial Accounting Standards Board issued SFAS No. 95, "Statement of Cash Flows." The Association has presented Statements of Cash Flows for 1990 and 1989 and a Statement of Changes in Financial Position for 1988. Cash equivalents include cash and interest-bearing deposits.

NOTE B — DEBT SECURITIES

The amortized cost and aggregate market values of debt securities at June 30, 1990 and 1989 consisted of the following (in thousands):

| | 1990 | | 1989 | |
|---|----------------|----------------|----------------|----------------|
| | COST | MARKET | COST | MARKET |
| Debt securities held for investment: | | | | |
| U.S. Treasury and agency securities: | | | | |
| Due within one year | \$1,003 | \$ 997 | | |
| Due after one year | 1,720 | 1,565 | \$2,735 | \$2,597 |
| | <u>2,723</u> | <u>2,562</u> | <u>2,735</u> | <u>2,597</u> |
| Other debt securities: | | | | |
| Bankers acceptances | | | 4,973 | 4,971 |
| Certificates of deposit with other financial institutions (original maturities of three months or more) | | | | |
| | | | <u>499</u> | <u>499</u> |
| | | | <u>5,472</u> | <u>5,470</u> |
| Total | <u>\$2,723</u> | <u>\$2,562</u> | <u>\$8,207</u> | <u>\$8,067</u> |
| Debt securities held for sale: | | | | |
| U.S. Treasury and agency securities | | | \$1,014 | \$1,025 |
| Corporate debt | | | <u>1,947</u> | <u>1,965</u> |
| | | | <u>\$2,961</u> | <u>\$2,990</u> |

At June 30, 1990, debt securities held for investment totaling \$1,720,000 were pledged as follows: \$500,000 as collateral for customer repurchase agreements and \$1,220,000 as collateral for public deposits.

NOTE C — MORTGAGE-BACKED SECURITIES

Mortgage-backed securities guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) at June 30, 1990 and 1989 are summarized as follows (in thousands):

| | 1990 | 1989 |
|---------------------------------|-----------------|-----------------|
| Held in portfolio: | | |
| FHLMC pass-through certificates | \$16,827 | \$17,036 |
| FNMA pass-through certificates | <u>2,177</u> | <u>2,177</u> |
| | <u>\$19,004</u> | <u>\$17,036</u> |
| Held for sale: | | |
| FNMA pass-through certificates | <u>\$ 2,005</u> | |

At June 30, 1990, FHLMC pass-through certificates totaling \$15,825,000 were pledged as security for the collateralized mortgage obligations.

NOTE D — LOANS RECEIVABLE

Loans receivable at June 30, 1990 and 1989 consisted of the following (in thousands):

| | 1990 | 1989 |
|--------------------------------------|-----------------|-----------------|
| Loans on existing property: | | |
| 1-4 family | \$32,293 | \$17,559 |
| Multi-family | 11,262 | 6,461 |
| Commercial | 12,730 | 9,053 |
| Construction loans: | | |
| 1-4 family | 9,738 | 12,731 |
| Multi-family | | 7,348 |
| Commercial | 5,376 | 8,973 |
| Land loans | 1,325 | 4,687 |
| Consumer loans | <u>836</u> | <u>642</u> |
| | <u>73,560</u> | <u>67,454</u> |
| Less: | | |
| Deferred loan fees | (386) | (400) |
| Loans in process of completion | (5,119) | (5,057) |
| Reserve for loan losses | <u>(421)</u> | <u>(374)</u> |
| Loans receivable held for investment | 67,634 | 61,623 |
| Loans receivable held for sale: | | |
| 1-4 family | <u>5,653</u> | <u>1,130</u> |
| Total loans | <u>\$73,287</u> | <u>\$62,753</u> |

The Association originates and purchases both adjustable and fixed interest rate loans. At June 30, 1990, the composition of these loans was as follows (in thousands):

| TERM TO MATURITY | BOOK VALUE | TERM TO RATE ADJUSTMENT | BOOK VALUE |
|------------------|-----------------|-------------------------|-----------------|
| 1 mo.-1 yr. | \$ 1,328 | 1 mo.-1 yr. | \$35,771 |
| 1 yr.-3 yrs. | 534 | 1 yr.-2 yrs. | 3,086 |
| 3 yrs.-5 yrs. | 1,114 | 2 yrs.-3 yrs. | 7 |
| 5 yrs.-10 yrs. | 1,414 | 3 yrs.-5 yrs. | 340 |
| 10 yrs.-20 yrs. | 1,959 | | |
| Over 20 years | <u>28,155</u> | | |
| | <u>\$34,504</u> | | <u>\$39,204</u> |

The adjustable rate loans have interest rate adjustment limitations and are generally indexed to the 1-year U.S. Treasury security. Future market factors may affect the correlation of the interest rate adjustment with the rates the Association pays on the short-term deposits that have been primarily utilized to fund these loans.

In the past, the Association has originated and purchased commercial real estate loans. These loans are considered by management to have somewhat greater risk of uncollectibility due to the dependency on income production or future development of the real estate.

Under the Financial Institutions Reform Recovery and Enforcement Act (FIRREA), aggregate commercial real estate loans may not exceed 400% of capital as determined under the capital standards provisions of FIRREA. Divestiture of any loan that was lawful when it was originated is not required. The Association does not exceed the limitation.

FIRREA limits real estate loans to one borrower to 15% of an Association's regulatory capital. Associations meeting fully phased-in capital standards may submit a written certification form to use transition rules granting a phase-in of this regulation until December 31, 1991. The 15% limitation results in a dollar limitation of approximately \$1,450,000, which the Association exceeds with certain borrowers.

Divestiture of these loans is not required; however, additional loans to these borrowers are not allowed until such time as their aggregate balance outstanding is below the 15% limitation or until the application process for use of transition rules has been completed.

The Office of Thrift Supervision (OTS) regulatory capital regulations, issued November 6, 1989, require that the portion of nonresidential construction and land loans in excess of 80% loan-to-value ratio be deducted from total capital for purposes of the risk-based capital standard over a 5-year phase-in period commencing July 1, 1990. It is not anticipated that this provision will materially impact the Association's risk based capital calculation.

An analysis of the reserve for loan losses follows (in thousands):

| <i>For the Year Ended June 30</i> | 1990 | 1989 | 1988 |
|-----------------------------------|--------------|--------------|--------------|
| Balance, beginning of year | \$375 | \$752 | \$643 |
| Provision for losses | 108 | 323 | 134 |
| Write-offs | (62) | (700) | (25) |
| Balance, end of year | <u>\$421</u> | <u>\$375</u> | <u>\$752</u> |

Loans serviced for the benefit of others totaled \$91,135,000, \$99,929,000 and \$104,373,000 at June 30, 1990, 1989 and 1988, respectively.

Loan commitments outstanding at June 30, 1990 were approximately \$4,197,000, of which \$4,027,000 were 15 to 30 year fixed-rate commitments with rates ranging from 8.9% to 11.9%. The balance of the loan commitments are at rates which adjust to market at the time the loan is closed.

NOTE E — ACCRUED INTEREST RECEIVABLE

Accrued interest receivable at June 30, 1990 and 1989 consisted of the following (in thousands):

| | 1990 | 1989 |
|----------------------------|----------------|--------------|
| Debt securities | \$ 140 | \$167 |
| Mortgage-backed securities | 280 | 237 |
| Loans receivable | 609 | 577 |
| | <u>\$1,029</u> | <u>\$981</u> |

NOTE F — REAL ESTATE OWNED

Real estate owned at June 30, 1990 and 1989 consisted of the following (in thousands):

| | 1990 | 1989 |
|---|--------------|----------------|
| Real estate acquired through foreclosure or deed in lieu of foreclosure | \$942 | \$4,001 |
| Reserve for estimated losses | (464) | (1,019) |
| | <u>\$478</u> | <u>\$2,982</u> |

An analysis of the reserve for losses on real estate owned follows (in thousands):

| <i>For the Year Ended June 30</i> | 1990 | 1989 | 1988 |
|---|---------------|----------------|--------------|
| Balance, beginning of year | \$1,019 | \$ 174 | \$ 85 |
| Provision for (recovery of) losses, net | (118) | 927 | 96 |
| Write-offs | (437) | (82) | (7) |
| Balance, end of year | <u>\$ 464</u> | <u>\$1,019</u> | <u>\$174</u> |

The provision charged to operations is included in the net loss (gain) on sale, revaluation and operation of real estate owned in the consolidated statements of operations.

NOTE G — DEPOSITS

Deposits by interest rate at June 30, 1990 and 1989 consisted of the following (in thousands):

| Rate at June 30, 1990 | | 1990 | | 1989 | |
|-------------------------------------|-------------|----------|--------|----------|--------|
| | | AMOUNT | % | AMOUNT | % |
| Non-interest | | | | | |
| checking | 0.00% | \$ 957 | 1.2% | \$ 395 | .5% |
| Treasury, tax, and loan deposits | 0.00 | 61 | .1 | 25 | |
| Checking with interest | 4.50- 5.25 | 1,571 | 1.9 | 875 | 1.1 |
| Statement savings | 5.00 | 354 | .4 | 295 | .4 |
| Money market checking | 4.65 | 6,941 | 8.5 | 719 | .9 |
| Money market plus | | | | 5,650 | 7.0 |
| | | 9,884 | 12.1 | 7,959 | 9.9 |
| Certificates: | | | | | |
| | 5.01- 6.00 | 410 | .5 | 105 | .1 |
| | 6.01- 7.00 | 20 | | 154 | .2 |
| | 7.01- 8.00 | 3,849 | 4.7 | 4,318 | 5.4 |
| | 8.01- 9.00 | 59,438 | 72.9 | 18,457 | 23.0 |
| | 9.01-10.00 | 7,245 | 8.9 | 32,197 | 40.1 |
| | 10.01-11.00 | 640 | .8 | 16,814 | 21.0 |
| | 11.01-12.00 | 100 | .1 | 100 | .1 |
| | 13.01-14.00 | | | 150 | .2 |
| | | 71,702 | 87.9 | 72,295 | 90.1 |
| Deferred hedging gain | | | | | |
| | | | | 13 | |
| | | \$81,586 | 100.0% | \$80,267 | 100.0% |

Certificate accounts will mature as of June 30 as follows (in thousands):

| | 1990 | | 1989 | |
|-----------------------|-----------------|---------------|-----------------|---------------|
| | AMOUNT | % | AMOUNT | % |
| Within one year | \$32,105 | 44.8% | \$64,664 | 89.4% |
| From one to two years | 32,046 | 44.7 | 4,495 | 6.2 |
| Thereafter | 7,551 | 10.5 | 3,149 | 4.4 |
| | <u>\$71,702</u> | <u>100.0%</u> | <u>\$72,308</u> | <u>100.0%</u> |

Deposit interest expense consisted of the following (in thousands):

| <i>For the Year Ended June 30</i> | 1990 | 1989 | 1988 |
|-----------------------------------|----------------|----------------|----------------|
| Checking | \$ 578 | \$ 511 | \$ 728 |
| Statement savings | 14 | 22 | 23 |
| Certificates of deposit | 6,040 | 5,631 | 4,494 |
| | <u>\$6,632</u> | <u>\$6,164</u> | <u>\$5,245</u> |

Accrued interest payable on deposits was \$268,000 and \$267,000 at June 30, 1990 and 1989.

In the past, the Association invested in Eurodollar futures options to hedge its large certificates of deposit against rising interest rates. The cost of these options was amortized over the life of the option, while gains were amortized over the estimated life of the certificate. In addition, the Association has purchased put options to hedge deposit interest rate risk. The cost of the put options is amortized over the lives of renewing deposits, adjusting their cost to the Association.

Federal Reserve Board regulations require that the Association maintain certain reserve balances on deposit with the

Federal Reserve Bank. At June 30, 1990, this amount was \$255,000.

Public funds of \$8,649,000 and \$4,863,000, included in deposits at June 30, 1990 and 1989, were collateralized by investment securities with book values of \$1,220,000 and \$1,229,000 and market values of \$1,075,000 and \$1,122,000 at June 30, 1990 and 1989, respectively.

NOTE H — ADVANCES FROM FEDERAL HOME LOAN BANK

Advances from the Federal Home Loan Bank (FHLB) of Seattle at June 30, 1990 and 1989 consisted of the following (in thousands):

| PAYABLE DURING YEAR ENDING JUNE 30 | AVERAGE INTEREST RATE AT JUNE 30, 1990 | 1990 | 1989 |
|--|--|----------------|----------------|
| 1990 | | | \$2,000 |
| 1991 | 10.32% | \$3,000 | 3,000 |
| 1992 | 8.66 | 4,000 | 4,000 |
| 1993 | 9.45 | 600 | 600 |
| | 9.38 | <u>\$7,600</u> | <u>\$9,600</u> |

At June 30, 1990, the Association had outstanding commitments for \$4,000,000 of FHLB advances ranging from 18 months to 4 years in maturity and from 9.15% to 9.60% in interest rates.

Advances are collateralized by mortgage loans with a book value of at least 155% of outstanding Bank advances and by FHLB stock with a recorded value of \$1,186,000.

NOTE I — COLLATERALIZED MORTGAGE OBLIGATIONS

In June 1988, the Association's wholly-owned subsidiary, Summit Capital Corporation, issued collateralized mortgage obligations (bonds), which are collateralized by FHLMC mortgage-backed securities, with aggregate unpaid principal balances (net of deferred loan fees) of \$15,825,189 as of June 30, 1990 and \$17,035,586 as of June 30, 1989. The mortgage-backed securities are held by a bond trustee for the benefit of the bondholders.

The net cash flow from these mortgage-backed securities together with the reinvestment income thereon provide for the repayment of the underlying bonds.

The bonds consisted of the following at June 30 (in thousands):

| | INTEREST RATE | STATED MATURITY | 1990 PRINCIPAL | 1989 PRINCIPAL |
|----------------------|------------------|--------------------|-------------------|-------------------|
| Sequence 1-A | 9.70% | April 1, 2013 | \$13,241 | \$14,028 |
| Sequence 1-Z | 9.95 | January 1, 2018 | 579 | 525 |
| Unamortized discount | | | (454) | (505) |
| | | | <u>\$13,366</u> | <u>\$14,048</u> |

The bonds are repaid in quarterly installments from the proceeds received on the underlying collateral on a proportionate basis with the mortgage-backed securities. Because it is possible that the underlying collateral for the mortgage-backed securities may prepay, it is expected that the actual lives of the bonds will be substantially less than their stated maturities.

Bond maturities for the succeeding five years are estimated, on the basis of past prepayment experience of the pledged mortgage-backed securities, as follows (in thousands):

| YEAR ENDING JUNE 30 | |
|---------------------|-----------------|
| 1991 | \$ 586 |
| 1992 | 577 |
| 1993 | 568 |
| 1994 | 560 |
| 1995 | 553 |
| Thereafter | <u>10,976</u> |
| | <u>\$13,820</u> |

NOTE J — SHORT-TERM BORROWINGS AND CONVERTIBLE SUBORDINATED DEBENTURES

Short-term borrowings consist of consumer repurchase agreements with interest rates of 4.50% at June 30, 1990 and 4.65% at June 30, 1989. The agreements are collateralized by investment securities with book values of \$499,794 and \$499,630 and market values of \$490,000 and \$483,281 at June 30, 1990 and 1989, respectively.

During the years ended June 30, 1988 and 1987, the Association sold a total of \$521,000 of 9% convertible subordinated debentures due December 31, 1996. The debentures are convertible at any time prior to maturity, unless previously redeemed, into 94,631 shares of 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 and are not insured by the Federal Deposit Insurance Corporation (FDIC).

NOTE K — FEDERAL INCOME TAXES

Effective for fiscal 1988, the Association elected early implementation of SFAS. No. 96, "Accounting for Income Taxes," under which the Association accounts for income taxes on the liability method. The liability method recognizes the amount of tax payable at the date of the financial statements as a result of all events that have been recognized in the financial statements, as measured by the provisions of currently enacted tax law and rates. The required implementation date of SFAS No. 96 has been delayed until fiscal 1992 to allow the Financial Accounting Standards Board additional time to reconsider the provisions of the statement. It is presently unclear what final form the statement will take; however, it does not appear that any significant modifications will be made which will impact the tax provision or liability recorded by the Association.

The Association files a consolidated federal income tax return. The Association qualifies under provisions of the Internal Revenue Code which permit as a deduction from taxable income an allowance for bad debts based on a percentage of taxable income or an experience method. The percentage bad debt deduction available was 8% for the years ended June 30, 1990, 1989 and 1988. The experience method provides financial institutions the ability to add to the reserve for losses on loans the greater of two computational alternatives: (1) the base year amount; or (2) the six-year moving average amount.

During the fiscal year ended June 30, 1990, certain interpretive rulings were issued by the Internal Revenue Service which allowed the Association to calculate its experience method bad debt deduction in a more beneficial manner under the six-year moving average alternative. This alternative calculation was applied retroactively to 1987 and resulted in approximately \$1,753,000 in additional tax losses which were carried forward and used to offset all book taxable income for the year ended June 30, 1990. The remaining loss carryforwards are available to offset future book taxable income.

Total net operating loss carryforwards for book and tax purposes available to offset future income as of June 30, 1990 are as follows:

| EXPIRATION DATE | BOOK BASIS | TAX BASIS |
|-----------------|------------|-----------|
| 1991 | | 533,000 |
| 1993 | | 89,000 |
| 2002 | | 3,041,000 |
| 2004 | \$945,000 | 309,000 |

Deferred federal income tax provisions 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, 1990 were approximately \$3,027,000. For both book and tax purposes, net operating loss carryforwards exceed the cumulative temporary differences. Temporary differences and their tax effects for the years ended June 30, 1990, 1989 and 1988 are as follows (in thousands):

| | 1990 | 1989 | 1988 |
|---|-----------|-------------|-------------|
| Market value adjustment for debt securities | | | \$ 45,300 |
| FHLB stock dividends | \$ 39,202 | \$ 42,840 | 30,500 |
| Gain on sale of loans | (34,736) | (134,995) | (49,400) |
| Loan fees | (48,354) | (98,957) | 93,500 |
| Current year effect of changing from cash to accrual basis reporting for tax purposes | (207,431) | (207,431) | (220,200) |
| Tax net operating loss carryforward | 244,343 | (64,156) | 228,300 |
| Other | 6,976 | (14,383) | 2,000 |
| Cumulative effect of benefit of change in accounting for income taxes | | | (190,000) |
| Total | — | \$(477,082) | \$ (60,000) |

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, 1990, 1989 and 1988 follows:

| | 1990 | 1989 | 1988 |
|--|------------|-------------|-------------|
| Statutory rate | 34% | 34% | 34% |
| Tax (benefit) at statutory rate | \$ 188,092 | \$(553,852) | \$ 123,997 |
| Bad debt deduction based on experience method (net of minimum tax) | (3,415) | (375,725) | (55,400) |
| Loan loss and real estate owned reserve additions | | 424,825 | 78,400 |
| Other | 589 | 27,670 | (16,997) |
| Benefit realized from net operating loss carryforward | (185,266) | | |
| Provision (benefit) for deferred federal income taxes before accounting change | | (477,082) | 130,000 |
| Cumulative effect of change in accounting for income taxes | | | (190,000) |
| Total | — | \$(477,082) | \$ (60,000) |

The Association is required to maintain 60% in qualifying assets in order to use either the percentage or the experience method for bad debt deductions. The cumulative amount of book bad debt reserve at June 30, 1990 amounted to \$421,000, and tax basis bad debt reserve totaled \$2,448,000. If any portion of this amount is subsequently used for purposes other than to absorb loan losses, the amount will be subject to federal income taxes at the then prevailing corporate tax rate. The entire balance will also become taxable if the Association fails to maintain the percentage of qualifying asset level. It is not contemplated that such retained earnings will be used in any manner that would create a federal income tax liability and, therefore, no provision has been made for possible federal income taxes; however, the deferred liability for such deduction would approximate \$455,000.

NOTE L — SHAREHOLDERS' EQUITY

Shareholders' equity in the consolidated financial statements differs from that reported to the OTS and is reconciled as follows (in thousands):

| At June 30 | 1990 | 1989 |
|---|---------|---------|
| Shareholders' equity under generally accepted accounting principles | \$8,859 | \$2,915 |
| Qualifying subordinated debentures | 448 | 521 |
| Non-specified loss reserves | 382 | 330 |
| Regulatory capital | \$9,689 | \$3,766 |

Under FIRREA the Association is required to have (1) tangible capital equal to 1.5% of adjusted total assets, (2) core capital equal to 3% of adjusted total assets, and (3) total capital equal to increasing percentages (initially 6.4% increasing to 8.0% on December 31, 1992) of risk-weighted assets.

At June 30, 1990, the Association had the following capital ratios which exceed all regulatory requirements:

| | |
|---|-------|
| Core capital to adjusted total assets | 7.8% |
| Tangible capital to adjusted total assets | 7.8% |
| Total capital to risk-weighted assets | 13.8% |

The Association's management believes that, under the current regulations, the Association will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Association, such as increased interest rates or a downturn in the economy in the area where the Association has most of its loans, could adversely affect future earnings and, consequently, the ability of the Association to meet its future minimum capital requirements.

At periodic intervals, the OTS, FDIC and state thrift regulators routinely examine the Association's financial statements as part of their legally prescribed oversight of the savings and loan industry. Based on these examinations, the regulators can direct that the Association's financial statements be adjusted in accordance with their findings.

A future examination by the OTS or the FDIC could include a review of certain transactions or other amounts reported in the Association's 1990 financial statements. The regulators have not proposed significant adjustments to the Association's financial statements in prior years. However, in view of FIRREA and the increasingly uncertain regulatory environment in which the Association now operates, the extent, if any, to which a forthcoming regulatory examination may ultimately result in adjustments to the 1990 financial statements cannot presently be determined.

NOTE M — LEASE COMMITMENTS

In June 1990, the Association entered into a 7-year lease for an administrative and branch facility consisting of 15,053 square feet on two floors of a Bellevue, Washington office building. There is an option to renew the lease for five years at market rates at date of renewal. Rent is payable as follows: \$20.00 per square foot for months 1-60 and \$23.00 per square foot for months 61-72.

Rent expense for the years ended June 30, 1990, 1989 and 1988 was approximately \$303,000, \$334,000 and \$371,000, respectively. Future minimum rental commitments are as follows:

| <i>Year Ending June 30</i> | |
|----------------------------|----------------|
| 1991 | \$ 301 |
| 1992 | 301 |
| 1993 | 301 |
| 1994 | 301 |
| 1995 | 301 |
| Thereafter | 693 |
| | <u>\$2,198</u> |

NOTE N — 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, 169,485 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 June 30, 1995.

Changes in stock options are as follows:

| OPTION SHARES | 1990 | 1989 |
|--------------------------------------|----------------|---------------|
| Outstanding beginning of fiscal year | 42,827 | 52,363 |
| Granted | 65,200 | 31,664 |
| Exercised | (3,000) | |
| Expired | (263) | (41,200) |
| Outstanding June 30 | <u>104,764</u> | <u>42,827</u> |
| Exercisable June 30 | 15,316 | 7,587 |

At the annual meeting held on November 9, 1989, stockholders approved an amendment to the Incentive Stock Plan that provided for the grant of options to purchase 85,097 additional shares of common stock.

At June 30, 1990, 64,721 options were available for future grants under the Incentive Stock Plan. The price of options outstanding and the price of options exercisable ranged from \$2.90 to \$6.50. The price of options exercised in fiscal 1990 was \$4.25.

NOTE O — SUMMIT RETIREMENT PLAN

Effective July 1, 1989, the Association adopted a 401(k) retirement plan. All persons employed as of July 1, 1989 are eligible to participate. Thereafter, employees who have one year of service and have attained age 21 are eligible as of the entry date (July 1 or January 1) on or after which these requirements are met. The Association matches 25% of the employee contribution on the first 6% of compensation deferred. In addition, the Association may make a discretionary contribution paid at fiscal year end and allocated to each employee in proportion to the compensation of all eligible persons employed at that time. Employer contributions for the year ended June 30, 1990 were \$39,000.

NOTE P — INTEREST RATE RISK

During fiscal 1990, the Association originated principally single-family permanent and construction loans. Over 70% of permanent loans originated were sold in the secondary market and were hedged against interest rate fluctuations with forward commitments from the time of loan commitment until the loans were sold.

All construction loans have variable interest rates that are tied to the prime interest rate. Approximately half of the total loan portfolio is comprised of loans with rates which adjust at least yearly to a market rate index.

The Association has been able to minimize interest rate risk by matching interest rate sensitive assets and liabilities within acceptable limits through short-term maturities, variable rates and forward commitments to sell loans.

| | | |
|---|--|---|
| DIRECTORS | L. MICHAEL RILEY <i>Financial Services</i> | CORPORATE HEADQUARTERS 400 112th Ave N.E. Bellevue, Washington 98004 (206) 451-3585 1-800-824-6220 Washington only |
| JOHN D. CADIGAN <i>Chairman of the Board</i> <i>President</i> <i>Rio Petrol, Inc.</i> <i>Vice President</i> <i>Campbell Investment Corporation</i> | Consultant & Investor | |
| | OFFICERS | |
| | JAMES F. GRABICKI <i>President</i> <i>Chief Executive Officer</i> | BELLINGHAM (LENDING OFFICE) 1112 Finnegan Way Bellingham, WA 98225 (206) 671-4100 1-800-824-6220 Washington only |
| JAMES F. GRABICKI <i>President</i> <i>Chief Executive Officer</i> | GARY R. WILSON <i>Executive Vice President</i> <i>Chief Lending Officer</i> | |
| JAMES D. HUBER <i>President</i> <i>ATCON Services, Inc.</i> | MARIE T. GUDGER <i>Senior Vice President</i> <i>Chief Financial Officer</i> | INDEPENDENT AUDITORS Deloitte & Touche 1111 Third Avenue Seattle, Washington 98101 |
| WILLIAM P. HURME <i>President</i> <i>Altis Properties, Ltd.</i> | KATHY J. BURKE <i>Vice President</i> <i>Savings Administration and Marketing</i> | GENERAL COUNSEL Foster, Pepper & Shefelman 1111 Third Avenue Seattle, Washington 98101 |
| DOUG T. MERGENTHALER <i>President</i> <i>Ashton Corporation</i> | MERRI ANN SIMONSON <i>Vice President</i> <i>Loan Servicing</i> <i>Special Credits</i> | STOCK LISTING NASDAQ Symbol: SMMT |
| WILLIAM P. NEWMAN <i>Director, Marketing Services</i> <i>Westin Hotels & Resorts</i> | PATRICIA L. WALDOW <i>Vice President</i> <i>Treasurer</i> | STOCK TRANSFER AGENT First Interstate Bank, Ltd. 26610 West Agoura Road Calabasas, CA 91302 Shareholder Relations 1-800-522-6645 |
| PAUL E. NOLAN <i>President</i> <i>Nolan Development, Inc.</i> | THERESA STAUCH <i>Corporate Secretary</i> | |

STOCK INFORMATION

Summit Savings' common stock is listed on the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol "SMMT." The number of shareholders of the Association's common stock at June 30, 1990 was approximately 1,100.

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:

| QUARTER ENDED | 1990 | | 1989 | |
|------------------|--------|--------|--------|--------|
| | HIGH | LOW | HIGH | LOW |
| 9/30 | \$6.00 | \$4.75 | \$3.87 | \$3.12 |
| 12/31 | 6.50 | 4.50 | 3.12 | 2.12 |
| 3/31 | 5.25 | 4.63 | 4.75 | 2.25 |
| 6/30 | 5.13 | 4.38 | 5.50 | 4.13 |

The Association, as long as it meets its fully phased-in capital requirements

and requires only normal OTS supervision, may distribute up to 100% of net income earned to date during the current calendar year plus 50% of its capital surplus — the amount of capital over its fully phased-in capital requirement — without prior OTS approval. To date no cash dividends have been paid. It has been the Association's policy to retain all earnings to fund additional growth.

ANNUAL MEETING

The 1990 Annual Meeting of Shareholders of Summit Savings will be held at the Summit Building, 400 112th Avenue N.E., Bellevue, Washington on Thursday, November 8, 1990 at 7:00 p.m. Questions relating to stock and requests for copies of Annual Report to Shareholders, Annual Report on Form 10-K, interim reports on Form 10-Q and other published reports, which will be furnished without charge, should be addressed to: Corporate Secretary, 400 112th Ave N.E., Bellevue, WA 98004.





**SUMMIT
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