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BOARD
REPORT
STATE



BALANCE

Summit Bancorp, Inc.

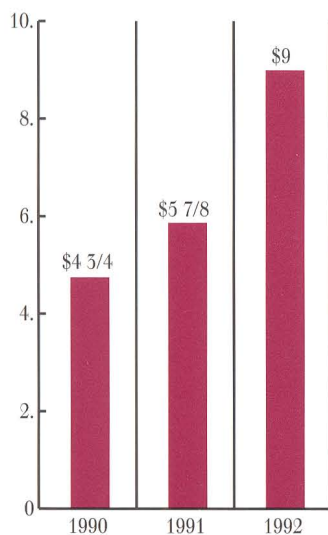
1992

Annual Report

Corporate Profile

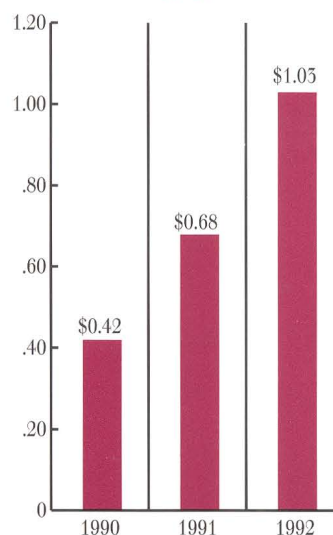
Summit Bancorp, Inc. is a bank holding company formed in May, 1992. Its wholly-owned subsidiary, Summit Savings Bank, is a Washington state-chartered stock savings bank serving Western Washington, with Banking Centers in Bellevue, Bellingham and Tacoma. In December 1991, Summit Savings Bank, which was organized in 1981, completed a charter conversion from a state-chartered savings and loan to its present charter. Summit Savings Bank's principal business is attracting savings deposits from the general public and originating mortgage loans for purchase, refinance or construction of residential properties. Summit Bancorp, Inc. common stock trades over the counter and is listed on the NASDAQ National Market System under the symbol SMMT.

Stock Price



Price at June 30

Earnings per Share



FINANCIAL HIGHLIGHTS

Year ended June 30 / Dollars in thousands (except per share data)	1992	1991	1990
Total assets	\$163,646	\$131,252	\$115,359
Loans receivable and mortgage-backed securities	137,898	115,506	94,296
Deposits	155,282	93,959	81,586
Advances from Federal Home Loan Bank	2,000	11,600	7,600
Shareholders' equity	12,377	10,232	8,859
Book value per share	6.15	5.09	4.41
Tangible equity to assets	7.2%	7.8%	7.8%
For the year ended June 30, WEIGHTED AVERAGE YIELD:			
Loans and mortgage-backed securities	9.60%	10.27%	11.08%
Cash and investments	6.38	7.46	8.52
Combined	9.29	9.97	10.54
WEIGHTED AVERAGE COST OF FUNDS:			
Deposits	5.97	7.66	8.55
Borrowings	9.05	9.60	9.99
Combined	6.54	8.08	8.89
Interest rate spread	2.75	1.89	1.65
Net interest margin	2.95	2.46	2.05
Net income before federal income tax expense and extraordinary item	\$ 3,354	\$ 1,485	\$ 555
Federal income tax expense	917	80	—
Extraordinary item, net of tax	(327)	(59)	—
Net income	2,110	1,366	555
Net income per share	1.05	.68	.42
Real estate loans originated and purchased	267,769	161,401	100,638
Return on average assets	1.50%	1.12%	.50%
Return on average shareholders' equity	18.75	14.37	9.40



To Our Shareholders

The year ended June 30, 1992 was eventful, challenging and very successful for your company. The theme of our fiscal 1992 annual report is balance, and we believe that a superior balanced performance is evident in the results presented in the report.

Net income for the year increased 54% to a record \$2,110,000 compared to \$1,366,000 in fiscal 1991, and earnings per share improved to a record \$1.03 compared to \$.68. This is the second consecutive year in which we have posted record profits. Return on average equity for fiscal 1992 was 18.75% and return on average assets was 1.50%. Both of these key ratios compare favorably with the top performers in our industry. Assets grew

decreased to .69% from the previous year's 1.33%. Additionally, our coverage of non-performing loans by our loan loss reserve increased to 177.65% from 31.5% at June 30, 1991. Loans delinquent 60 days and over decreased to .39% of total loans as compared to 2.70% last year. The relative level of loans on non-performing status and the delinquency ratio are indicative of the quality of a bank's loan portfolio. We are gratified by the level of credit quality we have attained and will work hard to maintain it.

During the year, we achieved a number of our strategic objectives. In December we converted to a state-chartered savings bank from a state-chartered savings and loan. In May we formed a bank holding company with the name Summit Bancorp, Inc. which is the parent of Summit Savings Bank. The new corporate structure allows us additional flexibility

Left to Right

JAMES F. GRABICKI
President
Chief Executive Officer

JAMES D. HUBER
Director



L. MICHAEL RILEY
Director

THERESA M. STAUCH
Corporate Secretary

WILLIAM P. NEWMAN
Director

PATRICIA L. WILSON
Senior Vice President

PAULEE NOLAN
Director

25% from \$131 million to \$164 million and deposits increased to \$135 million at June 30, 1992 from \$94 million one year earlier. Our risk based capital ratio was 14.43% at June 30, 1992, well above the 8% requirement that all banking organizations must maintain when the new capital standards are fully phased in at the end of 1992.

Summit's mortgage banking business continues to be highly successful. Loan production for fiscal 1992 was a record \$268 million, an increase of 66% over fiscal 1991's previous record of \$161 million. The loan portfolio increased 20% to \$110 million at June 30, 1992 from \$92 million at June 30, 1991. The quality as well as the quantity of the Bank's assets improved during the year. Non-performing loans as a percentage of total assets

Left to Right

MERRI ANN SIMONSON
Vice President

WILLIAM P. HURME
Director



GARY R. WILSON
Executive Vice President

DOUG T. MERGENTHALER
Director

KATHY J. BURKE
Vice President

JOHN D. CADIGAN
Chairman of the Board

as we pursue our growth plans, particularly if we consider the acquisition of an institution with a different charter or business focus, such as a commercial bank. Regarding growth of our company, this June we were successful in completing the purchase of the Bellingham and Tacoma branches of Cascade Savings Bank. Core deposits at the two branches, which we are operating as full service Banking Centers, totaled over \$54 million at the time the transaction closed. Whatcom County, where Bellingham is located, represents a rapidly growing market with a secure diversified economic base. Tacoma is the second largest city in the State of Washington and is located in Pierce County which is already the source of a significant amount of our FHA and VA mortgages. We are pleased to be a part of these

communities and look forward to contributing to and participating in their economic growth. We believe that the actions taken last year to improve our corporate structure and to expand our market area add a great deal to the value of the Summit franchise.

We wish to thank our officers and staff for their extraordinary efforts. They are primarily responsible for our fine year and represent the real strength and promise of our company. We also thank our loyal customers for choosing Summit. We continually remind ourselves that they are the reason we exist.

Going forward, we maintain our quest for superior balanced performance. Financial strength, profitability and growth coincident with the highest quality customer service are the key features of this concept. As always, please contact us with your comments and suggestions and, if possible, plan to attend our annual meeting which is scheduled for Thursday, November 5, 1992 at 3:00 p.m. at the Bellevue Hilton located at 100 112th Avenue NE, in Bellevue, Washington.

Thank you for your continued support.

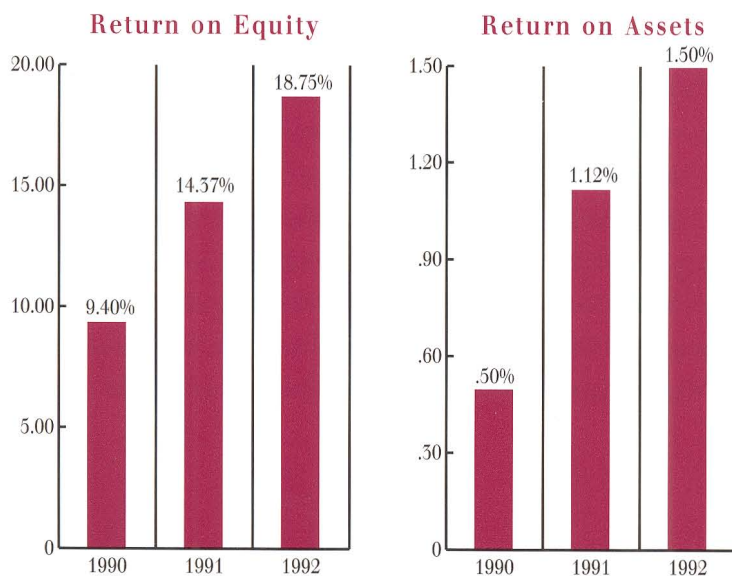
Sincerely,



James F. Grabicki
President and Chief Executive Officer



John D. Cadigan
Chairman of the Board



Summit Savings is committed to creating shareholder value through balanced, consistent and profitable growth. For some time now, we have realized the value of a business strategy that keeps things simple and sticks to the basics.

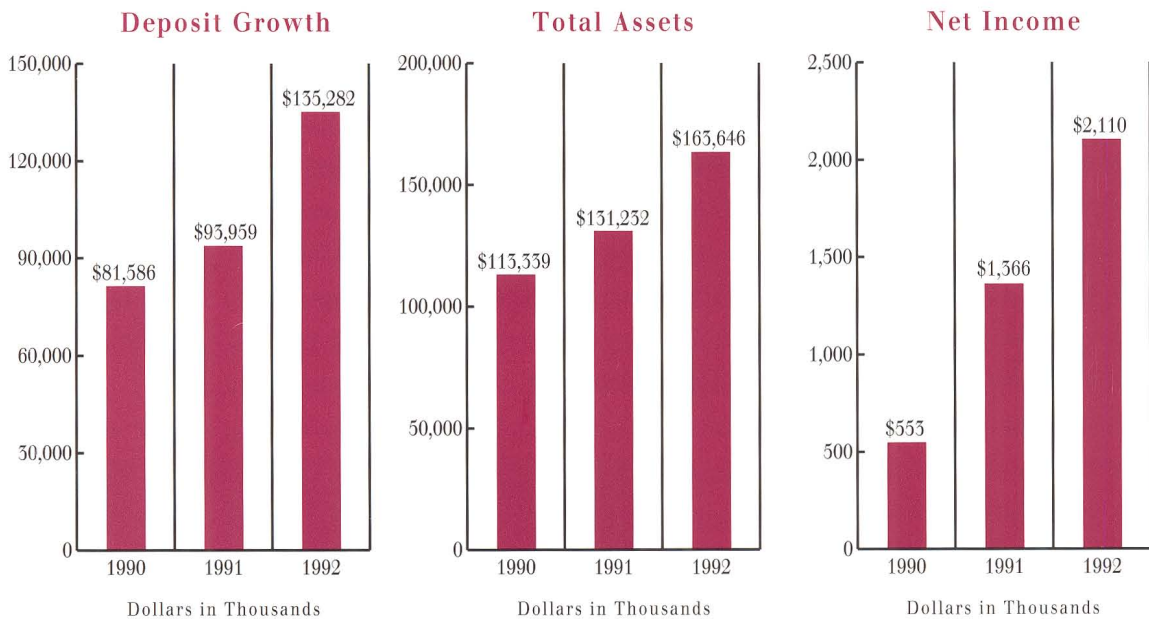
We serve our customers with a wide array of competitive residential and consumer lending products and a simple, but high quality, menu of savings instruments. Our competitive edge is the unequivocal commitment to superior customer service by each of our employees.

The Western Washington region where we do business has diversified its economic base significantly in recent years. Aerospace and forest products remain very important, but added to the overall economic mix has been significant growth in high technology, computer software, tourism and international trade.

The natural amenities our area offers have attracted companies wishing to provide their employees with a healthy and rewarding work environment. Retirees seeking a high quality of life, balanced with needed services, have also chosen our area. Western Washington is a great place to work and to live.

Summit Savings Bank's savings representatives like Jennifer Larson, below, are given both the responsibility and the management support it takes to create satisfied savings customers.





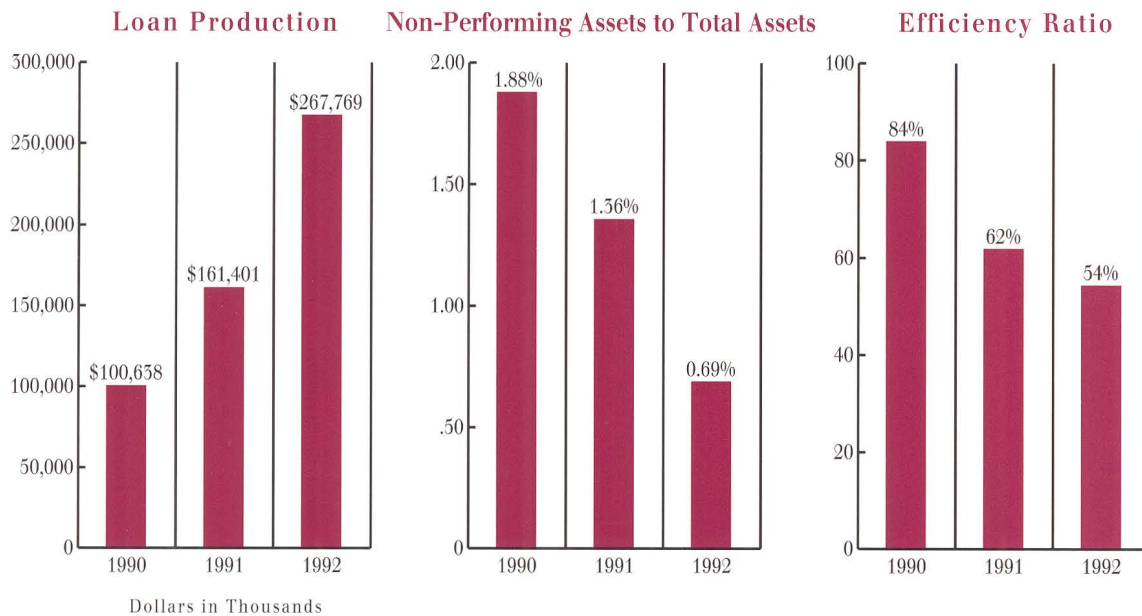
Summit employs a strategy of creating a competitive edge through superior customer service combined with quality products. We have consistently been able to generate deposit growth through a staff of personal bankers we refer to as our Financial Services Specialists. Our team is made up of intelligent, personable and well-trained bankers. These Financial Services Specialists succeed by both knowing and meeting the banking needs of their clientele.

The recent acquisition of Bellingham and Tacoma offices gives us the opportunity to further capitalize on our refined and proven strategy of customer service-oriented marketing. Now our team of seasoned professionals is able to execute our proven programs in new markets. Summit Savings has consistently received high marks for service in customer surveys. Our team's efforts are rewarded with customer loyalty, repeat business and new customer referrals.

Summit Savings income growth over the past two years is evidence of the application of sound business strategies in an atmosphere that has included a stable regional economy, housing growth and favorable interest rates.

*Summit Savings
Bellevue Banking
Center is a landmark
clearly visible from the
heavily traveled
I-405 corridor.*





Lending opportunities in Western Washington continue to reward our strategy of concentrating on single-family home lending. Our basic products include loans for purchase, construction and remodeling. We continue to achieve a high degree of success in the area of providing affordable housing, having been recognized by Federal regulators as “Outstanding” in our last Community Reinvestment Act (CRA) review. We market our loan products through our banking centers as well as through a trusted network of experienced wholesale mortgage companies and correspondent relationships.

Summit Savings has steadily improved its asset quality. Solid business strategies combined with prudent underwriting policies have rewarded us with a strong portfolio that we are committed to maintain.

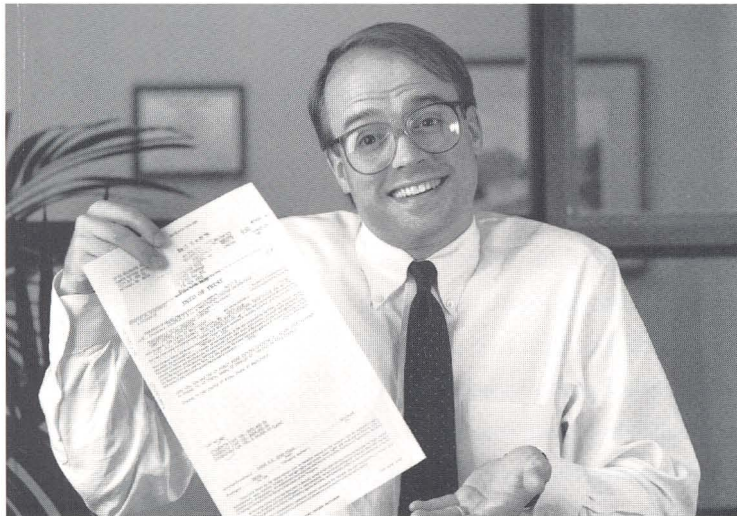
While 1992 brought substantially increased loan volume, we were also successful in achieving increased efficiency making that volume more profitable. Our inherent flexibility together with the experience of our staff and the ability of our management team to respond to opportunities resulted in our processing a record number of loan applications. Revenues increased significantly more during fiscal 1992 than did the expenditures necessary to generate those revenues.

*The Bellingham
Banking Center gives
Summit Savings a
strong presence in the
expanding Whatcom
County market.*



Our goal is to be the banking customer's first choice when it comes to home loans or savings needs. To achieve that goal, we must rely on our people. That is why, at Summit Savings Bank, we have created a bank of which we are proud and an atmosphere in which our employees can grow. Our expectation is that everyone associated with Summit Savings Bank will continue to act with the dedication and pride evident in the past year's results. With that,

we can be assured of achieving the superior balanced performance we continue to strive for.



Residential lending is at the core of Summit Savings Bank's business. Our custom construction loan officer Dave Howard has been accused of making a complicated process so easy; it's boring.

Summit Savings Tacoma Banking Center gives us the opportunity to provide our services to the banking customers of Washington's second largest city.



Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Summit Bancorp, Inc. ("Holding Company" or "Bancorp") is a bank holding company formed in May 1992. Its wholly-owned subsidiary, Summit Savings Bank ("Summit" or "Bank"), is a Washington state-chartered stock savings bank serving Western Washington through three locations. Summit has two wholly-owned subsidiaries, Summit Services, Inc. and Summit Capital Corporation. Summit Services, Inc. discontinued the sale of life insurance and annuities in fiscal 1991 and currently serves to assist the existing customer base with these products. Summit Capital is a finance subsidiary formed in fiscal 1988 to issue a collateralized mortgage obligation.

In December 1991, the Bank completed a charter conversion from a state-chartered savings and loan, regulated by the Office of Thrift Supervision, to its present charter. Summit Savings Bank is now regulated by the Washington State Division of Banking and the Federal Deposit Insurance Corporation ("FDIC"). The deposits of the savings bank continue to be insured by the FDIC under the Savings Association Insurance Fund ("SAIF").

In May 1992, the formation of a bank holding company, Summit Bancorp, Inc., was completed. Under the reorganization, shareholders of Summit Savings Bank exchanged their shares for an equal number of shares of Summit Bancorp stock. The Federal Reserve Bank ("FRB") and Office of the Comptroller of the Currency ("OCC") have regulatory oversight of the Holding Company.

In June 1992, two branches of Cascade Savings Bank, FSB were acquired. The branches, which are located in Bellingham and Tacoma, Washington, were accounted for using the purchase method of accounting. Deposits of \$34.1 million were assumed in addition to \$9.5 million of loans and the branch facilities and land. The addition of the offices expands the Bank's market area and provides opportunities to increase core deposits and to generate loan production.

REVIEW OF FINANCIAL CONDITION

Total assets increased \$32.4 million to \$163.6 million at June 30, 1992, up 25% from \$131.2 million at June 30, 1991. Shareholders' equity at June 30, 1992, was \$12.4 million, a 21% increase over \$10.2 million at June 30, 1991. Equity increased primarily due to net income of \$2.1 million.

LENDING AND INVESTING ACTIVITIES

Loans receivable held for investment and held for sale totaled \$110.2 million at June 30, 1992 compared to \$92.1 million at June 30, 1991. The 20% increase was largely due to increased loan production which totaled \$267.8 million for the year ended June 30, 1992, compared to \$161.4 million for the prior year. Loan production for the year consisted primarily of single-family loans for the purpose of purchasing new homes or refinancing existing mortgages.

In the third quarter of the fiscal year 1992, the Bank restructured its balance sheet in anticipation of the acquisition of two additional branches. The restructure reduced total assets by \$12.0 million and strengthened the Bank's capital ratios prior to the branch acquisition. Long-term fixed-rate mortgage-backed securities of \$11.4 million and U.S. Treasury Obligations of \$1.2 million were sold for a gain of \$567,000. This was offset by the early repayment of \$11.6 million of Federal Home Loan Bank ("FHLB") advances which resulted in prepayment penalties of \$448,000. These penalties are shown as an extraordinary item net of their tax benefit of \$121,000 (see Note S).

Mortgage-backed securities held for investment and for sale increased \$4.2 million during the year. The sale of mortgage-backed securities was offset by additions of \$20.8 million. Mortgage-backed securities continue to provide excellent quality of credit and yield enhancement to the investment portfolio, therefore, a portion of the cash received from the branch acquisition was invested in these securities.

Debt securities increased \$5.8 million during the year as the Bank added short to intermediate term U.S. Treasury Obligations and Corporate Bonds in order to diversify its assets and shorten maturities.

DEPOSIT AND BORROWING ACTIVITIES

Deposits for the year increased \$41.3 million; \$34.1 million due to the deposits assumed with the branch acquisition. Of the total deposits of \$135.3 million at June 30, 1992, 7.1% were jumbo deposits. The Bank does not have any brokered deposits.

Federal Home Loan Bank advances decreased from \$11.6 million at June 30, 1991 to \$2.0 million at June 30, 1992 due primarily to the restructure discussed above. The Bank utilizes low-cost short-term FHLB advances to fund the temporary cash needs of its mortgage banking operation.

RESULTS OF OPERATIONS

The Bank earned net income of \$2.1 million for the year ended June 30, 1992 compared to \$1.4 million and \$553,000 for the years ended June 30, 1991 and 1990 respectively. Extraordinary items of \$327,000 and \$39,000 for 1992 and 1991 respectively reflect prepayment penalties on FHLB advances net of their tax benefit.

Net interest income after provision for loan losses was \$4.0 million for fiscal 1992 compared to \$2.8 million and \$2.0 million for 1991 and 1990 respectively. The increase of 41% from fiscal 1991 to fiscal 1992 was due to increases in loans and mortgage-backed securities and to the steepness of the yield curve—the difference between short-term rates paid on deposits and borrowings and the rates earned on the Bank's loans and investments which generally have longer maturities.

Interest on loans and mortgage-backed securities increased \$990,000 during fiscal 1992, from \$11.0 million at June 30, 1991 to \$12.0 million at June 30, 1992. The increase from fiscal 1990 to 1991 was \$1.6 million. Total loans and mortgage-backed securities for 1992 increased \$22.4 million. The additional interest income was offset slightly by a decrease in average yields from 10.27% for fiscal 1991 to 9.60% for fiscal 1992, reflecting the decline in interest rates during the year.

Interest and dividends from interest-bearing deposits, debt securities and FHLB stock decreased \$135,000 for fiscal 1992 compared to 1991 and \$708,000 during 1991 compared to 1990. Although there was little change in average investment balances during fiscal 1992, short-term interest rates decreased significantly.

Interest expense on deposits decreased \$447,000 for fiscal 1992 compared to fiscal 1991, from \$6.6 million to \$6.2 million. Although average deposit balances increased \$16.7 million during the year, the average cost of deposits decreased from 7.66% for the year ended June 30, 1991 to 5.97% for the year ended June 30, 1992.

Interest expense on borrowings decreased \$186,000 during fiscal 1992 compared to 1991 and increased \$41,000 during fiscal 1991 compared to 1990. The decrease was primarily a result of the restructure (see discussion above) which reduced borrowings by \$11.6 million. Average balances on borrowings decreased by \$615,000 during 1992. The average cost of borrowings decreased from 9.60% to 9.03% during the year ended June 30, 1992. The \$41,000 increase during fiscal 1991 was due to an increase in borrowings offset by a reduction in average rates.

Other income increased \$1.3 million during fiscal 1992, from \$2.2 million at June 30, 1991 to \$3.4 million at June 30, 1992. The fiscal 1991 increase over 1990 was \$846,000. The increase during 1992 was primarily due to two factors. The gain on securities sold during the restructure was \$567,000 and the Bank's mortgage banking operation provided gain on the sale of loans of \$2.3 million, a 50% increase over 1991.

Other expense increased \$559,000 during fiscal 1992 compared to 1991 and \$755,000 from fiscal 1990 to 1991. The increase in loan production expenses resulted from additional commissions paid on originations and the additional support staff needed to maintain service levels. Compensation and benefits increased \$322,000 during 1992 and \$520,000 during 1991. Increases in data processing and other expense which includes shareholders' expense, bank charges and printing and supplies, are attributable both to production activity and to one-time charges related to the acquisition costs of the two branch facilities. Professional services had a net decrease of \$53,000 during fiscal 1992.

Provision for income taxes was \$917,000 for 1992 compared to \$80,000 for 1991 and zero for 1990. In fiscal 1990, the tax bad debt deduction for fiscal 1987 was recalculated based upon interpretive rulings from the Internal Revenue Service. This resulted in \$1.8 million in additional tax losses which were carried forward and used to offset book taxable income in fiscal 1990 and 1991 and a portion in fiscal 1992. These loss carryforwards have now been fully used and tax is being provided for at normal rates.

LIQUIDITY AND CAPITAL RESOURCES

The Bank's sources of liquidity include generation of deposits, sales of loans into the secondary mortgage market, FHLB advances and payments on loans and mortgage-backed securities. The acquisition of two full-service banking centers has added additional opportunities for core deposit growth.

Proceeds from loan sales totaled \$219.6 million for 1992 which, in conjunction with deposit growth and loan and mortgage-backed securities payments, allowed record loan production of \$267.8 million. Additionally, the Bank has a credit line available with the Federal Home Loan Bank of approximately \$33.0 million, which is used primarily to fund short-term needs related to the mortgage banking operation.

The Federal Reserve Board and Office of the Comptroller of the Currency passed new capital requirements for bank holding companies in 1989. Effective December 31, 1992, holding companies must maintain a ratio of tier one capital to risk-weighted assets of four percent. Tier one capital is comprised of equity less intangible assets such as core deposit intangibles. Additionally, the Holding Company must maintain a ratio of total capital to

risk-weighted assets of eight percent. Risk-weighted assets are the Bank's assets after applying a risk factor of zero to one hundred percent depending upon the risk associated with the type of asset. Total capital includes tier one capital plus qualifying debentures and general loan loss reserves. At June 30, 1992, Summit Bancorp had tier one capital to risk-weighted assets of 13.26% and total capital to risk-weighted assets of 14.43% which substantially exceeds all requirements.

Management has considered the impact of inflation on its earnings, financial position and capital adequacy. Since changes in price will not affect the value of the majority of its assets and liabilities, the Bank will not be affected materially by inflation.

ASSET AND LIABILITY MANAGEMENT

The Asset/Liability Committee for the Bank monitors and manages interest rate risk in order to avoid negative effects on net interest income. The Bank utilizes various tools to measure its sensitivity to interest rate movement. Asset/liability gap, the difference between the maturities and/or repricing of interest-earning assets and interest-bearing liabilities, is one method used to measure this sensitivity. This measurement is only a general indication of sensitivity since not all interest rates adjust simultaneously. The Bank also utilizes asset/liability simulation models to track the effect that changes in interest rates have on interest income given various assumptions.

At June 30, 1992, the Bank's one to three year cumulative gap to assets ratio was negative 21.5%. This is within the policy adopted by the Board of Directors. The policy allows a maximum negative gap of 25% and considers, among other things, the steepness of the yield curve which is currently at historically high levels. Should the interest rate environment change, measures will be taken to respond to those changes.

The Bank utilizes many different financial instruments and strategies to adjust exposure to interest rates. Origination of adjustable rate-mortgages, interest rate swap transactions and sales of loans into the secondary market are a few of the tools utilized by the Bank in order to adjust its rate sensitivity.

ASSET QUALITY

Real estate owned increased from \$74,000 at June 30, 1991 to \$776,000 at June 30, 1992. During the year, a loan for a multi-family property previously classified was written down by \$428,000 and subsequently transferred to real estate owned. The property was sold during the fourth quarter. Additions to real estate owned totaled \$1.1 million and sales totaled \$356,000. At June 30, 1992, real estate owned consisted of a mini-storage facility for \$473,000 and two single-family construction loans for \$303,000. These properties are for sale and, given existing market conditions, no losses are anticipated.

Non-performing assets decreased from \$1.8 million or 1.33% at June 30, 1991 to \$1.1 million or .69% at June 30, 1992. The Bank continues to focus its loan originations on lower risk single-family mortgages. Loan loss reserves continue to be analyzed on an ongoing basis. The balance of loan loss reserves at June 30, 1992 was \$636,000 compared to \$585,000 at June 30, 1991.

Report of Deloitte & Touche, Independent Auditors

Board of Directors
Summit Bancorp, Inc.
400 112th Avenue NE
Bellevue, WA 98004

We have audited the accompanying consolidated statements of financial condition of Summit Bancorp, Inc. (formerly Summit Savings Bank - see Note A) and subsidiaries (the Bank) as of June 30, 1992 and 1991, and the related statements of income, shareholders' equity and cash flows for the three years in the period ended June 30, 1992. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also 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 audits provide 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 Bancorp, Inc. and subsidiaries as of June 30, 1992 and 1991, and the results of their operations and cash flows for the three years in the period ended June 30, 1992 in conformity with generally accepted accounting principles.

Deloitte & Touche

July 31, 1992
Seattle, Washington

Consolidated Statements of Financial Condition

Year ended June 30 / Dollars in thousands	1992	1991
ASSETS		
Cash	\$ 2,402	\$ 711
Interest-bearing deposits	2,850	3,210
Federal funds sold	3,000	—
Debt securities (Market value of \$3,557)	—	3,692
Mortgage-backed securities (Market value of \$19,981 and \$22,567)	19,821	23,441
Investments held for sale (Market value of \$17,662 and \$3,967)	17,320	3,955
Federal Home Loan Bank stock, at cost	1,258	928
Loans receivable, net:		
Held for investment	98,737	79,222
Held for sale	11,511	12,843
Accrued interest receivable	1,168	1,095
Real estate owned, net	776	74
Excess servicing premium on loan sales	1,153	1,179
Premises, furniture and equipment	2,435	285
Other assets	<u>1,215</u>	<u>597</u>
	<u>\$165,646</u>	<u>\$151,232</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$135,282	\$ 95,959
Advances from Federal Home Loan Bank	2,000	11,600
Collateralized mortgage obligations	11,358	12,400
Convertible subordinated debentures	501	521
Accrued interest payable	725	630
Other liabilities	<u>1,403</u>	<u>1,890</u>
	151,269	121,000
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 2,018,960 and 2,011,324 shares	20	20
Additional paid-in capital	12,037	8,523
Retained earnings	<u>320</u>	<u>1,889</u>
	<u>12,377</u>	<u>10,232</u>
	<u>\$165,646</u>	<u>\$151,232</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

Year ended June 30 / Dollars in thousands	1992	1991	1990
INTEREST INCOME:			
Loans receivable	\$ 9,963	\$ 9,231	\$ 7,907
Mortgage-backed securities	1,991	1,733	1,436
Interest-bearing deposits	221	513	1,346
Other	<u>621</u>	<u>464</u>	<u>339</u>
Total interest income	12,796	11,941	11,028
INTEREST EXPENSE:			
Deposits	6,162	6,609	6,632
Federal Home Loan Bank advances	799	944	791
Collateralized mortgage obligations	1,310	1,348	1,460
Other	<u>57</u>	<u>60</u>	<u>60</u>
Total interest expense	<u>8,328</u>	<u>8,961</u>	<u>8,943</u>
Net interest income	4,468	2,980	2,085
Provision for loan losses	<u>491</u>	<u>164</u>	<u>108</u>
Net interest income after provision for loan losses	3,977	2,816	1,977
OTHER INCOME:			
Loan servicing income	329	436	479
Gain on sale of loans	2,316	1,543	646
Gain on sale of securities (Note S)	621	38	32
Other	<u>165</u>	<u>147</u>	<u>161</u>
	3,431	2,164	1,318
OTHER EXPENSE:			
Compensation and benefits	2,133	1,811	1,291
Occupancy	388	388	379
Insurance	260	213	196
Data processing	191	175	141
Professional services	161	214	161
Net cost of real estate owned	7	16	2
Other	<u>914</u>	<u>678</u>	<u>572</u>
	4,054	3,495	2,742
Income before income taxes and extraordinary item	3,354	1,485	553
Provision for federal income taxes:			
Deferred	408	80	—
Current	<u>509</u>	<u>—</u>	<u>—</u>
Income before extraordinary item	2,437	1,405	553
Extraordinary item net of tax (Note S)	<u>(327)</u>	<u>(39)</u>	<u>—</u>
Net income	<u>\$2,110</u>	<u>\$1,366</u>	<u>\$ 553</u>
Earnings per share:			
Net income before extraordinary item	\$ 1.19	\$.70	\$.42
Extraordinary item	<u>(.16)</u>	<u>(.02)</u>	<u>—</u>
Net income	<u>\$ 1.03</u>	<u>\$.68</u>	<u>\$.42</u>

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Dollars in thousands	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Total
BALANCE AT JULY 1, 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	<u>2,009</u>	<u>20</u>	<u>8,316</u>	<u>523</u>	<u>8,859</u>
Stock options exercised	2	—	7	—	7
Net income	—	—	—	1,366	1,366
BALANCE AT JUNE 30, 1991	<u>2,011</u>	<u>20</u>	<u>8,323</u>	<u>1,889</u>	<u>10,232</u>
Formation of holding company (Note A)	—	—	3,679	(3,679)	—
Stock options exercised	4	—	15	—	15
Debentures converted	4	—	20	—	20
Net income	—	—	—	2,110	2,110
BALANCE AT JUNE 30, 1992	<u>2,019</u>	<u>\$20</u>	<u>\$12,037</u>	<u>\$ 320</u>	<u>\$12,377</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended June 30 / Dollars in thousands	1992	1991	1990
OPERATING ACTIVITIES			
Net income	\$ 2,110	\$ 1,366	\$ 553
Adjustments to reconcile net income to net cash used by operating activities:			
Proceeds from sale of loans receivable	219,585	126,806	54,707
Loans originated, net of changes in loans in process	(252,167)	(162,436)	(94,301)
Accretion (Amortization) of fees, discounts and premiums, net	89	12	(685)
Gain on sale of assets, net	(612)	(209)	(54)
Federal Home Loan Bank (FHLB) stock dividends	(107)	(212)	(115)
Excess servicing gains on loans sold	(274)	(312)	(54)
Increase in accrued interest receivable	(73)	(66)	(48)
Provisions for (recovery of) losses on loans and real estate owned	512	195	(10)
Net increase in other assets	(618)	(14)	(55)
Increase (Decrease) in accrued interest payable	95	(32)	(32)
Increase (Decrease) in other liabilities	<u>(487)</u>	<u>1,145</u>	<u>(1,180)</u>
Net cash used by operating activities	(31,947)	(33,757)	(41,274)
INVESTING ACTIVITIES			
Proceeds from debt securities sold and maturing	6,694	4,968	31,832
Purchase of debt securities	(8,538)	(9,858)	(22,965)
Purchase of FHLB stock	(223)	(8,245)	—
Principal collected on mortgage-backed securities	3,237	1,644	1,335
Purchase of mortgage-backed securities	(20,784)	(15,888)	(7,262)
Proceeds from sale of mortgage-backed securities	13,932	11,960	1,961
Proceeds from sale of FHLB stock	—	8,715	—
Principal collected on loans receivable	26,305	17,875	35,150
Purchase of loans	(3,643)	(1,073)	(5,776)
Proceeds from sale of real estate owned	341	495	2,666
Expenditures for bank premises and equipment, net	(381)	—	—
Acquisition of branches	<u>22,735</u>	<u>—</u>	<u>—</u>
Net cash provided by investing activities	39,675	10,593	36,941



Consolidated Statements of Cash Flows

Year ended June 30 / Dollars in thousands	1992	1991	1990
FINANCING ACTIVITIES			
Net increase in demand deposits,			
NOW accounts and savings	2,052	935	1,925
Net increase(decrease) in certificates of deposit	5,178	11,438	(606)
Proceeds from advances from			
Federal Home Loan Bank	56,350	23,000	—
Repayment of advances from			
Federal Home Loan Bank	(65,950)	(19,000)	(2,000)
Repayment of collateralized			
mortgage obligations	(1,042)	(966)	(682)
Net proceeds from issuance of stock			
and exercise of stock options	<u>15</u>	<u>7</u>	<u>5,391</u>
Net cash provided (used) by financing activities	(3,397)	15,414	4,028
 Increase(Decrease) in cash and cash equivalents	 4,331	 (7,750)	 (305)
Cash and cash equivalents at beginning of year	<u>3,921</u>	<u>11,671</u>	<u>11,976</u>
Cash and cash equivalents at end of year	<u>\$ 8,252</u>	<u>\$ 3,921</u>	<u>\$ 11,671</u>
 Supplemental Cash Flow Information:			
Non-cash investing activities:			
Real estate acquired through foreclosure	\$ 1,064	\$ 105	\$ 26
Debentures converted	\$ 20	—	—
Cash paid during the year:			
Interest	\$ 8,923	\$ 8,993	\$ 8,975
Federal income taxes	\$ 549	\$ 57	\$ 11

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended June 30, 1992, 1991, and 1990

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements include Summit Bancorp, Inc. ("Holding Company"), Summit Savings Bank ("Bank") and its wholly-owned subsidiaries, Summit Services, Inc. and Summit Capital Corporation (Consolidated, the "Company") for the year ended June 30, 1992. Financial statement presentations for 1991 and 1990 are for Summit Savings Bank and its subsidiaries (see "Holding Company Formation" below). All significant inter-company transactions and balances have been eliminated. Certain reclassifications have been made to the 1991 and 1990 financial statements to conform to the 1992 presentation.

Holding Company Formation: In May 1992, Summit Bancorp, Inc., a bank holding company, was formed as the parent company for Summit Savings Bank and subsidiaries. The Holding Company is subject to regulation by the Federal Reserve Board ("FRB") and the Office of the Comptroller of the Currency ("OCC"). As a result, approximately \$3.7 million, representing retained earnings on the date of formation, was transferred to additional paid-in capital. Retained earnings at June 30, 1992 represents earnings since the holding company was formed.

Cash and Cash Equivalents: Cash and cash equivalents include cash and interest-bearing overnight deposits. Overnight funds are held at the Federal Home Loan Bank or in federal funds sold to a member of the Federal Reserve system.

Debt and Mortgage-Backed Securities: Securities are designated at the date of purchase as securities held for investment or securities held for sale. Securities held for investment are recorded at cost, net of discounts and premiums, which are amortized to maturity. Securities held for sale are recorded at the lower of aggregate cost or market. The cost of securities sold is computed using the specific identification method. At June 30, 1992 and 1991, the Bank had the intent and ability to hold to maturity securities not specifically designated as held for sale. As a result of interest rate changes during 1992, the Bank has changed the designation of all of its fixed-rate corporate debt securities and fixed-rate mortgage-backed securities to held for sale.

Loans Receivable and Interest Income: Each loan receivable is designated, at the closing date, 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. Fees and related direct costs are deferred and amortized over the life of the loan using the level yield method.

Interest on loans is recorded as income is earned. If the collectibility of the interest is in doubt, the loan is placed on non-accrual status and accrued but unpaid interest is charged against current income.



NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. This analysis includes determination of the existence and net realizable value of the collateral, principally through real estate appraisals or discounted cash flow analyses 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 analyses of potential exposures existing in the Bank's loans held for investment 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.

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 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.

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. Premiums are amortized over the estimated life of the loan using the level yield method. During fiscal 1992, 1991 and 1990, amortization of such premiums totaled \$300,000, \$221,000 and \$156,000, respectively. Management periodically evaluates the recoverability of the recorded premium balance and the level of amortization.

Earnings Per Share: Earnings per share is computed based on the weighted average common stock equivalents and common stock outstanding.

NOTE B - DEBT SECURITIES HELD FOR INVESTMENT

At June 30, 1991 gross unrealized gains and gross unrealized losses were \$7,000 and \$142,000, respectively.

NOTE C - MORTGAGE-BACKED SECURITIES HELD FOR INVESTMENT

Mortgage-backed securities consist of the following at June 30 (in thousands):

	Principal Balance	Unamortized Premiums	Unearned Discounts	Amortized Cost
1992				
FNMA Certificates	\$ 7,158	\$ 128		\$ 7,286
FHLMC Certificates:				
Security for collateralized mortgage obligations	<u>12,535</u>	<u>—</u>		<u>12,535</u>
	<u>\$ 19,693</u>	<u>\$ 128</u>		<u>\$ 19,821</u>
1991				
GNMA Certificates	\$ 4,911	—	\$ (40)	\$ 4,871
FNMA Certificates	3,667	\$ 46	(7)	3,706
FHLMC Certificates:				
Security for collateralized mortgage obligations	<u>14,864</u>	<u>—</u>	<u>—</u>	<u>14,864</u>
	<u>\$ 23,442</u>	<u>\$ 46</u>	<u>\$ (47)</u>	<u>\$ 23,441</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
1992				
FNMA Certificates	\$ 7,286	\$ 56	\$ (21)	\$ 7,321
FHLMC Certificates:				
Security for collateralized mortgage obligations	<u>12,535</u>	<u>190</u>	<u>(65)</u>	<u>12,660</u>
	<u>\$ 19,821</u>	<u>\$ 246</u>	<u>\$ (86)</u>	<u>\$ 19,981</u>
1991				
GNMA Certificates	\$ 4,871	—	\$ (14)	\$ 4,857
FNMA Certificates	3,706	\$ 7	(10)	3,703
FHLMC Certificates:				
Security for collateralized mortgage obligations	<u>14,864</u>	<u>—</u>	<u>(857)</u>	<u>14,007</u>
	<u>\$ 23,441</u>	<u>\$ 7</u>	<u>\$ (881)</u>	<u>\$ 22,567</u>



NOTE D - INVESTMENTS HELD FOR SALE

Investments held for sale consisted of the following at June 30 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
1992				
GNMA Certificates	\$ 7,829	\$ 102		\$ 7,931
U.S. Government and Agency Securities	6,466	150		6,616
Corporate Securities	<u>3,025</u>	<u>90</u>		<u>3,115</u>
	<u>\$ 17,320</u>	<u>\$ 342</u>		<u>\$ 17,662</u>
1991				
U.S. Treasury Obligations	<u>\$ 3,955</u>	<u>\$ 12</u>		<u>\$ 3,967</u>

Proceeds from sales on investments in debt securities during fiscal year 1992 were \$4.0 million. Gross gains of \$50,000 and gross losses of \$40,000 were realized on sales of investments during 1992.

NOTE E - LOANS RECEIVABLE

Loans receivable at June 30 consisted of the following (dollars in thousands):

	1992	1991
Loans on existing property:		
1-4 family	\$ 64,350	\$ 41,268
Multi-family	14,609	11,810
Commercial	12,518	11,995
Construction loans:		
1-4 family	5,392	10,606
Commercial	3,040	4,925
Land loans	586	747
Consumer loans	<u>1,355</u>	<u>1,294</u>
	101,850	82,645
Less:		
Deferred loan fees	(960)	(836)
Loans in process of completion	(1,517)	(2,002)
Reserve for loan losses	<u>(636)</u>	<u>(585)</u>
Loans receivable held for investment	98,737	79,222
1-4 family loans receivable held for sale	<u>11,511</u>	<u>12,843</u>
Total loans	<u>\$ 110,248</u>	<u>\$ 92,065</u>

NOTE E - LOANS RECEIVABLE (Continued)

The Bank originates both adjustable and fixed interest rate mortgage loans. At June 30, 1992, the composition of loans held for investment was as follows (in thousands):

Fixed Rate:		Adjustable Rate:	
<u>Term to Maturity</u>	<u>Book Value</u>	<u>Term to Rate Adjustment</u>	<u>Book Value</u>
1 month - 1 year	\$ 2,358	1 month - 1 year	\$ 41,149
1 year - 3 years	1,743	1 year - 2 years	1,599
3 years - 5 years	3,008	2 years - 3 years	2,968
5 years - 10 years	2,214		
10 years - 20 years	5,809		
Over 20 years	<u>41,002</u>		
	<u>\$ 56,134</u>		<u>\$ 45,716</u>

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

Under the Financial Institution 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. FIRREA does not require divestiture of any loan that was lawful when it was originated. The Bank does not exceed the limitation.

FIRREA limits real estate loans to one borrower to 15% of an association's regulatory capital. The 15% limitation results in a dollar limitation of approximately \$1,863,000, which the Bank 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.

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

<u>For the year ended June 30,</u>	<u>1992</u>	<u>1991</u>	<u>1990</u>
Balance, beginning of year	\$ 585	\$ 421	\$ 375
Provision for losses	491	164	108
Charge-offs	<u>(440)</u>	<u>—</u>	<u>(62)</u>
Balance, end of year	<u>\$ 636</u>	<u>\$ 585</u>	<u>\$ 421</u>

Loans serviced for the benefit of others totaled \$88,354,000, \$90,181,000 and \$91,135,000 at June 30, 1992, 1991 and 1990, respectively.

Loan commitments outstanding at June 30, 1992 were approximately \$21,485,000 of which \$18,211,000 were 15 to 30 year fixed-rate commitments with rates ranging from 7.0% to 10.6%. The balance of the loan commitments are at rates which adjust to market at the time the loan is closed. Commitments to extend credit generally have fixed expiration dates. Since a portion of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Prior to extending commitments, the bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the borrower. Collateral held includes primarily residential properties.

The Bank's primary lending focus is in the greater Puget Sound area. Commercial loans are collateralized by retail office buildings and a retirement facility.

NOTE F - ACCRUED INTEREST RECEIVABLE

Accrued interest receivable at June 30 consisted of the following (in thousands):	1992	1991
Debt securities	\$ 150	\$ 131
Mortgage-backed securities	306	289
Loans receivable	<u>712</u>	<u>675</u>
	<u>\$ 1,168</u>	<u>\$ 1,095</u>

NOTE G - REAL ESTATE OWNED

Real estate owned at June 30 consisted of the following (in thousands):	1992	1991
Real estate acquired through foreclosure or deed in lieu of foreclosure	\$ 780	\$ 102
Reserve for estimated losses	<u>(4)</u>	<u>(28)</u>
	<u>\$ 776</u>	<u>\$ 74</u>

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

For the year ended June 30,	1992	1991	1990
Balance, beginning of year	\$ 28	\$ 464	\$ 1,019
Provision for (recovery of) losses, net	21	31	(118)
Charge-offs	<u>(45)</u>	<u>(467)</u>	<u>(437)</u>
Balance, end of year	<u>\$ 4</u>	<u>\$ 28</u>	<u>\$ 464</u>

The provision charged to operations is included in the net cost of real estate owned in the consolidated statements of income.

NOTE H - PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following at June 30 (in thousands):	1992	1991
Land	\$ 609	—
Buildings	1,266	—
Leasehold improvements	82	\$ 60
Furniture and equipment	<u>1,209</u>	<u>858</u>
	3,166	918
Less accumulated depreciation and amortization	<u>(731)</u>	<u>(633)</u>
	<u>\$ 2,435</u>	<u>\$ 285</u>

Depreciation expense for 1992, 1991 and 1990 was \$110,000, \$116,000 and \$98,000 respectively.

In June 1990, the Bank entered into a 7-year lease for an administrative and branch facility consisting of 15,359 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.

NOTE H - PREMISES AND EQUIPMENT (Continued)

Rent expense for the years ended June 30, 1992, 1991 and 1990 was \$307,000, \$516,000 and \$303,000 respectively. Future minimum rental commitments at June 30, 1992 are as follows (in thousands):

Year ending June 30,	
1993	\$ 307
1994	307
1995	311
1996	353
1997	<u>324</u>
	<u>\$ 1,602</u>

NOTE I - DEPOSITS

Deposits at June 30 consisted of the following (in thousands):					
		1992		1991	
	Weighted Average Rate (%) at June 30, 1992	Amount	Percent	Amount	Percent
Non-interest checking	0.00%	\$1,848	1.4%	\$1,100	1.2%
Treasury, tax, and loan deposits	0.00	30	—	27	—
Checking with interest	3.65	3,705	2.7	1,618	1.7
Statement savings	3.80	1,701	1.3	406	.4
Money market	4.00	<u>14,646</u>	<u>10.8</u>	<u>7,667</u>	<u>8.2</u>
		21,930	16.2	10,818	11.5
Certificates of deposit:					
3.00 - 4.99%	4.37	48,616	35.9	—	—
5.00 - 6.99	5.95	53,000	39.2	46,550	49.5
7.00 - 8.99	7.75	9,816	7.3	34,258	36.5
9.00 - 12.99	9.45	<u>1,920</u>	<u>1.4</u>	<u>2,333</u>	<u>2.5</u>
	—	<u>113,352</u>	<u>83.8</u>	<u>83,141</u>	<u>88.5</u>
	5.19%	<u>\$135,282</u>	<u>100.0%</u>	<u>\$93,959</u>	<u>100.0%</u>

The total amount of certificates of deposit with balances greater than \$100,000 was \$13,036,000 and \$12,218,000 at June 30, 1992 and 1991, respectively.

At June 30, 1992, scheduled maturities of certificates of deposit are as follows:

Year ending June 30,	1993	1994	1995	1996	1997	Thereafter	Total
3.00 - 4.99%	\$ 48,235	\$ 336	\$ 45	—	—	—	\$ 48,616
5.00 - 6.99	49,516	1,518	732	\$ 126	\$ 1,108	—	53,000
7.00 - 8.99	6,623	988	589	765	835	\$ 16	9,816
9.00 - 12.99	<u>464</u>	<u>1,324</u>	<u>132</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,920</u>
Total	<u>\$104,838</u>	<u>\$4,166</u>	<u>\$1,498</u>	<u>\$ 891</u>	<u>\$1,943</u>	<u>\$ 16</u>	<u>\$113,352</u>

NOTE I - DEPOSITS (Continued)

Interest expense on deposits consisted of the following (in thousands):

For the year ended June 30,	1992	1991	1990
Checking	\$ 443	\$ 547	\$ 578
Statement savings	27	17	14
Certificates of deposit	<u>5,692</u>	<u>6,045</u>	<u>6,040</u>
	<u>\$ 6,162</u>	<u>\$ 6,609</u>	<u>\$ 6,632</u>

Accrued interest payable on deposits was \$387,000 and \$227,000 at June 30, 1992 and 1991.

Public funds of \$9,390,000 and \$8,021,000, included in deposits at June 30, 1992 and 1991, respectively, were collateralized by investment securities with book values of \$1,987,000 and \$1,212,000 and market values of \$2,078,000 and \$1,070,000 at June 30, 1992 and 1991, respectively.

NOTE J - ADVANCES FROM FEDERAL HOME LOAN BANK

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

Payable During Year Ending June 30,	Interest Rate at June 30, 1992	1992	1991
1992	—	—	\$ 4,000
1993	7.02%	\$ 2,000	2,600
1994	—	—	2,000
1995	—	—	2,000
1996	—	<u>—</u>	<u>1,000</u>
		<u>\$ 2,000</u>	<u>\$ 11,600</u>

At June 30, 1992, the Bank had no outstanding commitments for FHLB advances.

Advances are collateralized by mortgage loans with a book value of at least 155% of outstanding Bank advances and by FHLB stock. The Bank had an outstanding line of credit totaling approximately \$31.0 million with the Federal Home Loan Bank at June 30, 1992.

NOTE K - COLLATERALIZED MORTGAGE OBLIGATIONS

In June 1988, the Bank's wholly-owned subsidiary, Summit Capital Corporation, issued collateralized mortgage obligations (bonds), which are collateralized by Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities, with aggregate unpaid principal balances of \$12,536,000 as of June 30, 1992 and \$14,870,000 as of June 30, 1991. The mortgage-backed securities are held by a bond trustee for the benefit of the bondholders.

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

	Interest Rate	Stated Maturity	1992	1991
Series 1-A	9.70%	April 1, 2013	\$10,987	\$12,169
Series 1-Z	9.95	January 1, 2018	<u>705</u>	<u>639</u>
			11,692	12,808
Unamortized discount			<u>(334)</u>	<u>(408)</u>
			<u>\$11,358</u>	<u>\$12,400</u>

The net cash flow from the mortgage-backed securities, together with the reinvestment income thereon, provide for the proportionate repayment of the underlying bonds in quarterly installments. 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 the past twelve months prepayment experience of the pledged mortgage-backed securities, as follows (in thousands):

Year ending June 30,

1993	\$ 1,736
1994	1,246
1995	944
1996	752
1997	624
Thereafter	<u>6,390</u>
	<u>\$ 11,692</u>

NOTE L - CONVERTIBLE SUBORDINATED DEBENTURES

During the years ended June 30, 1988 and 1987, the Bank sold \$521,000 of 9% convertible subordinated debentures due December 31, 1996. The debentures outstanding at June 30, 1992 are convertible at any time prior to maturity, unless previously redeemed, into 90,995 shares of common stock of Summit Bancorp, Inc. at the conversion price of \$5.50 per share. The debentures are redeemable in whole or in part, at the option of the Holding Company, at premium values as follows:

Calendar Year of Redemption	Redemption Price (as a Percentage of Debenture Amount)
1992	103%
1993	102
1994	101
1995	100

The debentures are subordinated to all of the Company's existing and future indebtedness and are not insured by the Federal Deposit Insurance Corporation.

NOTE M - ACCRUED INTEREST PAYABLE

Accrued interest payable at June 30 consisted of the following (in thousands):	1992	1991
Deposits	\$ 387	\$ 227
Swap agreements	40	20
FHLB advances	14	72
Collateralized mortgage obligations	<u>284</u>	<u>311</u>
	<u>\$ 725</u>	<u>\$ 630</u>

NOTE N - FEDERAL INCOME TAXES

Effective for fiscal 1988, the Bank elected early implementation of Statement of Financial Accounting Standards (SFAS) No. 96, Accounting for Income Taxes, under which the Bank 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 Company files a consolidated federal income tax return. The Company 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, 1992, 1991, and 1990. 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 Company 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 tax losses which were carried forward and used to offset all book taxable income for the years ended June 30, 1991 and 1990 and \$1.3 million of book taxable income for the year ended June 30, 1992. There are no remaining loss carryforwards available to offset future book taxable income.

Deferred federal income taxes result from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Temporary differences include deferred loan fees, accumulated depreciation and excess servicing premiums 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, 1992 were approximately \$2,056,000.

In February 1992, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 109 which will change the method of accounting and reporting for income taxes. The Company will be required to adopt this statement in fiscal 1994. The adoption of SFAS No. 109 is not expected to have a material impact on the Company's financial position.

NOTE N - FEDERAL INCOME TAXES (Continued)

The provision for federal income taxes is different from that which would result by applying the statutory income tax rate of 34% to pretax income or loss. A reconciliation of the difference for the years ended June 30 follows (in thousands):

	1992	1991	1990
Tax at statutory rate	\$ 1,140	\$ 505	\$ 188
Bad debt deduction	(165)	(16)	(3)
Loan loss and real estate owned reserve additions	174	64	—
Other	—	—	1
Benefit realized from net operating loss carryforward	<u>(252)</u>	<u>(473)</u>	<u>(186)</u>
	<u>\$ 917</u>	<u>\$ 80</u>	<u>\$ 0</u>
Provision for federal income taxes before extraordinary item:			
Deferred	408	80	—
Current	<u>509</u>	<u>—</u>	<u>—</u>
	917	80	—
Tax effect of extraordinary item	<u>(121)</u>	<u>(10)</u>	<u>—</u>
Provision for federal income taxes	<u>\$ 796</u>	<u>\$ 70</u>	<u>\$ 0</u>

The Bank 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 tax basis bad debt reserves at June 30, 1992 totaled approximately \$2,443,000. If any portion of these amounts were to be subsequently used for purposes other than to absorb loan losses, these amounts would be subject to federal income taxes at the then prevailing corporate tax rate. The entire balance could also become taxable if the Bank 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 \$764,000.

NOTE O - CAPITAL

In January 1989, the Federal Reserve Board and Office of the Comptroller of the Currency issued risk-based capital guidelines for bank holding companies. As of December 31, 1992, the minimum ratio of total capital to risk-weighted assets will be eight percent. Tier one capital to risk-weighted assets must be a minimum of four percent. Total capital consists of tier one capital, which excludes intangible assets such as deposit intangibles and purchased mortgage servicing, plus tier two capital which contains general valuation allowances and qualifying subordinated debentures. Assets are then risk-weighted by applying a factor from zero to one hundred percent based upon the risk associated with each classification of asset. Additionally, a leverage ratio, which is tier one capital to quarterly average total assets, will be implemented. The minimum ratio is currently three percent, but will increase by one to two percent depending upon the financial condition of the Bank.

At June 30, 1992, Summit Bancorp had tier one capital to risk-weighted assets of 13.26% and total capital to risk-weighted assets of 14.43%. Summit Savings Bank also exceeds all 1992 minimum capital requirements.

NOTE O - CAPITAL (Continued)

In May 1992, Summit Bancorp, Inc., a bank holding company, was formed as the parent company for Summit Savings and its subsidiaries. As a result, approximately \$3.7 million, representing retained earnings on the date of formation, was transferred to additional paid-in capital. Retained earnings at June 30, 1992 represents earnings since the holding company was formed.

The Company can pay dividends only from retained earnings up to certain amounts as specified by Washington State law.

NOTE P - STOCK OPTIONS

The Bank granted options to officers and full-time employees under its Incentive Stock Plan adopted September 19, 1984. At the annual meeting held on November 8, 1990, stockholders approved a non-qualified stock option plan for non-employee directors. This plan provided for the grant of options to purchase 100,000 shares of common stock by non-employee directors. Under these plans, 144,021 shares of Summit Bancorp'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 to ten years. The last of the outstanding options expire June 30, 1996.

Changes in stock options are as follows:

	1992	1991
Outstanding beginning of fiscal year	109,614	104,764
Granted	14,000	14,000
Exercised	(4,000)	(2,350)
Expired	(500)	(6,800)
Outstanding June 30	<u>119,114</u>	<u>109,614</u>
Exercisable June 30	<u>79,475</u>	<u>46,196</u>

The price of options outstanding and the price of options exercisable ranged from \$2.90 to \$5.975. The price of options exercised in fiscal 1992 was \$3.6875.

NOTE Q - SUMMIT RETIREMENT PLAN

Effective July 1, 1989, the Bank 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 Bank matches 25% of the employee contribution on the first 6% of compensation deferred. In addition, the Bank may make a discretionary contribution paid at fiscal year end and allocated to each employee in proportion to the compensation of all persons employed at that time. Employer contributions for the years ended June 30, 1992 and 1991 were \$61,000 and \$46,000, respectively.

NOTE R - INTEREST RATE RISK

The Bank originates and purchases principally single-family permanent mortgage loans and to a lesser extent single-family construction loans. In order to minimize its exposure to interest rate fluctuations, the Bank sold 87% of permanent loans originated at the time of loan commitment. The Bank also originates and purchases adjustable rate mortgage loans and mortgage-backed securities whose rates adjust periodically with market rate changes.

At June 30, 1992, the Bank had interest-earning assets of \$153.9 million with a weighted average yield of 8.73% and interest-bearing liabilities of \$147.3 million with a weighted cost of 5.55%.

In November 1990, the Bank entered into two two-year interest rate swap agreements with the Federal Home Loan Bank. The purpose of these agreements is to lessen the Bank's sensitivity to short-term liability rate changes. The Bank pays fixed rates and receives variable rates which adjust quarterly. It is the intention of the Bank to participate in the agreements for the entire term.

The interest differential paid or received is recorded as an adjustment to current income. Interest rate swap agreements at June 30, 1992 consisted of the following:

Notional Amount	Variable Rate Received	Fixed Rate Paid
\$5,000,000	3.875%	8.31%
2,000,000	4.065	8.38

NOTE S - EXTRAORDINARY ITEM

During the third quarter of fiscal 1992, the Bank completed a balance sheet restructure in anticipation of the acquisition of two branches of Cascade Savings Bank. Long-term fixed-rate mortgage-backed and debt securities totaling \$12.6 million were sold for a gain of \$567,000. With the proceeds from the sale, the Bank repaid \$11.6 million of Federal Home Loan Bank advances for which prepayment penalties of \$448,000 were paid. The penalties are reflected as a \$327,000 extraordinary item net of \$121,000 tax benefit. The restructure served to enhance the balance sheet by reducing fixed-rate assets and strengthening capital ratios.

NOTE T - BRANCH ACQUISITION

In June 1992, Summit Savings Bank acquired two branch offices of Cascade Savings Bank located in Bellingham and Tacoma, Washington. Deposits totaling \$34.1 million were acquired in addition to \$9.5 million in mortgage loans and \$1.9 million in buildings and land.

The acquisition of branches during 1992 was accounted for under the purchase method of accounting. Assets and liabilities acquired were recorded at their estimated fair value. The excess of cost over fair value of purchased assets of \$854,000, primarily included in other assets, was recorded as core deposit intangible and covenant not to compete. These intangible assets are amortized using the straight line method over the estimated life of the related assets and liabilities of three to seven years.

NOTE U - SUMMIT BANCORP, INC. (PARENT COMPANY ONLY)
SUMMARY FINANCIAL INFORMATION

BALANCE SHEET

June 30, 1992 / Dollars in thousands

ASSETS

Cash	\$ 89
Investment in subsidiaries	12,285
Other assets	<u>30</u>
	<u>\$12,404</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Other liabilities	<u>27</u>
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SHAREHOLDERS' EQUITY

Common stock	20
Additional paid-in capital	12,037
Retained earnings	<u>320</u>
	<u>12,377</u>
	<u>\$12,404</u>

STATEMENT OF INCOME

OTHER INCOME

Equity in undistributed income of subsidiaries	\$ <u>328</u>
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OTHER EXPENSE

Directors' compensation	7
Depreciation and amortization	<u>1</u>
	<u>8</u>
Net income	<u>\$ 320</u>

STATEMENT OF CASH FLOWS

OPERATING ACTIVITIES

Net income	\$ 320
Adjustments to reconcile net income to cash used in operating activities:	
Equity in undistributed income of subsidiaries	(328)
Increase in other assets	(30)
Increase in other liabilities	<u>27</u>
Net cash used by operating activities	<u>(11)</u>

INVESTING ACTIVITIES

Dividend from subsidiary	<u>100</u>
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NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ 89</u>
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Non-cash investing activities include the exchange of common stock of Summit Bancorp Inc. for the outstanding shares of Summit Savings Bank aggregating \$12,057,000.

**CORPORATE HEADQUARTERS
& BELLEVUE BANKING
CENTER**

400 112th Avenue NE
Bellevue, Washington 98004
(206) 451-3585
1-800-824-6220 Washington only

**BELLINGHAM BANKING
CENTER**

100 Grand Avenue
Bellingham, Washington 98225
(206) 676-8500
1-800-824-6220 Washington only

TACOMA BANKING CENTER

101 South 10th Street
Tacoma, Washington 98402
(206) 385-3535
1-800-824-6220 Washington only

INDEPENDENT AUDITORS

Deloitte & Touche
700 Fifth Avenue, Suite 4500
Seattle, Washington 98104-5044

GENERAL COUNSEL

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

SPECIAL COUNSEL

Breyer & Zinski
601 15th Street NW
Suite 1120 South
Washington, D.C. 20005

STOCK LISTING

NASDAQ
Symbol: SMMT

STOCK TRANSFER AGENT

First Interstate Bank, Ltd.
26610 West Agoura Road
Calabasas, California 91302
Shareholder Relations:
1-800-522-6645

COMMON STOCK

Summit Bancorp, Inc.'s common stock is traded in the over-the-counter market and is included in the National Market System of NASDAQ (symbol: SMMT). As of June 30, 1992, there were 2,018,960 shares of common stock outstanding held by approximately 1,500 shareholders including registered and beneficial owners.

The following table shows the high and low price range by quarter during the past two fiscal years.

1991	High	Low
1st quarter (9-30-90)	\$5 1/8	\$5 3/4
2nd quarter (12-31-90)	4 3/4	5 1/2
3rd quarter (3-31-91)	4 7/8	4
4th quarter (6-30-91)	7	4 5/8
1992	High	Low
1st quarter (9-30-91)	\$6 3/4	\$5 3/4
2nd quarter (12-31-91)	6 3/4	5 1/4
3rd quarter (3-31-92)	8 1/2	5 5/8
4th quarter (6-30-92)	9	8

MARKET MAKERS

Some of the investment firms who make a market in Summit Bancorp, Inc.'s stock are:
Dain, Bosworth, Inc.
Fahnestock & Co., Inc.
Herzog, Heine, Geduld, Inc.
Kemper Securities Group, Inc.
Piper Jaffray, Inc.
Ragen MacKenzie, Inc.
Shearson Lehman Brothers, Inc.
Wedbush Morgan Securities, Inc.

ANNUAL MEETING

The 1992 annual meeting of shareholders will be held at 5:00 p.m. on Thursday, November 5, 1992, at the Bellevue Hilton, 100 112th Avenue NE, Bellevue, Washington. All shareholders are cordially invited to attend.

FINANCIAL INFORMATION

Copies of Summit Bancorp, Inc.'s Annual Report to Shareholders, annual report on Form 10-K, Quarterly Reports, interim reports on Form 10-Q, and other published reports are available upon request and without charge. Please address requests to:

Corporate Secretary
Summit Bancorp, Inc.
400 112th Avenue NE
Bellevue, Washington 98004

SHAREHOLDER INQUIRIES

First Interstate Bank, stock transfer agent for Summit Bancorp, Inc.'s stock, maintains all shareholder records and can assist you with address changes, corrections in social security or tax identification numbers and reissuance of stock certificates. If you need assistance with your Summit Bancorp, Inc. stock, please contact the stock transfer agent at the address and phone number listed.

DIRECTORS

JOHN D. CADIGAN
Chairman of the Board
President
Rio Petrol, Inc.
Vice President
Campbell Investment Corporation

JAMES F. GRABICKI
President
Chief Executive Officer
Summit Bancorp, Inc.

JAMES D. HUBER
President
ATCON Services

WILLIAM P. HURME
Marketing Consultant

DOUG T. MERGENTHALER
President
Ashton Corporation

WILLIAM P. NEWMAN
Executive Vice President
Washington State Hotel & Motel Association.

PAUL E. NOLAN
President
Nolan Development, Inc.

L. MICHAEL RILEY
Financial Services Consultant and Investor

OFFICERS

JAMES F. GRABICKI *
President
Chief Executive Officer

GARY R. WILSON *
Executive Vice President
Chief Lending Officer

PATRICIA L. WALDOW *
Senior Vice President
Chief Financial Officer

KATHY J. BURKE *
Vice President
Savings Administration

MERRI ANN SIMONSON *
Vice President
Loan Administration

THERESA M. STAUCH *
Corporate Secretary
Personnel Manager

DAVID B. TROTT
Vice President
Bellingham Regional Manager

ROBERT WILSON
Vice President
Tacoma Regional Manager

TAMMY BARNETT
Assistant Vice President
Lending Production Manager

STEFON GEHRKE
Assistant Vice President
Secondary Marketing Manager

LYN GODFREY
Assistant Vice President
Wholesale Lending Manager

SANDRA L. GRAHAM
Assistant Vice President
Sales Manager

KATIE NELSON
Assistant Vice President
Data Processing Manager

BARBARA TANGEMAN
Assistant Vice President
Branch Operations

* Member of Senior Management Committee.





Summit Bancorp, Inc.



Deposits federally
insured to \$100,000.
Member FDIC.

