



SUMMIT BANCORP, INC.

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Annual Report

FINANCIAL HIGHLIGHTS

At June 30/(Dollars in thousands except per share data):	1993	1992	1991
Total assets	\$201,074	\$163,646	\$131,232
Loans receivable and mortgage-backed securities	184,769	137,898	115,506
Deposits	167,761	135,282	93,959
Advances from Federal Home Loan Bank	6,000	2,000	11,600
Shareholders' equity	15,159	12,377	10,232
Book value per share	7.29	6.13	5.09
Tangible equity to assets	7.30%	7.20%	7.80%
For the year ended June 30,			
WEIGHTED AVERAGE YIELD:			
Loans and mortgage-backed securities	8.27%	9.60%	10.27%
Cash and investments	6.25	6.38	7.46
Combined	8.07	9.29	9.97
WEIGHTED AVERAGE COST OF FUNDS:			
Deposits	4.54	5.97	7.66
Borrowings	9.13	9.03	9.60
Combined	4.96	6.54	8.08
Interest rate spread	3.11	2.75	1.89
Net interest margin	3.33	2.93	2.46
Net income before federal income tax expense			
and extraordinary item	\$ 3,656	\$ 3,354	\$ 1,485
Federal income tax expense	1,143	917	80
Extraordinary item, net of tax	—	(327)	(39)
Net income	2,513	2,110	1,366
Net income per share	1.20	1.03	.68
Real estate loans originated and purchased	286,577	267,769	161,401
Return on average assets	1.39%	1.50%	1.12%
Return on average shareholders' equity	18.16	18.75	14.37

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LETTER TO SHAREHOLDERS

To Our Shareholders:

We began the year with two newly-acquired banking centers and finished 1993 with our announcement of record earnings. Net income for the year ending June 30, 1993 was \$2,513,000, which is a 19% increase over 1992 earnings of \$2,110,000. This is an increase we attribute to our outstanding asset quality, record loan production and improved interest rate spread. Return on assets for the year was 1.4% and return on equity was 18.2%. We are pleased with both of these ratios as we absorbed overhead costs of the two new branches which we acquired in June, 1992. Assets increased 23% during the fiscal year 1993 to \$201 million. Our aggressive program of delivering superior customer service continued to pay off. Deposits increased 24% over fiscal year 1992 to \$168 million. The acquired branches contributed \$12 million, or 9% of this growth.

Loan production for the year totaled \$287 million, a record achievement for the Bank. We also increased the volume of loans serviced for others to \$107 million at year end 1993, up from \$88 million last year as part of management's plan to build long-term value for your company.

During the second quarter we sought to reduce the Bank's exposure to interest rate changes primarily through the addition of assets with adjustable rates. We are pleased to report that the difference between maturities and/or repricings of interest-earning assets and interest-bearing liabilities has been narrowed considerably. This measurement, called the asset and liability gap, was negative 5.8% for the one to three year interval at June 30, 1993 compared to negative 21.5% at June 30, 1992.

The quality of our assets is excellent. The ratio of non-performing loans to total assets was less than a quarter of a percent at June 30, 1993, representing a reduction of more than 50% from last year's already low level. In addition, the Bank had no real estate held for sale at June 30, 1993. We will continue to place great emphasis on asset quality in our future operations.

While the numbers tell you part of the story, the year saw some other important milestones for Summit. Michael Riley, a long-time Northwest banker and director of the Bank since 1990, joined our senior management team as President and Chief Executive Officer.

We were deeply saddened by the death of James Huber, who was a founding director of Summit Savings Bank and Chairman of the Board for our first seven years. Jim was a good friend to all of us at Summit.

Once again, the Seattle Times honored your company with inclusion in the listing of the Top 100 Northwest Public Companies. Our position improved to the 6th best company, up from 18th the year before. We are also pleased to be recognized as the top ranked financial institution based on our performance.

In April, we welcomed Margaret Hofman to our board of directors. Mrs. Hofman is an experienced and capable executive, who is a CPA and serves as President and Chief Executive Officer of Fluke Capital Management, L.P.

We are particularly pleased with the strength and experience demonstrated by our senior management team and the superb efforts of the employees who serve our customers. We never let ourselves lose sight of the fact that our success relies on serving customers who choose Summit Savings Bank for their savings and lending needs.

We look forward to the opportunities of the coming year. We continue to focus on providing superior customer service, maintaining the enviable quality of our loan portfolio, and increasing long-term income streams. We are continuing to seek opportunities to add value to your company through growth, sound financial performance and by providing service to the communities in which we do business.

Thank you for your continued support,

L. Michael Riley

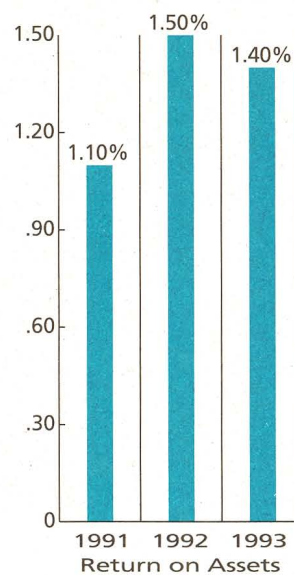
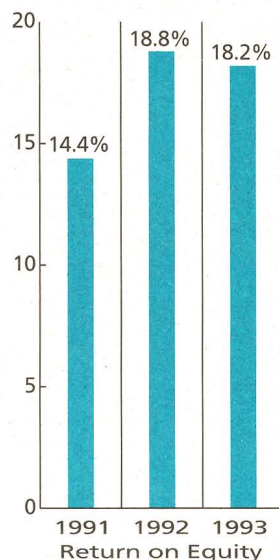
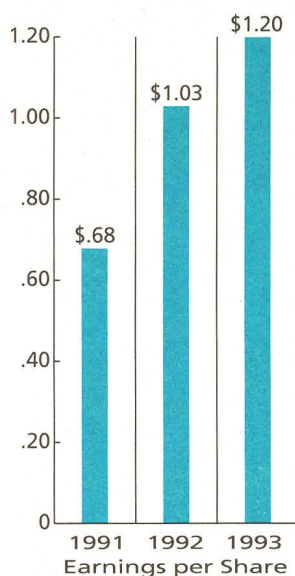


President and Chief Executive Officer

John D. Cadigan



Chairman of the Board



Summit Savings Bank,
a subsidiary of Summit
Bancorp, Inc., celebrated 10

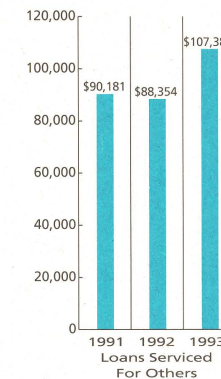
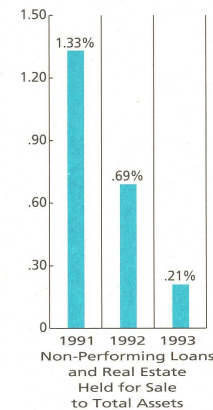
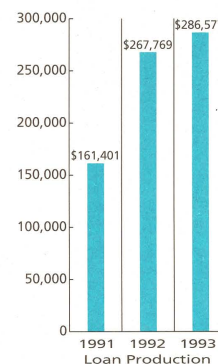
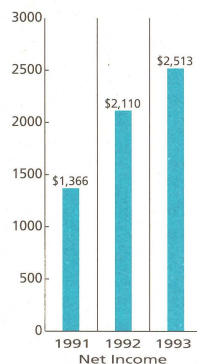
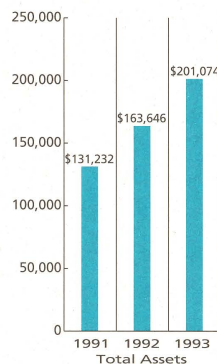
years of financial service in April of 1993. Our business strategy of attracting consumer deposits and originating residential loans continues to prove very successful.

The success of Summit Savings Bank rests with our people and their willingness to go the extra mile to serve our customers. Top people give us a substantial competitive edge as today's sophisticated consumer looks for added-value in all their financial decisions. Our team of professionals are dedicated to serving their customers. We are particularly proud of our Financial Services Specialists who maintain the loyalty of our deposit customers.

These personable, motivated and well-trained bankers go out of their way to meet our customers' needs resulting in our ability to attract and retain savings deposits. These efforts are reflected in our deposit growth.

The 1993 lending market was driven by record low interest rates. The Summit Savings Bank lending team was able to originate a record number of purchase and refinance loans. Loan production was generated through our staff of retail loan officers in the three banking centers and from a network of experienced wholesale mortgage companies.

1993 saw the successful integration of two new offices added through acquisition late in 1992.



Our new banking centers are in Bellingham, serving the Northern portion of the Puget Sound basin, and in Tacoma, which serves the southern end of Puget Sound. Together both offices joined our Bellevue home office in making a balanced contribution of savings deposits and loan originations.

We continued to improve our asset quality as well, with prudent underwriting policies rewarding us with a strong portfolio. During 1993, Summit Savings Bank also added to our commitment to service a larger percentage of the loan volume we originate, demonstrating our emphasis on building shareholder value.

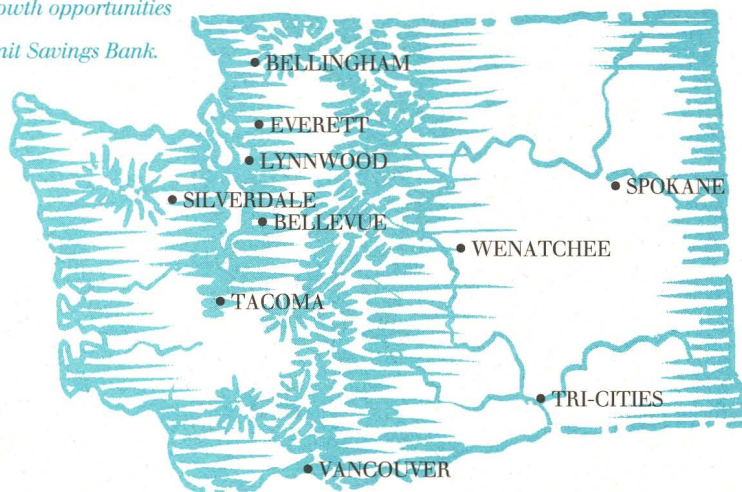
JAMES D. HUBER
1944 to 1992

We honor the memory of James D. Huber, a valued and appreciated member of the Summit Savings Bank team. Jim helped found our institution, served as a director from 1981 to 1992, and as Board Chairman from 1984 to 1989.

Washington has continued to show the strengths of a state with a diversified economic base. Long range bright spots in the Northwest economy continue to be high technology, tourism and international trade. The high quality of life and healthy, rewarding work environment attracts both growing companies and people seeking to improve their lives. The much publicized success of many Northwest companies has generated substantial investor interest in our area. Summit Savings Bank has positioned itself to continue to add

shareholder value through a focused business strategy, superior customer service and prudent growth.

*Current banking centers and
future growth opportunities
for Summit Savings Bank.*



MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

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

In December 1991, the Bank converted its charter from a state-chartered savings and loan regulated by the Office of Thrift Supervision, to its present charter. Summit Savings Bank is regulated by the Washington State Division of Banking and the Federal Deposit Insurance Corporation ("FDIC"). The deposits of the savings bank are 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 this organizational structure, shareholders exchanged their shares of Summit Savings Bank stock for an equal number of shares of Summit Bancorp stock. The Federal Reserve Bank ("FRB") has 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 \$54.1 million were assumed in addition to \$9.5 million of loans, the branch facilities and land. The branches contributed \$12 million of deposit growth and \$59 million of new loan originations during fiscal 1993.

Leo Michael Riley, a Director since April 1990, assumed the position of President and Chief Executive Officer of the Company in November 1992. Mr. Riley also serves as a member of the Board of Directors. He was previously Executive Vice President and Chief Financial Officer of Peoples National Bank of Washington and U.S. Bank of Washington. He is a long-time resident of Bellevue, Washington.

In November 1992, James F. Grabicki resigned as President and Chief Executive Officer of the Company. Mr. Grabicki will remain as a Director for the Company until his term expires in November 1993. Additionally, he serves as a Special Consultant to the Bank until March 1994.

Review of Financial Condition

Total assets at June 30, 1993 were \$201.1 million representing a 23% increase from \$163.6 million at June 30, 1992. Shareholders' equity at June 30, 1993 was \$15.2 million, also a 23% increase from \$12.4 million at June 30, 1992. The growth in equity was due primarily to record earnings of \$2.5 million for the year.

Lending and Investing Activities

Loans receivable held for investment and held for sale totaled \$147.7 million at June 30, 1993 compared to \$110.2 million at June 30, 1992. The increase of \$37.5 million is attributable to record loan production of \$286.6 million for fiscal 1993 which resulted from the favorable interest rate environment. The Bank lends primarily for the purpose of single-family permanent homes and, to a lesser extent, single-family construction and small multi-family dwellings. Refinance of existing properties contributed \$145.2 million of loan production for the year.

Summit utilizes the secondary market to sell a significant portion of its loan production. During fiscal 1993, 75% of loans originated were sold into the secondary market. These loan sales serve to reduce the interest rate risk inherent in long-term fixed-rate loans and provide liquidity needed to originate large volumes of loans. Loans are designated as held for sale or held for investment at their closing date. Loans held for sale are recorded at the lower of cost or fair value.

The table set forth below shows the Bank's mortgage loan origination, purchase and sales activities for the periods indicated (in thousands):

Year ended June 30,	1993	1992	1991
Loans originated:			
Loans on existing property:			
1-4 family	\$261,676	\$243,640	\$148,583
Multi-family	6,920	-	-
Commercial	2,735	1,500	-
Construction loans:			
1-4 family	11,341	7,234	9,118
Consumer loans	<u>2,539</u>	<u>2,163</u>	<u>2,627</u>
Total loans originated	<u>\$285,211</u>	<u>\$254,537</u>	<u>\$160,328</u>
Loans purchased	<u>\$1,366</u>	<u>\$13,232</u>	<u>\$1,073</u>
Loans sold	<u>\$212,787</u>	<u>\$222,085</u>	<u>\$127,146</u>

Analysis of Loan Portfolio

The Bank originates mortgage loans primarily in Western Washington. Although loan production activity has remained strong, the decline in the aerospace industry has been a concern in the employment population for the state, as have numerous mergers of financial institutions. The Bank does not believe its concentrations of lending in these sectors to be significant.

Concentrations by Type of Loan

At June 30/(Dollars in thousands):		1993		1992	
Loans on existing property:					
1-4 family	\$ 83,887	67.1%	\$ 64,350	63.2%	
Multi-family	22,228	17.7	14,609	14.3	
Commercial	10,613	8.5	12,518	12.3	
Construction loans:					
1-4 family	6,268	5.0	5,392	5.3	
Commercial	-	-	3,040	3.0	
Land loans	330	.3	586	.6	
Consumer loans	<u>1,739</u>	<u>1.4</u>	<u>1,355</u>	<u>1.3</u>	
Total loans	125,065	100.0%	101,850	100.0%	
Less:					
Deferred loan fees	(1,406)		(960)		
Loans in process of completion	(2,738)		(1,517)		
Reserve for loan losses	<u>(787)</u>		<u>(636)</u>		
	120,134		98,737		
1-4 family loans receivable held for sale	<u>27,566</u>		<u>11,511</u>		
Net loans	<u>\$147,700</u>		<u>\$110,248</u>		

Investing Activities

Securities are designated as held for sale or held for investment at the date of purchase. The Bank primarily purchased adjustable-rate mortgage-backed securities for its investment portfolio which are tied to a variety of indices as part of its asset liability management. The Bank also purchases securities which are designated as held for sale, for which it may not have the intent to hold the securities to their maturity. These securities are marked to the lower of cost or their fair value on an aggregate basis. Liquidity needs, changes in market rates or other factors determine the purchase or sale of the held for sale securities.

Mortgage-backed securities held for investment were \$37.1 million at June 30, 1993 compared to \$19.8 million at June 30, 1992. The increase reflects the liquidity available from increased refinance activity from the loan portfolio. Securities held for sale decreased to \$4.0 million from \$17.3 million at June 30, 1993. Security sales totaled \$22.1 million during fiscal 1993. Gains realized on the sale of securities totaled \$367,000, slightly offset by losses realized of \$58,000. All of the securities sold were previously designated as held for sale.

Investing Activities (continued)

The tables below present the maturities and average yields of securities held for sale and securities held for investment by category of security at June 30, 1993 (dollars in thousands):

HELD FOR SALE:

	One Year or Less	Average Yield	One Through Five Years	Average Yield	Five Through Ten Years	Average Yield	After Ten Years	Average Yield
U.S. Treasury Obligations	\$1,994	7.4%	\$992	6.5%	—	—	—	—
FHLMC Preferred Stock	—	—	—	—	—	—	<u>\$1,014</u>	<u>7.9%</u>
	<u>\$1,994</u>	<u>7.4%</u>	<u>\$992</u>	<u>6.5%</u>	—	—	<u>\$1,014</u>	<u>7.9%</u>

HELD FOR INVESTMENT:

	One Year or Less	Average Yield	One Through Five Years	Average Yield	Five Through Ten Years	Average Yield	After Ten Years	Average Yield
U.S. Government and Agency Securities	—	—	—	—	<u>\$2,589</u>	<u>6.5%</u>	<u>\$34,680</u>	<u>6.3%</u>

Deposit and Borrowing Activities

Deposits for the year increased \$32.5 million during fiscal 1993 or 24%. The two branches that were acquired in June 1992 contributed \$12 million of this deposit growth. The Bank does not have any brokered deposits.

Federal Home Loan Bank advances increased from \$2.0 million at June 30, 1992 to \$6.0 million at June 30, 1993, largely due to increased loan originations. The Bank relies primarily on low-cost borrowings offered by the Federal Home Loan Bank which can be repaid at any time and, to a lesser extent, short to intermediate term fixed-rate advances.

FHLB Advances:

(Dollars in thousands)	Balance at June 30,	Weighted Average Interest Rate at June 30,	Maximum Outstanding	Average Amount Outstanding	Weighted Rate
1993	\$ 6,000	4.11%	\$ 2,500	\$ 4,702	4.48%
1992	2,000	7.02	21,701	11,024	7.24
1991	11,600	8.08	15,600	10,902	8.65

Results of Operations

The Bank earned net income of \$2.5 million for the year ended June 30, 1993 compared to \$2.1 million and \$1.4 million for the years ended June 30, 1992 and 1991 respectively.

Net interest income after provision for loan losses was \$5.8 million for the year ended June 30, 1993, increased from \$4.0 million and \$2.8 million for the two prior comparative years. The increase in net interest income is attributable to increases in interest-earning assets combined with the favorable interest rate environment.

Total interest income increased \$1.2 million for the year ended June 30, 1993 compared to the year ended June 30, 1992. Total interest income for fiscal 1992 increased over fiscal 1991 by \$855,000. The primary factor in the increase is from loans receivable held for investment and held for sale. Interest on loans receivable increased \$853,000 for fiscal year 1993 compared to fiscal 1992, due to an increase in average balances of \$28.6 million offset by a decrease in average rates received of 1.6%. The increase from 1991 to 1992 was also due to an increase in average balances of \$12.0 million offset by a decline in average rates received of .5%. Fiscal 1992 reflected an increase of \$732,000 compared to fiscal 1991 due to an increase in average balances of \$54.4 million, only slightly offset by declining rates. The steadily increased balances, combined with decreasing average rates received, reflect the decline in long-term rates over the past two years.

An additional factor in the increase of interest on loans is the amount of loans sold where Summit continues to service the loans. These loans earn interest for a longer period of time until the funding of the sale is completed.

Interest and dividends from other securities including mortgage-backed securities, debt securities, federal funds sold and other securities increased \$328,000 for the year ended June 30, 1993 compared to 1992, also due to increased balances offset by lower rates. Similarly, an increase of \$123,000 was realized during the year ended June 30, 1992 compared to 1991 for like reasons.

Total interest expense decreased \$315,000 for the year ended June 30, 1993 compared to last year. Interest expense on deposits is the most significant component of interest expense for the Company. Deposits increased \$32.5 million, therefore interest expense was increased by \$501,000 in spite of declining rates paid. Interest on Federal Home Loan Bank advances and collateralized mortgage obligations decreased \$803,000 due to decreases in average balances. Average balances on advances decreased \$6.3 million during 1993 compared to 1992, in addition to the decrease in average rates paid of 2.8% from 1992 to 1993. The average balance on the collateralized mortgage obligation decreased \$2.1 million as the result of the paydown of the underlying collateral from additional refinance activity. The average rates paid on the bonds increased .3% from 1992 to 1993 as the paydown resulted in additional amortization of discount and prepaid costs associated with the issuance of the bonds.

Provision for loan losses decreased \$326,000 from 1992 to 1993. Total provision for the year ended June 30, 1993 was \$165,000 compared to \$491,000 during June 30, 1992. During fiscal 1992, a classified multi-family loan was written down by \$428,000 prior to transferring the asset to real estate held for sale. The property was sold during fiscal 1992.

Rate/Volume Analysis

The table below sets forth information regarding changes in interest income and interest expense for the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to changes in volume and changes in interest rates. Changes attributable to the combined impact of volume and rate have been allocated proportionately to the change due to volume and the change due to rate.

(Dollars in thousands)	6/30/93 compared to 6/30/92 Increase (Decrease)			6/30/92 compared to 6/30/91 Increase (Decrease)			6/30/91 compared to 6/30/90 Increase (Decrease)		
	Volume	Due to Rate	Total	Volume	Due to Rate	Total	Volume	Due to Rate	Total
Interest income attributable to:									
Loans receivable	\$2,122	\$(1,269)	\$ 853	\$ 1,215	\$ (481)	\$ 732	\$ 7,288	\$(5,964)	\$1,324
Mortgage-backed securities	411	(287)	124	289	(31)	258	1,127	(830)	297
Federal funds sold	(3)	15	12	672	(924)	(252)	(564)	321	(243)
Interest-bearing deposits	65	(179)	(114)	(3)	9	6	(616)	382	(234)
Other	<u>417</u>	<u>(111)</u>	<u>306</u>	<u>168</u>	<u>(57)</u>	<u>111</u>	<u>2,619</u>	<u>(2,850)</u>	<u>(231)</u>
Total interest-earning assets	<u>\$3,012</u>	<u>\$(1,831)</u>	<u>\$1,181</u>	<u>\$ 2,359</u>	<u>\$(1,484)</u>	<u>\$ 855</u>	<u>\$ 9,854</u>	<u>\$(8,941)</u>	<u>\$ 913</u>
Interest expense attributable to:									
Deposits:									
Savings and checking with interest	\$ 46	\$ 23	\$ 69	\$ 23	\$ (11)	\$ 12	\$ (459)	\$ 353	\$ (106)
Money market accounts	43	102	145	(467)	359	(108)	127	(49)	78
Certificates of deposit	776	(489)	287	4,240	(4,591)	(351)	9	(4)	5
Federal Home Loan Bank advances	(353)	(235)	(588)	11	(156)	(145)	228	(75)	153
Collateralized mortgage obligation	(296)	81	(215)	(93)	55	(38)	(278)	166	(112)
Other borrowings	<u>(8)</u>	<u>(5)</u>	<u>(13)</u>	<u>4</u>	<u>(7)</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total interest-bearing liabilities	<u>\$ 208</u>	<u>\$ (523)</u>	<u>\$ (315)</u>	<u>\$ 3,718</u>	<u>\$(4,351)</u>	<u>\$ (633)</u>	<u>\$ (373)</u>	<u>\$ 391</u>	<u>\$ 18</u>
Change in net interest income	<u>\$2,804</u>	<u>\$(1,308)</u>	<u>\$1,496</u>	<u>\$(1,379)</u>	<u>\$ 2,867</u>	<u>\$1,488</u>	<u>\$10,227</u>	<u>\$(9,332)</u>	<u>\$ 895</u>

Average Balances and Net Interest Income

(Dollars in thousands)	1993			1992			1991		
	Average Balance	Income/Expense	Avg Rate Earned/Paid	Average Balance	Income/Expense	Avg Rate Earned/Paid	Average Balance	Income/Expense	Avg Rate Earned/Paid
Interest-earning assets:									
Loans receivable	\$129,369	\$10,816	8.3%	\$100,723	\$ 9,963	9.9%	\$ 88,744	\$ 9,231	10.4%
Mortgage-backed securities	32,359	2,115	6.5	23,891	1,991	8.3	20,429	1,733	8.5
Federal funds sold	1,500	32	2.1	2,381	112	-	1,404	75	5.3
Interest-bearing deposits	2,775	87	3.1	1,578	221	14.0	4,476	513	11.5
Other	<u>8,168</u>	<u>927</u>	<u>11.3</u>	<u>8,075</u>	<u>509</u>	<u>6.3</u>	<u>5,581</u>	<u>389</u>	<u>6.9</u>
Total interest-earning assets	174,171	13,977	8.0%	136,648	12,796	9.4%	120,634	11,941	9.9%
Cash	2,373			1,180			1,155		
Other assets	<u>5,817</u>			<u>5,076</u>			<u>3,002</u>		
	<u>\$182,361</u>			<u>\$142,904</u>			<u>\$124,791</u>		
Interest-bearing liabilities:									
Deposits:									
Savings and checking with interest	\$ 5,586	\$ 169	3.0%	\$ 3,846	\$ 102	2.7%	\$ 1,908	\$ 88	4.6%
Money market accounts	14,424	513	3.6	9,862	368	3.7	7,503	476	6.3
Certificates of deposit	129,155	5,981	4.6	90,492	5,692	6.3	75,633	6,045	7.9
FHLB advances	4,000	211	5.3	11,024	799	7.2	10,902	944	8.7
Collateralized mortgage obligation	9,818	1,095	11.2	11,957	1,310	10.9	12,762	1,348	10.6
Other borrowings	<u>436</u>	<u>44</u>	<u>10.1</u>	<u>516</u>	<u>57</u>	<u>11.0</u>	<u>846</u>	<u>60</u>	<u>7.1</u>
Total interest-bearing liabilities	<u>163,419</u>	<u>8,013</u>	<u>4.9%</u>	<u>127,697</u>	<u>8,328</u>	<u>6.5%</u>	<u>109,554</u>	<u>8,961</u>	<u>8.2%</u>
Non interest-bearing deposits	2,357			1,936			1,225		
Other liabilities	<u>2,817</u>			<u>1,802</u>			<u>4,321</u>		
Total liabilities	168,593			131,435			115,100		
Shareholders' equity	<u>13,768</u>			<u>11,469</u>			<u>9,691</u>		
	<u>\$182,361</u>			<u>\$142,904</u>			<u>\$124,791</u>		
Net interest income and margin		<u>\$ 5,964</u>	<u>3.4%</u>		<u>\$ 4,468</u>	<u>3.3%</u>		<u>\$2,980</u>	<u>2.5%</u>

* Nonaccrual loans have been included in the average balance calculations.

* Loan fees of \$423,000, \$374,000, and \$239,000 have been included in interest income on loans receivable for 1993, 1992 and 1991.

* Average balances were calculated as simple averages of beginning and ending balances for the periods shown.

Results of Operations (continued)

Other income for 1993 was \$3.5 million compared to \$3.4 million for 1992. Gain on sale of loans for 1993 increased \$566,000 over 1992 as the result of an increase in the volume of loans sold. Loan servicing income decreased by \$164,000 during the year, however, refinance activity accelerated the amortization of capitalized servicing associated with loans serviced for others. Gain on sale of securities also decreased from \$621,000 in 1992, resulting from a restructure of the balance sheet, to \$509,000 in 1993. The proceeds from the sale of securities in 1993, which were classified as held for sale, were used to repay Federal Home Loan Bank borrowings during the fourth quarter of fiscal 1993. Other income for 1992 of \$3.4 million was a significant increase over 1991 due to increased mortgage banking activity and the sale of securities from the restructure.

Other expense increased \$1.6 million during fiscal 1993 compared to fiscal 1992, reflecting the additional operating expenses associated with the acquisition of two banking centers in June 1992. Compensation and benefits increased \$961,000 for 1993, again due largely to the additional centers and to a lesser extent to commissions paid on additional loan originations. Insurance expense increased \$113,000 as a result of deposit insurance premiums on the acquired deposits and from deposit growth during the year. Occupancy expenses, data processing costs and other expenses also increased due to the acquisition and growth associated with increased mortgage banking activity. Other expenses for 1992 also increased due to increased loan production and one-time costs associated with the acquisition of the new centers.

During the fiscal year 1993, the Company adopted SFAS No. 109, "Accounting for Income Taxes", with no material financial impact. The current provision for income taxes for 1993 was \$1.1 million compared to \$917,000 for 1992. During fiscal year 1990, the tax bad debt deduction for fiscal 1987 was recalculated based upon interpretive rulings of 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, 1991 and a portion in fiscal 1992. There were no remaining loss carryforwards to be used in fiscal 1993 and tax was provided for at normal rates.

Asset Quality

Asset quality for the Bank is excellent as demonstrated by the percentage of non-performing loans and real estate held for sale to total assets of .21% at June 30, 1993 compared to .69% at June 30, 1992. Non-performing loans for the Bank consist of three single-family loans which have been placed on a non-accrual status. Additionally, the Bank had no real estate held for sale at June 30, 1993. During the year, \$776,000 of real estate held for sale was sold with no material financial impact on the Bank.

Management classifies any assets identified as problem assets in conformity with FDIC regulations. At June 30, 1993, the Bank had six loans which were classified as substandard due to defined weaknesses totaling \$540,000. These loans consist of three single-family permanent loans totaling \$290,000, a personal line of credit for \$7,000 and two commercial building loans for \$243,000. Management does not believe that any of these classified loans will result in a loss to the Bank.

At June 30, 1993 and 1992 there were no loans past due ninety days or more which were still accruing interest. The Bank had no restructured loans during 1993 or 1992.

The following table sets forth information with respect to the Bank's nonaccruing loans, real estate held for sale and other classified assets at the dates indicated. All amounts represent book value less specified loss reserves and carrying costs.

(Dollars in thousands)	1993	% of Total Assets	1992	% of Total Assets	1991	% of Total Assets
Nonaccruing loans:						
1-4 family	\$412	.2%	\$ 358	.2%	\$ 578	.4%
Multi-family	-	-	-	-	534	.4
Commercial real estate	-	-	-	-	552	.4
Total	412	.2%	358	.2%	1,664	1.2%
Real estate held for sale	-	-	776	.5	74	.1
Other classified loans	540	.3	-	-	430	.3
Total	\$952	.5%	\$1,134	.7%	\$2,168	1.6%

General loan loss reserves are established to provide for inherent loan portfolio risks not specifically identified and provided for. Management evaluates the risk associated with the loan portfolio on an ongoing basis by using historical loss information, current economic conditions and other relevant factors. At June 30, 1993, the general loan loss reserve totaled \$787,000. There were no specific loan loss reserves identified.

Interest income on nonaccrual loans which would have been recorded under contractual terms was \$22,000, \$24,000 and \$98,000 for 1993, 1992 and 1991, respectively. Of the amounts not accrued, \$18,000 for 1992 and \$59,000 for 1991 were subsequently collected.

Allocation of the Allowance for Loan Losses

The following table presents an allocation of the general allowance for loan losses by loan category (dollars in thousands). Although the reserves have been allocated to various types of loans, it is a general reserve and can be utilized for any portion of the portfolio as needed.

At June 30,	1993	Percent of General Allowance	1992	Percent of General Allowance
	Amount		Amount	
Construction:				
1-4 family	\$ 40	5.0%	\$ 66	5.3%
Commercial	-	-	50	3.0
Permanent:				
1-4 family	357	45.4	150	63.2
Multi-family	175	22.2	150	14.3
Commercial	200	25.4	200	12.3
Land	5	.6	10	.6
Consumer	10	1.3	10	1.3
Total	<u>\$787</u>	<u>100.0%</u>	<u>\$636</u>	<u>100.0%</u>

The table below presents an analysis of loans charged off during the periods ended June 30 (dollars in thousands):

	1993	1992
Commercial construction	-	\$ 7
Multi-family permanent	-	428
Consumer	<u>\$14</u>	<u>5</u>
	<u>\$14</u>	<u>\$440</u>

Asset and Liability Management

The Bank's Asset Liability Committee monitors and manages interest rate risk and liquidity needs on an ongoing basis. Controlling the impact of interest rate movement is a primary goal and various tools are used to measure and adjust the sensitivity of earnings to interest rate changes.

One method of measuring the Bank's sensitivity to interest rate changes is to calculate the asset and liability gap; the difference between the maturities and/or repricing of interest-earning assets and interest-bearing liabilities. This is only a general measurement since not all interest rates adjust simultaneously. The Bank also utilizes models to track the effect that changes in rates could have on interest income given various market assumptions.

During the year, the Bank sought to reduce its exposure to changes in interest rates by narrowing its asset liability gap. At June 30, 1993, the one to three year cumulative gap to asset ratio was a negative 5.8% compared to negative 21.5% at June 30, 1992. The addition of adjustable rate mortgage-backed securities and loans receivable, the extension of certificates of deposit into longer term maturities and the use of interest rate swap transactions were the primary methods of reducing this exposure during 1993.

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

Time Deposits \$100,000 or Greater

At June 30, 1993/(Dollars in thousands):	3 months or less	3 months through 6 months	6 months through 12 months	Over 12 months	Total
	\$12,534	\$8,350	\$7,258	\$4,294	\$32,436

Loan Maturity and Rate Sensitivity:

At June 30, 1993/(Dollars in thousands):	One Year or Less	One Year Through Five Years	Over Five Years	Total
Commercial real estate	\$2,708	\$6,002	\$1,905	\$10,615
Real estate construction	<u>1,772</u>	<u>2,056</u>	<u>2,440</u>	<u>6,268</u>
	<u>\$4,480</u>	<u>\$8,058</u>	<u>\$4,345</u>	<u>\$16,881</u>
Fixed-rate loans	\$1,541	\$3,429	\$2,706	\$ 7,476
Adjustable rate loans	<u>3,139</u>	<u>4,629</u>	<u>1,637</u>	<u>9,405</u>
	<u>\$4,480</u>	<u>\$8,058</u>	<u>\$4,345</u>	<u>\$16,881</u>

The following table shows the interest rate sensitivity gaps for the maturities shown and the cumulative interest rate sensitivity gaps for those periods as of June 30, 1993. Prepayment assumptions have been applied based upon the interest rates of the assets and/or liabilities.

(Dollars in thousands)	0-180 Days	180-365 Days	1-5 Years	3-5 Years	5+ Years	Total
Loans receivable and						
mortgage-backed securities	\$66,710	\$25,279	\$25,058	\$17,587	\$51,722	\$186,356
Securities held for sale	-	1,994	-	992	-	2,986
Interest-bearing deposits	2,700	-	-	-	-	2,700
Other			-	-	1,014	1,014
Total interest sensitive assets	69,410	27,273	25,058	18,579	52,736	193,056
Adjusted for hedging	26,361	(1,159)	(4,218)	(3,620)	(17,364)	-
Total rate sensitive assets adjusted for hedging	95,771	26,114	20,840	14,959	35,372	193,056
Deposits:						
Checking and statement savings	4,276	253	210	174	365	5,278
Money market accounts	14,201	-	-	-	-	14,201
Certificates of deposit	78,200	39,212	11,941	5,660	9,945	144,958
Federal Home Loan Bank advances	4,000	-	2,000	-	-	6,000
Collateralized mortgage obligations		-	-	-	8,278	8,278
Other borrowings			-	371	-	371
Total interest sensitive liabilities	100,677	39,465	14,151	6,205	18,588	179,086
Adjusted for hedging	(4,000)	-	4,000	-	-	-
Total rate sensitive liabilities adjusted for hedging	96,677	39,465	18,151	6,205	18,588	179,086
Interest sensitive gap after hedging	(906)	(13,351)	2,689	8,754	16,784	13,970
Cumulative interest sensitive gap	(906)	(14,257)	(11,568)	(2,814)	13,970	-
Cumulative gap as a percentage of interest-earning assets	(0.47)%	(7.38)%	(5.99)%	(1.46)%	7.24%	-
Cumulative gap as a percentage of total assets	(0.45)%	(7.09)%	(5.75)%	(1.40)%	6.95%	-

REPORT OF DELOITTE & TOUCHE, INDEPENDENT AUDITORS

Board of Directors
Summit Bancorp, Inc.
Bellevue, Washington

We have audited the accompanying consolidated statements of financial condition of Summit Bancorp, Inc. (formerly Summit Savings Bank - See Note 1) and subsidiaries (the Company) as of June 30, 1993 and 1992, and the related statements of income, shareholders' equity and cash flows for the three years in the period ended June 30, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, 1993 and 1992, and the results of their operations and cash flows for the three years in the period ended June 30, 1993 in conformity with generally accepted accounting principles.

Deloitte & Touche

July 30, 1993
Seattle, Washington

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

Year ended June 30/(Dollars in thousands):

ASSETS

Cash	\$ 2,397	\$ 2,402
Interest-bearing deposits	2,700	2,850
Federal funds sold	—	3,000
Mortgage-backed securities held for investment (Fair value of \$37,858 and \$19,981)	37,069	19,821
Securities held for sale (Fair value of \$4,201 and \$17,662)	4,000	17,320
Federal Home Loan Bank stock, at cost	1,587	1,258
Loans receivable, net:		
Held for investment	120,134	98,737
Held for sale	27,566	11,511
Accrued interest receivable	1,164	1,168
Real estate held for sale, net	—	776
Excess servicing premium on loan sales	859	1,153
Premises, furniture and equipment	2,575	2,435
Other assets	<u>1,023</u>	<u>1,215</u>
	<u>\$201,074</u>	<u>\$163,646</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

Deposits	\$167,761	\$135,282
Advances from Federal Home Loan Bank	6,000	2,000
Collateralized mortgage obligations	8,278	11,358
Convertible subordinated debentures	371	501
Accrued interest payable	586	725
Other liabilities	<u>2,919</u>	<u>1,403</u>
	<u>185,915</u>	<u>151,269</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 2,079,477 at June 30, 1993 and 2,018,960 shares at June 30, 1992	21	20
Additional paid-in capital	8,626	8,358
Retained earnings	<u>6,512</u>	<u>3,999</u>
	<u>15,159</u>	<u>12,377</u>
	<u>\$201,074</u>	<u>\$163,646</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Year ended June 30/(Dollars in thousands):	1993	1992	1991
INTEREST INCOME:			
Loans receivable	\$10,816	\$ 9,965	\$ 9,231
Mortgage-backed securities	2,115	1,991	1,733
Interest-bearing deposits	119	221	513
Other	<u>927</u>	<u>621</u>	<u>464</u>
Total interest income	13,977	12,796	11,941
INTEREST EXPENSE:			
Deposits	6,665	6,162	6,609
Borrowings			
Federal Home Loan Bank advances	211	799	944
Collateralized mortgage obligations	1,095	1,310	1,548
Other	<u>44</u>	<u>57</u>	<u>60</u>
Total interest expense	8,013	8,328	8,961
Net interest income	5,964	4,468	2,980
Provision for loan losses	<u>165</u>	<u>491</u>	<u>164</u>
Net interest income after provision for loan losses	5,799	3,977	2,816
OTHER INCOME:			
Loan servicing income	165	329	436
Gain on sale of loans	2,882	2,516	1,543
Gain on sale of securities	309	621	38
Other	<u>161</u>	<u>165</u>	<u>147</u>
	3,517	3,431	2,164
OTHER EXPENSE:			
Compensation and benefits	3,095	2,133	1,811
Occupancy	454	388	388
Insurance	373	260	213
Data processing	279	191	175
Professional services	139	161	214
Net cost (benefit) of real estate held for sale	(58)	7	16
Other	<u>1,378</u>	<u>914</u>	<u>678</u>
	5,660	4,054	3,495
Income before income taxes and extraordinary item	3,656	3,554	1,485
Provision for federal income taxes:			
Deferred	-	408	80
Current	<u>1,143</u>	<u>509</u>	<u>-</u>
Income before extraordinary item	2,513	2,437	1,405
Extraordinary item net of tax	<u>-</u>	<u>(327)</u>	<u>(39)</u>
NET INCOME	<u>\$ 2,513</u>	<u>\$ 2,110</u>	<u>\$ 1,366</u>
Earnings per share:			
Net income before extraordinary item	\$ 1.20	\$ 1.19	\$.70
Extraordinary item	<u>-</u>	<u>(.16)</u>	<u>(.02)</u>
Net income	<u>\$ 1.20</u>	<u>\$ 1.03</u>	<u>\$.68</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	Total
BALANCE AT JULY 1, 1990	2,009	\$20	\$8,516	\$ 523	\$ 8,859
Stock options exercised	2	-	7	-	7
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,366</u>	<u>1,366</u>
BALANCE AT JUNE 30, 1991	<u>2,011</u>	<u>20</u>	<u>8,523</u>	<u>1,889</u>	<u>10,232</u>
Stock options exercised	4	-	15	-	15
Debentures converted	4	-	20	-	20
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,110</u>	<u>2,110</u>
BALANCE AT JUNE 30, 1992	<u>2,019</u>	<u>20</u>	<u>8,558</u>	<u>3,999</u>	<u>12,377</u>
Stock options exercised	36	1	138	-	139
Debentures converted	24	-	130	-	130
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,513</u>	<u>2,513</u>
BALANCE AT JUNE 30, 1993	<u>2,079</u>	<u>\$21</u>	<u>\$8,626</u>	<u>\$6,512</u>	<u>\$15,159</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30/(Dollars in thousands):	1995	1992	1991
OPERATING ACTIVITIES			
Net income	\$ 2,513	\$ 2,110	\$ 1,366
Adjustments to reconcile net income to net cash provided by operating activities:			
Proceeds from sale of loans receivable	210,867	219,585	126,806
Loans held for sale originations, net of changes in loans in process	(221,990)	(226,168)	(131,396)
Accretion of fees, discounts and premiums, net	237	89	12
Gain on sale of assets, net	(304)	(612)	(209)
Federal Home Loan Bank (FHLB) stock dividends	(197)	(107)	(212)
Excess servicing gains on loans sold	(146)	(274)	(312)
Decrease (increase) in accrued interest receivable	4	(73)	(66)
Provisions for losses on loans and real estate held for sale	153	512	195
Decrease (increase) in other assets	149	(618)	(14)
Increase (decrease) in accrued interest payable	(139)	95	(32)
Increase (decrease) in other liabilities	<u>1,516</u>	<u>(487)</u>	<u>1,145</u>
Net cash used by operating activities	<u>(7,337)</u>	<u>(5,948)</u>	<u>(2,717)</u>
INVESTING ACTIVITIES			
Proceeds from debt securities sold	10,233	6,694	4,968
Purchase of debt securities	(4,565)	(8,538)	(9,858)
Purchase of FHLB stock	(132)	(223)	(8,245)
Principal collected on mortgage- backed securities	5,966	3,237	1,644
Purchase of mortgage-backed securities	(27,203)	(20,784)	(15,888)
Proceeds from sale of mortgage- backed securities	11,896	13,932	11,960
Proceeds from sale of FHLB stock	-	-	8,715
Loans held for investment originations, net of changes in loans in process	(59,380)	(25,999)	(31,040)
Principal collected on loans receivable	34,509	26,305	17,875
Purchase of loans	(1,366)	(3,643)	(1,073)
Proceeds from sale of real estate held for sale	783	341	495
Expenditures for bank premises and equipment, net	(140)	(381)	-
Acquisition of branches	<u>-</u>	<u>22,735</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(29,399)</u>	<u>13,676</u>	<u>(20,447)</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended June 30/(Dollars in thousands):	1993	1992	1991
FINANCING ACTIVITIES			
Net increase in demand, NOW and savings accounts	874	2,052	935
Net increase in certificates of deposit	31,605	5,178	11,438
Proceeds from advances from Federal Home Loan Bank	73,275	56,350	23,000
Repayment of advances from Federal Home Loan Bank	(69,275)	(65,950)	(19,000)
Repayment of collateralized mortgage obligations	(3,080)	(1,042)	(966)
Net proceeds from issuance of stock and exercise of stock options	<u>139</u>	<u>15</u>	<u>7</u>
Net cash provided (used) by financing activities	33,538	(3,397)	15,414
Increase(decrease) in cash and cash equivalents	(3,198)	4,331	(7,750)
Cash and cash equivalents at beginning of year	<u>\$ 8,252</u>	<u>\$ 3,921</u>	<u>\$11,671</u>
Cash and cash equivalents at end of year	<u>\$ 5,054</u>	<u>\$ 8,252</u>	<u>\$ 3,921</u>
Supplemental cash flow information:			
Non-cash investing activities:			
Real estate acquired through foreclosure	-	\$ 1,064	\$ 105
Debentures converted	\$ 130	\$ 20	-
Cash paid during the year:			
Interest	\$ 8,325	\$ 8,923	\$ 8,993
Federal income taxes	\$ 1,105	\$ 549	\$ 57

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 1993, 1992, and 1991

Note 1 - 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 years ended June 30, 1993 and June 30, 1992. Financial statement presentations for 1991 are for Summit Savings Bank and subsidiaries (see "Holding Company Formation" below). All significant intercompany transactions and balances have been eliminated. Certain reclassifications have been made to the 1992 and 1991 financial statements to conform to the 1993 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").

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, 1993 and 1992, the Bank had the intent and ability to hold to maturity securities not specifically designated as held for sale.

On June 1, 1993, the Financial Accounting Standards Board issued Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities". This statement requires that investments be categorized as held to maturity, trading securities or available for sale. Trading securities and securities available for sale are carried at fair value with resulting gains or losses recorded to operations or equity, respectively. This statement will be effective for the year ending June 30, 1995. Management believes the effect of implementing this standard will not be material.

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.

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 analysis 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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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 1993, 1992 and 1991, amortization of such premiums totaled \$440,000, \$300,000, and \$221,000, respectively. Management periodically evaluates the recoverability of the recorded premium balance and the level of amortization.

Real Estate Held for Sale: Real estate held for sale 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 held for sale. 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 held for sale. The amounts the Bank will recover from real estate held for sale may differ substantially from their carrying value because of future market factors beyond the Bank's control.

Branch Acquisitions: 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 was recorded as intangible assets and is included in other assets. 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.

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

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Note 2 - 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
1993				
GNMA Certificates	\$10,473	\$550	\$(12)	\$11,011
FNMA Certificates	10,118	199	(2)	10,315
FHLMC Certificates:				
Security for collateralized mortgage obligations	8,884	-	-	8,884
Other	5,805	162	-	5,967
SBA Certificates	868	24	-	892
	<u>\$36,148</u>	<u>\$935</u>	<u>\$(14)</u>	<u>\$37,069</u>
1992				
FNMA Certificates	\$ 7,158	\$128	-	\$ 7,286
FHLMC Certificates:				
Security for collateralized mortgage obligations	12,535	-	-	12,535
	<u>\$19,693</u>	<u>\$128</u>	<u>\$ 0</u>	<u>\$19,821</u>

Note 2 - Mortgage-Backed Securities Held for Investment (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1995				
GNMA Certificates	\$11,011	\$207	-	\$11,218
FNMA Certificates	10,315	90	\$ (9)	10,396
FHLMC Certificates:				
Security for collateralized mortgage obligations	8,884	452	-	9,336
Other	5,967	46		6,013
SBA Certificates	<u>892</u>	<u>2</u>	<u>-</u>	<u>894</u>
	<u>\$37,069</u>	<u>\$797</u>	<u>\$ (9)</u>	<u>\$37,857</u>
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>

Note 3 - Securities Held for Sale

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
1995				
U.S. Treasury Obligations	\$2,986	\$135	-	\$ 3,121
FHLMC Preferred Stock	<u>1,014</u>	<u>66</u>	-	<u>\$ 1,080</u>
	<u>\$4,000</u>	<u>\$201</u>	-	<u>\$ 4,201</u>
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>

Proceeds from sales of securities held for sale during 1993 were \$22,129,000. Gross gains of \$367,000 and gross losses of \$58,000 were realized on sales during 1993.

Note 4 - Loans Receivable

Loans receivable at June 30 consisted of the following (in thousands):	1993	1992
Loans on existing property:		
1-4 family	\$ 83,887	\$ 64,350
Multi-family	22,228	14,609
Commercial	10,613	12,518
Construction loans:		
1-4 family	6,268	5,392
Commercial	-	3,040
Land loans	330	586
Consumer loans	<u>1,739</u>	<u>-</u>
	125,065	101,850
Less:		
Deferred loan fees	(1,406)	(960)
Loans in process of completion	(2,738)	(1,517)
Reserve for loan losses	<u>(787)</u>	<u>(636)</u>
Loans receivable held for investment	120,134	98,737
1-4 family loans receivable held for sale	<u>27,566</u>	<u>11,511</u>
Total loans	<u>\$147,700</u>	<u>\$110,248</u>

The Bank originates both adjustable and fixed interest rate mortgage loans. At June 30, 1993, the composition of loans held for investment was as follows (in thousands):

Fixed Rate: Term to Maturity	Book Value	Adjustable Rate: Term to Rate Adjustment	Book Value
1 month - 1 year	\$ 5,753	1 month - 1 year	\$60,812
1 year - 3 years	469	1 year - 2 years	1,847
3 years - 5 years	3,942	2 years - 3 years	5,438
5 years - 10 years	3,854	3 years - 5 years	5,950
10 years - 20 years	8,760		-
Over 20 years	<u>28,240</u>		<u>-</u>
	<u>\$51,018</u>		<u>\$74,047</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 a Bank's regulatory capital. The 15% limitation results in a dollar limitation of approximately \$2,274,000, 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.

Note 4 - Loans Receivable (continued)

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

For the year ended June 30,	1993	1992	1991
Balance, beginning of year	\$636	\$585	\$421
Provision for losses	165	491	164
Charge-offs	(14)	(440)	—
Balance, end of year	<u>\$787</u>	<u>\$636</u>	<u>\$585</u>

Loans serviced for the benefit of others totaled \$107,581,000, \$88,354,000, and \$90,181,000 at June 30, 1993, 1992 and 1991, respectively.

Loan commitments outstanding at June 30, 1993 were approximately \$22,670,000 of which \$19,214,000 were 15 to 30 year fixed-rate commitments with rates ranging from 6.7% to 10.1%. 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.

Note 5 - Accrued Interest Receivable

Accrued interest receivable at June 30, consisted of the following (in thousands):	1993	1992
Debt securities	\$ 51	\$ 150
Mortgage-backed securities	365	306
Loans receivable	<u>748</u>	<u>712</u>
	<u>\$1,164</u>	<u>\$1,168</u>

Note 6 - Real Estate Held for Sale

Real estate held for sale at June 30, consisted of the following (in thousands):	1993	1992
Real estate acquired through foreclosure or deed in lieu of foreclosure	—	\$780
Reserve for estimated losses	—	<u>(4)</u>
	—	<u>\$776</u>

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

For the year ended June 30,	1993	1992	1991
Balance, beginning of year	\$4	\$28	\$464
Provision for (recovery of) losses, net	(4)	21	31
Write-offs	—	(45)	(467)
Balance, end of year	<u>\$0</u>	<u>\$ 4</u>	<u>\$ 28</u>

The provision charged to operations is included in the net cost (benefit) of real estate held for sale in the consolidated statements of operations.

Note 7 - Premises and Equipment

Bank premises and equipment consisted of the following at June 30, (in thousands):			1993	1992
Land			\$ 609	\$ 609
Buildings			1,266	1,266
Leasehold improvements			86	82
Furniture and equipment			<u>1,537</u>	<u>1,209</u>
			3,498	3,166
Less accumulated depreciation and amortization			<u>(923)</u>	<u>(731)</u>
			<u>\$2,575</u>	<u>\$2,435</u>

Depreciation expense for 1993, 1992, and 1991 was \$214,000, \$110,000 and \$116,000, 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.

Rent expense for the years ended June 30, 1993, 1992 and 1991 was \$322,000, \$307,000, and \$316,000, respectively. Future minimum rental commitments at June 30, 1993 are as follows (in thousands):

Year ending June 30,		
1994		\$ 323
1995		327
1996		379
1997		<u>340</u>
		<u>\$1,369</u>

Note 8 - Deposits

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

	Weighted Average Rate (%) at June 30, 1993	1993		1992	
		Amount	Percent	Amount	Percent
Non-interest checking	0.00%	\$ 2,797	1.6%	\$ 1,848	1.4%
Treasury, tax, and loan deposits	0.00	39	-	30	-
Checking with interest	2.60	3,971	2.4	3,705	2.7
Statement savings	2.95	1,795	1.1	1,701	1.3
Money market	3.20	<u>14,201</u>	<u>8.5</u>	<u>14,646</u>	<u>10.8</u>
		22,803	13.6	21,930	16.2

Note 8 - Deposits (continued)

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

	Weighted Average Rate (%) at June 30, 1993	Amount	1993 Percent	Amount	1992 Percent
Certificates of deposit:					
2.00 - 2.99%	2.95%	283	.1%		
3.00 - 4.99	3.98	112,899	67.3	48,616	35.9%
5.00 - 6.99	5.55	26,949	16.1	53,000	39.2
7.00 - 8.99	7.71	3,306	2.0	9,816	7.3
9.00 - 12.99%	<u>9.61</u>	<u>1,521</u>	<u>.9</u>	<u>1,920</u>	<u>1.4</u>
	<u>4.42</u>	<u>144,958</u>	<u>86.4%</u>	<u>113,352</u>	<u>83.8%</u>
	<u>4.18%</u>	<u>\$167,761</u>	<u>100.0%</u>	<u>\$135,282</u>	<u>100.0%</u>

The total amount of certificates of deposit with balances greater than \$100,000 was \$22,240,000 and \$13,036,000 at June 30, 1993 and 1992, respectively.

At June 30, 1993, scheduled maturities of certificates of deposit are as follows (in thousands):

Year ending June 30,	1994	1995	1996	1997	1998	Thereafter	Total
2.00 - 2.99%	\$ 283	-	-	-	-	-	\$ 283
3.00 - 4.99	101,428	\$11,471	-	-	-	-	112,899
5.00 - 6.99	5,218	5,417	\$7,064	\$518	\$ 8,732	-	26,949
7.00 - 8.99	-	-	648	80	2,515	\$ 63	3,306
9.00 - 12.99%	-	-	65	-	<u>1,235</u>	<u>221</u>	<u>1,521</u>
Total	<u>\$106,929</u>	<u>\$16,888</u>	<u>\$7,777</u>	<u>\$598</u>	<u>\$12,482</u>	<u>\$284</u>	<u>\$144,958</u>

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

For the year ended June 30,	1993	1992	1991
Checking	\$ 621	\$ 443	\$ 547
Statement savings	60	27	17
Certificates of deposit	<u>5,982</u>	<u>5,692</u>	<u>6,045</u>
	<u>\$6,663</u>	<u>\$6,162</u>	<u>\$6,609</u>

Accrued interest payable on deposits was \$324,000 and \$387,000 at June 30, 1993 and 1992, respectively.

Public funds of \$11,542,000 and \$9,390,000, included in deposits at June 30, 1993 and 1992, respectively, were collateralized by investment securities with book values of \$1,270,000 and \$1,987,000 and market values of \$1,282,000 and \$2,078,000 at June 30, 1993 and 1992, respectively.

Note 9 - 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, 1993	1993	1992
1993	-	-	\$2,000
1994	3.563%	\$4,000	-
1995	5.200	<u>2,000</u>	-
	-	<u>\$6,000</u>	<u>\$2,000</u>

At June 30, 1993, 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 a line of credit totaling approximately \$34.2 million with the Federal Home Loan Bank at June 30, 1993.

Note 10 - 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 \$8,884,000 as of June 30, 1993 and \$12,536,000 as of June 30, 1992. 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	1993	1992
Series 1-A	9.70%	April 1, 2013	\$ 7,736	\$10,987
Series 1-Z	9.95%	January 1, 2018	<u>778</u>	<u>705</u>
			8,514	11,692
Unamortized discount			<u>(236)</u>	<u>(334)</u>
			<u>\$ 8,278</u>	<u>\$11,358</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.

Note 10 - Collateralized Mortgage Obligations (continued)

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,	
1994	\$3,161
1995	1,809
1996	1,106
1997	711
1998	476
Thereafter	<u>1,251</u>
	<u>\$8,514</u>

Note 11 - 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, 1993 are convertible at any time prior to maturity, unless previously redeemed, into 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 value. The debentures are subordinated to all of the Company's existing and future indebtedness and are not insured by the Federal Deposit Insurance Corporation.

Changes in convertible subordinated debentures are as follows (in thousands):

	1993	1992
Beginning balance at June 30,	\$501	\$521
Debentures converted	<u>(150)</u>	<u>(20)</u>
Outstanding June 30	<u>\$371</u>	<u>\$501</u>

At June 30, 1993, the debentures remaining could be converted into 67,382 shares of common stock of Summit Bancorp, Inc.

Note 12 - Accrued Interest Payable

Accrued interest payable at June 30 consisted of the following (in thousands):		1993	1992
Deposits		\$524	\$587
Swap agreements		31	40
FHLB advances		23	14
Collateralized mortgage obligations		<u>207</u>	<u>284</u>
		<u>\$585</u>	<u>\$725</u>

Note 13 - Federal Income Taxes

The Company files a consolidated federal income tax return. The Bank 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, 1993, 1992, and 1991. 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 Bank 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.

In February 1992, the Financial Accounting Standards Board ("FASB") issued "Statement of Financial Accounting Standards No. 109" which changed the method of accounting and reporting for income taxes. The Company adopted this statement in January 1993, with no material impact on its financial position.

Deferred federal income taxes result from temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts on the 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, 1993 were approximately \$1,370,000.

At June 30, the net deferred tax liability consisted of the following (in thousands):	1993	1992
Deferred tax liabilities:		
Loan fees	\$324	\$234
Depreciation	23	23
Excess servicing premium on loan sales	107	262
Federal Home Loan Bank stock dividend	196	129
Other	84	84
	<u>734</u>	<u>732</u>
Deferred tax asset:		
Bad debt reserve	(268)	(268)
	<u>\$466</u>	<u>\$464</u>

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

	1993	1992	1991
Tax at statutory rate	\$1,243	\$1,140	\$505
Bad debt deduction	(99)	(165)	(16)
Loan loss and real estate held for sale reserve additions	55	174	64
Stock options	(56)	-	-
Benefit realized from net operating loss carryforward	-	(232)	(473)
	<u>\$1,143</u>	<u>\$ 917</u>	<u>\$ 80</u>
Provision for federal income taxes before extraordinary item:			
Deferred	\$ 0	\$ 408	\$ 80
Current	<u>1,143</u>	<u>509</u>	<u>-</u>
	1,143	917	80
Tax effect of extraordinary item	-	(121)	(10)
Provision for federal income taxes	<u>\$1,143</u>	<u>\$ 796</u>	<u>\$ 70</u>

Note 13 - Federal Income Taxes (continued)

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, 1993 totaled approximately \$2,731,000. 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 \$854,000.

Note 14 - Capital

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), placed additional emphasis on the importance of a financial institution's capital levels. On December 31, 1992, new capital requirements were jointly implemented by the regulators. Management believes that the Company will continue to maintain its minimum capital requirements in the foreseeable future, however, events beyond the control of the Company could adversely affect its capital position. The Federal Reserve Bank and Federal Deposit Insurance Company have the authority under FDICIA, to restrict certain activities of the Company depending upon the capital position of the Company. The capital categories under FDICIA are defined as follows:

Category under FDICIA:	Total Risk-Based Ratio	Tier 1 Risk-Based Ratio	Leverage Ratio
Well-capitalized	10%	6%	5%
Adequately-capitalized	8%	4%	4%
Undercapitalized	Below 8%	Below 4%	Below 4%
Significantly-undercapitalized	Below 6%	Below 3%	Below 3%
Critically-undercapitalized	-	-	2% or Less

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At June 30, 1993, the Company was in compliance with the well-capitalized requirements as follows:

	Required	Actual
Total capital to risk-based assets	10.0%	15.5%
Tier one capital to risk-based assets	6.0%	14.5%
Leverage ratio (Tier one capital to quarterly average assets)	5.0%	8.1%

At June 30, 1993, the Bank was also in compliance with the well-capitalized requirements.

Tier one capital for the Company includes shareholders' equity less intangible assets. Total capital includes tier one capital, qualifying subordinated debentures and general valuation allowances. Risk-based assets are the Company's assets after applying a risk factor to each category of from one to four percent, depending upon the risk associated with the category.

The FDIC periodically examines the Bank's financial statements as a routine part of its oversight of the industry. Based upon their findings, the regulators may direct that the Bank's financial statements be adjusted. Although the regulators have not proposed significant adjustments in the past, the extent of adjustments from future examinations cannot be determined at present. The Company or the Bank can pay dividends only from retained earnings up to certain amounts as specified by Washington State law.

Note 15 - 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 the 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 November 5, 2002.

Changes in stock options are as follows:

	1993	1992
Outstanding beginning of fiscal year	119,114	109,614
Granted	25,500	14,000
Exercised	(36,904)	(4,000)
Expired	<u>0</u>	<u>(500)</u>
Outstanding June 30	<u>105,710</u>	<u>119,114</u>
Exercisable June 30	<u>78,348</u>	<u>79,473</u>

The price of options outstanding ranged from \$2.90 to \$8.65 at June 30, 1993. The price of options exercisable at June 30, 1993 ranged from \$2.90 to \$8.475. The price of options exercised in fiscal 1993 ranged from \$2.90 to \$5.975.

Note 16 - 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, 1993 and 1992 were \$86,500 and \$61,000, respectively.

Note 17 - 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 75% of permanent loans originated at the time of loan commitment during 1993. 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, 1993, the Bank had interest-earning assets of \$193.1 million with a weighted average yield of 7.46% and interest-bearing liabilities of \$182.4 million with a weighted cost of 4.44%.

Note 17 - Interest Rate Risk (continued)

The Bank periodically enters into interest rate swap agreements with the Federal Home Loan Bank. The interest differential paid or received is recorded as an adjustment to current income. Interest rate swap agreements at June 30, 1993 consisted of the following (in thousands):

Notional Amount	Variable Rate Received	Fixed Rate Paid	Maturity Date
\$2,000	3.1875%	4.56%	1/26/95
\$2,000	3.3125%	5.87%	11/30/95

Note 18 - 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 19 - Summit Bancorp, Inc. (Parent Company Only)
Summary Financial Information Balance Sheets

BALANCE SHEETS June 30/(Dollars in thousands):	1993	1992
ASSETS		
Cash	\$ 242	\$ 89
Investment in subsidiaries	14,891	12,285
Other assets	<u>26</u>	<u>30</u>
	<u>\$15,159</u>	<u>\$12,404</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Other liabilities	<u>-</u>	<u>27</u>
SHAREHOLDERS' EQUITY		
Common stock	21	20
Additional paid-in capital	8,626	8,558
Retained earnings	<u>6,512</u>	<u>3,999</u>
	<u>15,159</u>	<u>12,577</u>
	<u>\$15,159</u>	<u>\$12,404</u>
STATEMENTS OF INCOME June 30/(Dollars in thousands):		
OTHER INCOME		
Equity in undistributed income of subsidiaries	\$ 2,606	\$ 2,118
OTHER EXPENSE		
Directors' compensation	87	7
Other	<u>6</u>	<u>1</u>
	<u>93</u>	<u>8</u>
Net income	<u>\$ 2,513</u>	<u>\$ 2,110</u>
STATEMENTS OF CASH FLOWS June 30/(Dollars in thousands):	1993	1992
OPERATING ACTIVITIES		
Net income	\$ 2,513	\$ 2,110
Adjustments to reconcile net income to cash used in operating activities:		
Equity in undistributed income of subsidiaries	(2,606)	(2,118)
Decrease (increase) in other assets	4	(30)
Increase (decrease) in other liabilities	<u>(27)</u>	<u>27</u>
Net cash used by operating activities	<u>(116)</u>	<u>(11)</u>
INVESTING ACTIVITIES		
Net proceeds from exercise of stock options	269	-
Dividend from subsidiary	<u>-</u>	<u>100</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>\$ 153</u>	<u>\$ 89</u>

Note 20 - Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Statement of Financial Accounting Standards (SFAS) No. 107, "Disclosure about Fair Value of Financial Instruments". The Bank has determined the estimated fair value amounts by using available market information and other appropriate valuation methodologies. Because considerable judgment is required to interpret market data in order to estimate fair value, the estimates presented below are not necessarily indicative of amounts that the Bank could realize in an actual market exchange. Using different market assumptions could significantly alter the results of the fair value estimates.

The carrying amounts and estimated fair value of financial instruments at June 30, 1993 were as follows:

(Dollars in thousands)	Carrying Amount	Estimated Fair Value
ASSETS:		
Cash and cash equivalents	\$ 2,397	\$ 2,397
Interest-bearing deposits	2,700	2,700
Securities held for sale	4,000	4,201
Mortgage-backed securities held for investment	37,069	37,858
Federal Home Loan Bank stock	1,587	1,587
Loans receivable held for investment	121,540	135,546
Loans receivable held for sale	27,566	27,948
LIABILITIES:		
Deposits	167,761	169,089
Advances from the Federal Home Loan Bank	6,000	5,977
Collateralized mortgage obligation	8,278	9,635
Subordinated debentures	371	385
OFF BALANCE SHEET FINANCIAL INSTRUMENTS:		
Interest rate swap agreements	32	108

Note 20 - Fair Value of Financial Instruments (continued)

The following methods and assumptions were used to determine the estimated fair value of financial instruments at June 30, 1993:

Cash and cash equivalents - The carrying amount is assumed to be a reasonable estimate of the fair value.

Interest-bearing deposits - The carrying amount is assumed to be a reasonable estimate of the fair value based upon the short-term characteristics in which their rates fluctuate with market changes.

Securities held for sale and mortgage-backed securities - The fair value of these securities was determined through dealer quoted prices.

Federal Home Loan Bank stock - The fair value is estimated to be the par value of the stock.

Loans receivable held for investment - The fair value of loans receivable held for investment was determined by using a discounted cash flow method. The discount rates used in calculating the fair value of the various types of loans were the current rates offered on similar loan products.

Loans receivable held for sale - The fair value of loans receivable held for sale is the actual price for which the loans were committed to be sold.

Deposits - The fair value of checking, savings and money market deposits is estimated to be the carrying amount. The fair value of certificates of deposit was determined by the discounted cash flow method. The discount rate used was the rate offered for similar certificate terms at June 30, 1993.

Federal Home Loan Bank advances - The fair value was determined by using a discounted cash flow method. The discount rate used was the rate offered on similar term advances at June 30, 1993.

Collateralized mortgage obligations - The fair value of the collateralized mortgage obligations was determined by using a discounted cash flow method. The discount rate used was the rate offered on long-term debt at June 30, 1993.

Subordinated debentures - The fair value of the subordinated debentures was determined by using a discounted cash flow method. The discount rate used was the rate offered on debt of similar terms at June 30, 1993.

Commitments to originate loans - The fair value of commitments to originate loans approximates the actual commitment amount since interest rates at June 30, 1993 had not substantially changed from the rate since the commitment dates.

Interest rate swap agreements - The fair value of interest rate swap agreements was determined from the quoted termination price of the amount payable to the Federal Home Loan Bank of Seattle at June 30, 1993, inclusive of accrued interest payable.

Other Financial Data

Balance Sheet Data:

For the fiscal years ended June 30/(Dollars in thousands except per share data):

	1993	1992	1991	1990	1989 ⁽¹⁾
Total assets	\$201,074	\$163,646	\$151,232	\$113,339	\$109,970
Loans receivable, net	147,700	110,248	92,065	73,287	62,753
Mortgage-backed securities	37,069	19,821	23,441	21,009	17,036
Cash and investments	10,641	26,830	12,496	15,580	24,215
Real estate held for sale, net	—	776	74	478	2,982
Other assets	5,664	5,971	3,156	2,985	2,984
Deposits	167,761	135,282	93,959	81,586	80,267
FHLB advances	6,000	2,000	11,600	7,600	9,600
Other borrowings	8,649	11,859	13,319	14,148	14,978
Other liabilities	3,505	2,128	2,122	1,146	2,210
Shareholders' equity	15,159	12,377	10,232	8,859	2,915
Book value per share	7.29	6.13	5.09	4.41	4.66

Income Statement Data:

For the fiscal years ended June 30/(Dollars in thousands except per share data):

	1993	1992	1991	1990	1989 ⁽¹⁾
Total interest income	13,977	12,796	11,941	11,028	10,312
Total interest expense	<u>8,013</u>	<u>8,528</u>	<u>8,961</u>	<u>8,942</u>	<u>8,479</u>
Net interest income	5,964	4,468	2,980	2,085	1,883
Provision for loan losses	<u>165</u>	<u>491</u>	<u>164</u>	<u>108</u>	<u>323</u>
Net interest income after provision					
for loan losses	5,799	3,977	2,816	1,977	1,510
Securities gains, net	309	621	38	32	—
Other income	3,208	2,810	2,126	1,286	664
Non-interest expense	<u>5,660</u>	<u>4,054</u>	<u>3,495</u>	<u>2,742</u>	<u>3,803</u>
Income (loss) before income taxes, extraordinary item and accounting change	3,656	3,354	1,485	553	(1,629)
Provision (benefit) for income taxes	<u>1,143</u>	<u>917</u>	<u>80</u>	<u>—</u>	<u>(477)</u>
Income (loss) before extraordinary item and accounting change	2,513	2,437	1,405	553	(1,152)
Extraordinary item, net of tax	<u>—</u>	<u>(327)</u>	<u>(39)</u>	<u>—</u>	<u>—</u>
Net income (loss)	<u>\$ 2,513</u>	<u>\$ 2,110</u>	<u>\$ 1,366</u>	<u>\$ 553</u>	<u>(\$ 1,152)</u>

⁽¹⁾ During fiscal 1989 the Company adopted 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".

Other Financial Data (continued)

For the fiscal years ended June 30/(Dollars in thousands except per share data):

	1995	1992	1991	1990	1989
Per Share Data:					
Net income before extraordinary item	\$ 1.20	\$ 1.19	\$ 0.70	\$ 0.42	\$ (1.84)
Extraordinary item	<u>—</u>	<u>(0.16)</u>	<u>(0.02)</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 1.20</u>	<u>\$ 1.03</u>	<u>\$ 0.68</u>	<u>\$ 0.42</u>	<u>\$ (1.84)</u>
Lending Statistics:					
Loan production	286,577	267,769	161,401	100,638	40,801
Mortgage loans sold	212,787	222,085	127,146	54,909	17,936
Mortgage loans serviced for others	107,381	88,354	90,181	91,135	99,929
Nonaccruing loans and real estate held for sale	412	1,134	1,738	2,062	3,836
Ratio of nonaccruing loans and real estate held for sale to total assets	.2%	.7%	1.3%	1.8%	3.5%
Classified assets	540	358	2,168	4,931	5,037
Ratio of total classified assets to total assets	.3%	.2%	1.7%	4.4%	4.6%
Loan loss reserve	787	636	585	421	375
Loan loss reserve to nonaccruing loans	191.0%	177.7%	35.1%	26.6%	3.8%
Net loan chargeoffs	14	440	—	62	700
Selected Ratios:					
Interest rate spread	3.1%	2.8%	1.9%	1.7%	1.7%
Net interest margin	3.3%	2.9%	2.4%	2.0%	1.9%
Return on average assets	1.4%	1.5%	1.1%	.5%	(1.1%)
Return on average shareholders' equity	18.2%	18.8%	14.4%	9.4%	(33.0%)
Tangible equity to assets	7.3%	7.2%	7.8%	5.3%	3.3%
Interest-earning assets to interest-bearing liabilities	107.0%	104.5%	106.9%	102.5%	98.5%
Number of Offices:					
Full service offices	3	3	1	1	1
Loan origination office	—	—	—	—	1
Number of full-time equivalent employees (year end)	90	69	56	47	41

Other Financial Data (continued)

Quarterly Financial Data Unaudited/(Dollars in thousands):

FISCAL 1995

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$3,582	\$3,387	\$3,494	\$3,514
Interest expense	<u>2,025</u>	<u>1,943</u>	<u>2,018</u>	<u>2,027</u>
Net interest income	1,557	1,444	1,476	1,487
Provision for loan losses	<u>45</u>	<u>45</u>	<u>45</u>	<u>30</u>
Net interest income after provision for loan losses	1,512	1,399	1,431	1,457
Non-interest income	826	792	1,100	799
Non-interest expense	<u>1,458</u>	<u>1,434</u>	<u>1,513</u>	<u>1,255</u>
Income before income taxes	880	757	1,018	1,001
Provision for income taxes	<u>258</u>	<u>237</u>	<u>329</u>	<u>319</u>
Net income	<u>\$ 622</u>	<u>\$ 520</u>	<u>\$ 689</u>	<u>\$ 682</u>
Earnings per share	<u>\$.29</u>	<u>\$.25</u>	<u>\$.33</u>	<u>\$.33</u>

FISCAL 1992

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Interest income	\$3,251	\$3,165	\$3,256	\$3,124
Interest expense	<u>1,936</u>	<u>1,978</u>	<u>2,206</u>	<u>2,208</u>
Net interest income	1,315	1,187	1,050	916
Provision for loan losses	<u>70</u>	<u>160</u>	<u>231</u>	<u>30</u>
Net interest income after provision for loan losses	1,245	1,027	819	886
Non-interest income	902	1,419	491	619
Non-interest expense	<u>1,190</u>	<u>1,026</u>	<u>904</u>	<u>934</u>
Income before income taxes and extraordinary item	957	1,420	406	571
Provision for income taxes	337	448	(17)	149
Extraordinary item, net of tax	<u>—</u>	<u>(327)</u>	<u>—</u>	<u>—</u>
Net income	<u>\$ 620</u>	<u>\$ 645</u>	<u>\$ 425</u>	<u>\$ 422</u>
Earnings per share:				
Income before extraordinary item	\$.50	\$.48	\$.21	\$.20
Extraordinary item	<u>—</u>	<u>(.16)</u>	<u>—</u>	<u>—</u>
Net income	<u>\$.50</u>	<u>\$.32</u>	<u>\$.21</u>	<u>\$.20</u>

Other Financial Data (continued)

Quarterly financial results include the following activities:

1992:

Third Quarter:

- Non interest income increased by \$567,000 due to the gain on sale of long-term, fixed-rate securities as the result of a balance sheet restructure.
- Extraordinary item of \$327,000 net of \$121,000 tax benefit represents prepayment penalties on Federal Home Loan Bank advances paid off also as a result of the restructure. See Note 18.

Second Quarter:

- Federal income tax benefit of \$17,000 is a result of the chargeoff of a previously classified asset prior to transfer to real estate held for sale.

DIRECTORS

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

JAMES F. GRABICKI
Special Consultant
Summit Bancorp, Inc.
Managing Director
Piper Jaffray Inc.

MARGARET HOFMAN
Chief Executive Officer
Fluke Capital
Management, L.P.

WILLIAM P. HURME
President
Hurme, Inc.

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
President
Chief Executive Officer
Summit Bancorp, Inc.
and Subsidiaries

OFFICERS

L. MICHAEL RILEY
President
Chief Executive Officer

GARY R. WILSON
Executive Vice President
Chief Lending Officer

KATHY J. BURKE
Senior Vice President
Savings Administration

MERRI ANN SIMONSON
Senior Vice President
Loan Administration

PATRICIA L. WALDOW
Senior Vice President
Chief Financial Officer

TAMMY BARNETT
Vice President
Bellingham Branch Manager

THERESA STAUCH
Vice President
Corporate Secretary
Human Resources Manager

BARBARA J. TANGEMAN
Vice President
Branch Operations

CORPORATE HEADQUARTERS &
BELLEVUE BANKING CENTER
400 112th Avenue NE
Bellevue, WA 98004
(206) 451-3585
1-800-824-6220 Washington only

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

TACOMA BANKING CENTER
101 South 10th Street
Tacoma, WA 98402
(206) 383-3335
1-800-824-6220 Washington only

INDEPENDENT PUBLIC
ACCOUNTANTS
Deloitte & Touche
700 Fifth Avenue, Suite 4500
Seattle, WA 98104-5044

GENERAL COUNSEL
Foster, Pepper & Shefelman
1111 Third Avenue
Seattle, WA 98101

SPECIAL COUNSEL
Breyer & Aguggia
601 13th 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, CA 91302
Shareholder Relations
1-800-522-6645

Shareholder Inquiries

First Interstate Bank, stock transfer agent for Summit Bancorp'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 stock, please contact the stock transfer agent at the address and phone number listed on page 47.

Common Stock

Summit Bancorp'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, 1993, there were 2,079,477 shares of common stock outstanding held by approximately 1,750 shareholders including registered and beneficial owners.

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

1993		
	<u>High</u>	<u>Low</u>
1st quarter (9-30-92)	\$9 1/4	\$8
2nd quarter (12-31-92)	9	7
3rd quarter (3-31-93)	9	7 1/4
4th quarter (6-30-93)	9	6 3/4
1992		
	<u>High</u>	<u>Low</u>
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

Some of the investment firms who make a market in Summit's stock are:

Dain, Bosworth, Inc.
Fahnestock & Co., Inc.
Herzog, Heine, Geduld, Inc.
Kemper Securities Group Inc.
Piper Jaffray Inc.
Ragen MacKenzie Inc.
Wedbush Morgan Securities Inc.

Annual Meeting

The annual meeting of shareholders will be held at 7:00 p.m. on Thursday, November 4, 1993, at Summit Savings Bank, 400 112th Ave. NE, Bellevue, Washington. All shareholders are cordially invited to attend.

Financial Information

Copies of Summit Bancorp'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 N.E.
Bellevue, WA 98004

SUMMIT BANCORP, INC.



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

