

LETTER FROM THE PRESIDENT & CEO



Seattle Savings Bank, and its affiliate companies in the Seattle Financial Group, reported another strong period of financial performance and service during our 2005-2006 fiscal year.

Seattle Savings Bank ended the year with \$534.6 million in assets, more than doubling from fiscal year-end 2005's assets of \$262.5

million. This leap reflects strong growth in reverse mortgage loans held-for-sale and our residential and income property construction loan portfolios.

Deposits grew at an equally impressive rate, increasing 73 percent to \$346.2 million as of June 30, 2006. Total equity grew 55 percent to \$41.4 million over the same period.

Highlights of the year include the continued growth of our reverse mortgage business, through our subsidiary, Seattle Mortgage/ Reverse Mortgage of America. Seattle Savings Bank now services more than 30,000 reverse mortgages, allowing senior citizens to access their home equity to gain greater financial security. The nation's demographics favor tremendous expansion that will fuel growth of this business line into 2007 and beyond.

Supported by the strong housing market in the greater Puget Sound area, residential and commercial construction lending grew steadily throughout the year. Asset quality remains excellent.

Seattle Savings Bank launched a comprehensive advertising campaign in the fall, designed to increase our retail deposits and our overall visibility in the marketplace. In the coming year, we also plan to introduce banking services for small business customers as a first step into this growing market.

Overall, it was a very strong year for Seattle Savings Bank and Seattle Financial Group. We appreciate your business and your trust and look forward to our continuing partnership in 2007.

Sincerely,

Ken North
President & CEO

EXECUTIVE OFFICERS

Kenneth R. North, President & Chief Executive Officer

Robert E. Story, Jr., Director

Gary Carlson, Senior Vice President & Chief Lending Officer

John D. Marshall, Senior Vice President & Chief Financial Officer

Patricia M. Dooley, Senior Vice President & Senior Operations Officer

BOARD OF DIRECTORS

Robert E. Story, Chairman

Randall L. Weber

Kenneth R. North

David C. Smith

Robert E. Story, Jr.

Roger M. Johnson

Larry W. Sisson

Michael D. Dwyer

Lindsey L. Echelbarger

Mark T. Schuur

ABOUT SEATTLE FINANCIAL GROUP

Seattle Financial Group, a growing network of innovative financial services, is dedicated to meeting the consumer's ever-changing needs. Comprised of Seattle Mortgage, Seattle Savings Bank, Reverse Mortgage of America and other brands, the company provides real estate financing, savings products, and associated services for all stages of life.

Home Loans

Savings Products

Residential Construction Loans

Commercial Real Estate Loans

Equity Capital

Escrow Services

Home Equity Lines of Credit

Reverse Mortgages

VISA Credit Card Services



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SEATTLE SAVINGS BANK

JUNE 30, 2006
AUDITED REPORT

	6/30/06		6/30/05		
ASSETS (Dollars in Thousands)					
Cash	\$	5,638	\$	7,949	
Securities available-for-sale		27,497		20,023	
Federal Home Loan Bank stock		4,033		3,037	
Mortgage loans held-for-sale		210,487		43,370	
Loans receivable, net		232,047		162,541	
Accounts receivable and other assets		16,074		8,105	
Furniture and equipment, net		2,057		1,655	
Mortgage servicing rights, net		36,771		15,827	
Total assets		534,604		262,507	
LIABILITIES & STOCKHOLDER EQUITY (Dollars in Thousands)					
Customer deposits		346,204		199,522	
Federal Home Loan Bank borrowings		115,469		24,602	
Federal funds purchased		9,000		—	
Income taxes payable		8,361		4,762	
Accounts payable and other liabilities		14,126		6,994	
Total liabilities		493,160		235,880	
Stockholder equity		41,444		26,627	
Total liabilities and stockholder equity		534,604		262,507	
RATIOS (Dollars in Thousands)					
	SEATTLE SAVINGS BANK		REQUIRED RATIO		
	Amount	Ratio	6/30/06	Amount	Ratio
Total risk-based capital (to risk weighted assets)	\$39,214	11.62%	6/30/06	\$27,006	8.00%
Tier 1 risk-based capital (to risk weighted assets)	36,355	10.77%		13,503	4.00%
Tier 1 leverage capital (to average assets)	36,355	8.30%		17,522	4.00%
			6/30/05		
Total risk-based capital (to risk weighted assets)	27,907	13.42%	6/30/05	16,632	8.00%
Tier 1 risk-based capital (to risk weighted assets)	26,277	12.64%		8,316	4.00%
Tier 1 leverage capital (to average assets)	26,277	10.84%		9,698	4.00%

Deposits are federally insured up to \$100,000 by FDIC.

ABOUT SEATTLE SAVINGS BANK

Seattle Savings Bank offers products and services to generate a better return on today's investment. Together with Seattle Mortgage and Reverse Mortgage of America, Seattle Savings Bank is part of the locally owned and managed Seattle Financial Group, a growing network of innovative financial services.

Seattle Savings Bank has the highest possible rating in the FDIC's Community Reinvestment Act (CRA) evaluation, for meeting the credit needs of the community, including low- and moderate-income neighborhoods.

Seattle Savings Bank has retail branches in these neighborhoods:

Queen Anne	Bellevue
Lake Union	Southcenter
Wallingford	Tacoma

Seattle Savings Bank
 Administrative Offices
 190 Queen Anne Avenue N., Suite 100
 Seattle, WA 98109
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CONSOLIDATED STATEMENT OF FINANCIAL CONDITION