

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash	\$ 7,126,152	\$ 7,836,325
Overnight deposits at corporate credit unions	378,943	12,033,712
Investment in certificates of deposit	11,041,000	15,760,594
Investment securities available for sale	19,832,718	31,435,427
Investment securities held to maturity	22,615,193	26,667,341
Capital shares of corporate credit unions	2,056,394	2,056,394
Loans to members, less allowance for loan losses of \$1,318,248 and \$1,508,116, respectively	264,849,807	227,775,185
Accrued interest receivable	1,730,417	1,607,905
Premises and equipment, net	8,497,649	5,778,203
NCUSIF deposit	2,758,566	2,726,147
Other assets	<u>1,719,654</u>	<u>2,200,870</u>
 Total assets	 <u>\$ 342,606,493</u>	 <u>\$ 335,878,103</u>
LIABILITIES AND MEMBERS' EQUITY		
LIABILITIES:		
Accrued expenses and other liabilities	\$ <u>3,271,032</u>	\$ <u>2,998,172</u>
 Total liabilities excluding members' accounts	 <u>3,271,032</u>	 <u>2,998,172</u>
MEMBERS' AND NON-MEMBERS' ACCOUNTS:		
Members' shares and savings accounts	185,026,940	202,399,231
Members' share certificates	112,945,174	91,459,386
Non-members' shares and certificates	<u>3,003,196</u>	<u>2,564,421</u>
 Total members and non-members' accounts	 <u>300,975,310</u>	 <u>296,423,038</u>
 Total liabilities	 <u>304,246,342</u>	 <u>299,421,210</u>
MEMBERS' EQUITY:		
Regular reserve	8,605,649	8,605,649
Undivided earnings	30,155,727	28,151,592
Accumulated other comprehensive loss	<u>(401,225)</u>	<u>(300,348)</u>
 Total members' equity	 <u>38,360,151</u>	 <u>36,456,893</u>
 Total liabilities and members' equity	 <u>\$ 342,606,493</u>	 <u>\$ 335,878,103</u>

The accompanying notes are an integral part of these statements.

7. OTHER ASSETS

The components of other assets at December 31 consist of the following:

	<u>2005</u>	<u>2004</u>
FHLB stock	\$ 219,800	\$ 793,300
Mortgage servicing rights	237,923	293,129
Deposits on fixed assets	367,397	244,125
Prepaid pension cost	-	181,624
Due from Federal National Mortgage Association	114,869	70,000
Advances for VISA clearing	152,000	130,800
Miscellaneous	627,665	487,892
	<u>1,719,654</u>	<u>\$ 2,200,870</u>

8. SHARE ACCOUNTS AND CERTIFICATES

At December 31, 2005, scheduled maturities of share and IRA certificates are as follows:

2006	\$ 83,540,778
2007	15,427,874
2008	7,311,022
2009	2,168,062
Thereafter	<u>6,026,986</u>
	<u>\$ 114,474,722</u>

Dividend expense on share accounts and certificates at December 31 is summarized as follows:

	<u>2005</u>	<u>2004</u>
Regular Shares	\$ 405,676	\$ 392,798
Share drafts	41,910	40,299
Money market shares	1,605,097	1,009,505
Share certificates	2,486,136	1,587,143
IRA shares	119,097	71,011
IRA share certificates	<u>1,025,965</u>	<u>1,033,237</u>
	<u>\$ 5,683,881</u>	<u>\$ 4,133,993</u>

The aggregate amount of member share account balances in excess of \$100,000 was \$26,944,396 and \$25,198,269 at December 31, 2005 and 2004, respectively.

4. LOANS TO MEMBERS (Continued)

A summary of the activity in the allowance for loan losses is as follows for the year ended December 31:

	<u>2005</u>	<u>2004</u>
Balance at beginning of year	\$ 1,508,116	\$ 1,452,125
Provision for loan losses	1,184,404	960,512
Loan recoveries	297,127	428,577
Loans charged-off	<u>(1,671,399)</u>	<u>(1,333,098)</u>
Balance at end of year	<u>\$ 1,318,248</u>	<u>\$ 1,508,116</u>

5. PREMISES AND EQUIPMENT

Premises and equipment, net of accumulated depreciation and amortization, consist of the following at December 31:

	<u>2005</u>	<u>2004</u>
Land	\$ 1,923,425	\$ 1,543,336
Buildings	7,088,391	5,140,899
Furniture, fixtures and equipment	4,318,570	3,789,986
Leasehold improvements	<u>139,013</u>	<u>189,222</u>
	13,469,399	10,663,443
Less: Accumulated depreciation and amortization	<u>(4,971,750)</u>	<u>(4,885,240)</u>
	<u>\$ 8,497,649</u>	<u>\$ 5,788,203</u>

Depreciation and amortization expense on premises and equipment was \$596,354 and \$592,492 for the years ended December 31, 2005 and 2004, respectively.

6. MORTGAGE SERVICING RIGHTS

In order to ensure the availability of a broad range of mortgage products for its members at the lowest possible cost, The Summit periodically sells originated mortgages, primarily to the FNMA, while retaining the rights to service these mortgages for its members. During 2005 and 2004, net gains resulting from the sale of originated mortgages were \$3,191 and \$27,727, respectively. Mortgage loans serviced for the FNMA are not included in the accompanying statement of financial condition. The unpaid principal balance of these loans was \$40,286,838 and \$76,589,513 at December 31, 2005 and 2004, respectively.

For 2005 and 2004, the fair value of the mortgage servicing rights ("MSR") was \$372,915 and \$394,238, respectively, which exceeded recorded amounts. The fair value was determined by calculating the net present value of the income stream associated with the MSR over the term of the loan. The estimated net income stream is discounted using a 9.13 percent rate of return and a prepayment speed based upon the consensus PSA from the dealer survey conducted by the Bond Market Association.

For 2005 and 2004, the Summit capitalized \$24,830 and \$62,892 of MSR, respectively. Amortization of MSR was \$80,036 and \$80,253 for 2005 and 2004, respectively. The Summit amortizes MSR based upon the payments received for the serviced loans, adjusted for prepayments and charge-offs.

NET INTEREST INCOME

Loans to members	\$ 14,796,954	\$ 13,338,639
Investments	<u>2,084,601</u>	<u>2,444,383</u>

	16,881,555	15,783,022
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**DIVIDENDS ON MEMBERS' AND
NON-MEMBERS SHARES**

	<u>5,683,881</u>	<u>4,133,993</u>
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Net interest income before provision for loan losses

	11,197,674	11,649,029
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PROVISION FOR LOAN LOSSES

	<u>1,184,404</u>	<u>960,512</u>
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Net interest income after provision for loan losses

	10,013,270	10,688,517
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NON-INTEREST INCOME

	5,307,588	4,924,869
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NON-INTEREST EXPENSE:

Compensation and benefits	6,957,830	6,923,245
Operations	3,218,613	3,180,770
Occupancy	838,451	731,876
Professional and outside services	1,242,089	1,227,339
Marketing	551,817	495,197
Other	<u>507,923</u>	<u>420,522</u>

Total non-interest expense

	<u>13,316,723</u>	<u>12,978,949</u>
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NET INCOME

	<u>\$ 2,004,135</u>	<u>\$ 2,634,437</u>
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The accompanying notes are an integral part of these statements.

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2003	\$ 8,605,649	\$ 25,517,155	\$ 90,021	\$34,212,825
Comprehensive income -				
Net income	-	2,634,437	-	2,634,437
Change in unrealized gain (loss) on investment securities available for sale	-	-	(390,369)	(390,369)
Comprehensive income	-	2,634,437	(390,369)	2,244,068
BALANCE, DECEMBER 31, 2004	8,605,649	28,151,592	(300,348)	36,456,893
Comprehensive income -				
Net income	-	2,004,135	-	2,004,135
Change in unrealized gain (loss) on deferred compensation plan investments	-	-	134	-
Change in unrealized gain (loss) on investment securities available for sale	-	-	(101,011)	(101,011)
Comprehensive income	-	2,004,135	(100,877)	1,903,258
BALANCE, DECEMBER 31, 2005	\$ 8,605,649	\$ 30,155,727	\$ (401,225)	\$ 38,360,151

The accompanying notes are an integral part of these statements.

3. INVESTMENT SECURITIES (Continued)

The following table shows the gross unrealized losses and fair value of investments, aggregated by investment category and length of time that securities have been in continuous unrealized loss positions, at December 31, 2005:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>Securities available for sale</i>						
U.S. government and federal agency	\$ 2,418,257	\$ (62,724)	\$ 16,728,609	\$ (344,549)	\$ 19,146,866	\$ (407,273)
<i>Securities held to maturity</i>						
U.S. government and federal agency	\$ 5,907,500	\$ (54,330)	\$ 16,299,423	\$ (353,940)	\$ 22,206,923	\$ (408,270)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Summit to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Management does not believe that a write-down is required in connection with the investment securities noted above.

4. LOANS TO MEMBERS

The composition of loans to members is as follows at December 31:

	2005	2004
Automobile	\$ 121,417,341	\$ 95,607,418
Real estate	108,955,240	98,644,924
Lines of credit	18,528,283	17,907,278
Unsecured	5,272,713	5,621,584
Home improvement	2,372,247	2,367,631
Recreational vehicles	5,031,206	5,523,794
Share secured loans	678,688	836,874
Net deferred loan origination costs	3,912,337	2,773,798
	266,168,055	229,283,301
Less: Allowance for loan losses	(1,318,248)	(1,508,116)
	\$ 264,849,807	\$ 227,775,185

Loans on which the accrual of interest has been discontinued or reduced amounted to \$417,806 and \$407,778 at December 31, 2005 and 2004, respectively. If interest on these loans had been accrued, such income would have approximated \$34,649 and \$23,367 for 2005 and 2004, respectively.

Included in the loans to members at December 31, 2005 and 2004, are loans of \$1,573,219 and \$1,547,826, respectively, to directors and officers of The Summit.

3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31 are as follows:

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	\$20,234,077	\$ 5,914	\$ (407,273)	\$19,832,718

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	\$31,735,775	\$ 32,697	\$ (333,045)	\$31,435,427

The amortized cost and fair value of investment securities held to maturity at December 31 are as follows:

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	\$22,615,193	\$ -	\$ (408,270)	\$22,206,923

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency securities	\$26,667,341	\$ 394	\$ (346,134)	\$26,321,601

The fair values of securities are estimated using independent pricing services and are based on available market data.

There were no sales of securities in 2005 or 2004.

The scheduled maturities of held to maturity and available for sale securities at December 31, 2005 were as follows:

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$11,268,216	\$11,063,393	\$ 7,558,467	\$ 7,466,717
Due from one to five years	\$11,346,977	\$11,143,530	\$ 9,807,198	\$ 9,531,206
Due from five to ten years	-	-	\$ 220,468	\$ 229,514
Due after ten years	-	-	\$ 2,647,944	\$ 2,605,281
	\$22,615,193	\$22,206,923	\$20,234,077	\$19,832,718

CASH FLOW FROM OPERATING ACTIVITIES:

	2005	2004
Net income	\$ 2,004,135	\$ 2,634,437
Adjustments to reconcile net income to net cash flow from operating activities:		
Depreciation and amortization	596,354	592,492
Amortization of mortgage servicing rights	80,036	80,253
Capitalization of mortgage servicing rights	(24,830)	(62,892)
Provision for loan losses	1,184,404	960,512
Net amortization of premiums and accretion of discounts in investment securities	(16,544)	104,521
Gain on disposition of premises and equipment	(123,199)	(3,222)
Changes in:		
Accrued interest receivable	(122,512)	45,809
Other assets	(147,490)	285,558
Accrued expenses and other liabilities	272,860	(254,525)
Net cash flow from operating activities	3,703,214	4,382,943

CASH FLOW FROM INVESTING ACTIVITIES:

Net decrease in investment securities available for sale	11,216,228	5,165,646
Net decrease in investment securities held to maturity	4,354,296	500,000
Net decrease in investments in certificates of deposit	4,719,594	11,026,827
Net increase in loans to members	(38,259,025)	(20,531,832)
Purchases of premises and equipment	(3,619,035)	(1,218,952)
Proceeds from dispositions of premises and equipment	426,434	7,062
Decrease (increase) in NCUSIF deposit	(32,419)	71,989
Net decrease (increase) Federal Home Bank stock	573,500	(594,800)
Net cash flow from investing activities	(20,620,427)	(5,574,060)

CASH FLOW FROM FINANCING ACTIVITIES:

Net decrease in members' shares and savings accounts	(17,372,292)	(7,958,330)
Net increase in members' share certificates	21,485,788	10,107,346
Net increase (decrease) in non-members' shares and certificates	438,775	(767,449)
Net cash flow from financing activities	4,552,271	1,381,567

NET CHANGE IN CASH AND EQUIVALENTS

	(12,364,942)	190,450
CASH AND EQUIVALENTS - beginning of year	19,870,037	19,679,587
CASH AND EQUIVALENTS - end of year	\$ 7,505,095	\$ 19,870,037

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the year for dividends on members' and nonmembers' shares	\$ 5,683,886	\$ 4,133,594
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The accompanying notes are an integral part of these statements.

1. THE ORGANIZATION

The Summit Federal Credit Union ("The Summit") was established to offer low-cost, high quality financial products and services to its members. The Summit is headquartered in Rochester, New York and has branch locations in Hilton, Irondequoit, Seneca Falls, Henrietta, Greece, Penfield and Clarence. The Summit's wholly-owned subsidiary, Canal Ponds Credit Union Services, Inc. (Canal Ponds, Inc.) ceased operations in October 2005. Canal Ponds, Inc., a credit union service organization, provided investment services to credit union members.

On October 1, 2005, the Hilton Federal Credit Union merged with The Summit. As a direct result of the merger, The Summit increased its total assets by \$4,952,185, its member share accounts by \$4,038,137, its regular reserve by \$231,240 and its undivided earnings by \$681,787. The merger has been accounted for in a manner similar to a pooling of interests and in accordance with NCUA guidelines.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation The consolidated financial statements include the accounts of The Summit and its wholly-owned subsidiary, Canal Ponds, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation The accounting principles of the The Summit conform to accounting principles generally accepted in the United States and the National Credit Union Administration (NCUA) regulations.

Cash and Equivalents Cash and equivalents include all highly liquid investments with an original maturity of three months or less as well as overnight deposits at corporate credit unions which, at times, may exceed federally insured limits. The Summit has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash and equivalents.

Investments at Corporate Credit Unions The Credit Union invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Investments at corporate credit unions are recorded at cost which approximates fair market value. These investments, except for investments in corporate credit union capital shares which are short-term investments, consist of cash and cash equivalents varying in duration from overnight to three months.

Investments in Certificates of Deposit Investments in certificates of deposit are recorded at cost and have maturities of up to seven years.

Investment Securities Investments in debt securities which are classified as held to maturity are stated at amortized cost when management has the positive intent and ability to hold such securities to maturity. Investments in debt securities which are classified as available for sale and have readily determinable fair values are stated at estimated fair value. Unrealized gains or losses related to investment securities available for sale are excluded from income and included as a change in other comprehensive income.

Interest income includes interest earned on the securities and the respective amortization of premium or accretion of discount. Amortization or accretion for held to maturity and available for sale investments is computed using the effective interest rate method. Gains and losses from sales of securities are determined using the specific identification method.

Loans to Members and Allowance for Loan Losses Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. For substantially all loans, interest is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The allowance for loan losses is increased through a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). Loans are charged against the allowance when management believes collection is doubtful. Management's periodic evaluation of the adequacy of the allowance is based on The Summit's past loan-loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' abilities to repay, estimated value of any underlying collateral, and current economic conditions.

The accrual of interest is discontinued on a loan when the loan becomes 90 days or more past due and management believes, based on collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. Uncollectible interest previously accrued is charged off or an allowance is established by means of a charge to interest income. Income is subsequently recognized only to the extent cash payments are received until the loan is no longer 90 days or more past due, at which time the loan is returned to accrual status.

Loan fees and certain direct loan-origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual term of the loan.

Premises and Equipment Land is carried at cost. Buildings, office equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization. Buildings and office equipment are depreciated over useful lives ranging from three to forty years using the straight-line method. Leasehold improvements are amortized using the straight-line method over the period of the lease or the estimated life of the property, whichever is shorter.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

National Credit Union Share Insurance Fund ("NCUSIF") Deposit The deposit in the NCUSIF is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. The deposit would be refunded to The Summit if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

NCUSIF Insurance Premiums A credit union is required to pay an annual insurance premium equal to one-twelfth of one percent of its total insured shares, unless the payment is waived or reduced by the NCUA Board. In 2005 and 2004, the NCUA's Board waived the insurance premiums.

Mortgage Servicing Rights Mortgage servicing rights assets, included with other assets, are established each time The Summit undertakes an obligation to service mortgage loans for the Federal National Mortgage Association ("FNMA"). For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, ancillary income, prepayment speeds and default rates and losses. Servicing assets are amortized in proportion to, and over the period of, estimated net servicing revenues. For purposes of measuring impairment, the assets are stratified based on the original term and interest rate of the underlying loans. The amount of impairment recognized is the amount by which the capitalized mortgage servicing assets for a stratum exceed their fair value.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned.

Other Real Estate Owned Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value at the date of foreclosure and are included within other assets. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding property are expensed.

Valuations are periodically performed by management and an allowance for losses is established by means of a charge to operations if the carrying value of the property exceeds fair value less estimated costs to sell.

Members' and Non-members' Share Accounts and Certificates Members' and non-members' shares are subordinated to all other liabilities of The Summit upon liquidation. Dividends on share accounts are based on available earnings at the end of a dividend period and are not guaranteed

by The Summit. Dividend rates on share accounts are set by the Board of Directors, based on an evaluation of current and future market conditions. Dividend rates on members' and non-members' share certificates, money market and checking accounts are set by management based on current market conditions. Dividends on members' and non-members' share accounts and share certificates are charged as an expense.

Members' Equity The Summit is required by NCUA Regulations to maintain a net worth ratio based on the risk deemed inherent in its balance sheet. Credit unions which do not meet the risk based net worth requirements will be subject to prompt corrective supervisory action by the NCUA. The NCUA's net worth requirements to be considered adequately capitalized at December 31, 2005 and 2004 was 7.0 percent. As of December 31, 2005 and 2004, The Summit maintained a net worth ratio of 11.31 percent and 10.94 percent, respectively, and was considered well capitalized.

The Summit is required by regulation to maintain a reserve. This regular reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends.

Income Taxes The Summit is exempt, by statute, from federal and state income taxes. Canal Ponds, Inc. is subject to taxation; however, tax amounts are insignificant at December 31, 2005 and 2004.

Pension Plan The Summit has a qualified, non-contributory defined benefit pension plan covering substantially all of its employees. The Summit's policy is to fund at least the minimum amount required under the Employee Retirement Income Security Act of 1974 ("ERISA").

Comprehensive Income Accounting principles generally require that recognized income, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a change in the accumulated other comprehensive income (loss) section of the statement of financial condition.

Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications Certain amounts have been reclassified in the 2004 financial statements due to the merger described in footnote 1 to conform to the current year presentation.