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PEOPLES NATIONAL BANK OF WASHINGTON

ANNUAL REPORT 1972

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HIGHLIGHTS

for the year

	1972	1971
Total Operating Income.....	\$ 36,279,862	\$ 32,771,029
Total Operating Expenses.....	32,671,877	30,558,726
Net Operating Earnings Before Securities Gains	3,128,985	2,123,303
Net Income	3,198,875	2,754,192
Earnings Per Common Share:		
Net Income Before Securities Gains...	4.87	3.62
Net Income	4.98	4.70
Cash Common Stock Dividends Declared...	1,050,589	996,413
Cash Common Stock Dividends Paid Per Share (Par Value \$20).....	1.70	1.60

at year end

Total Resources	\$604,719,269	\$522,595,273
Deposits	522,750,392	440,840,361
Loans	336,735,449	264,348,398
Securities	111,683,428	111,260,828
Capital Funds	37,857,416	34,707,542
Book Value Per Share Common Stock	59.46	59.22
Number of Common Stock Shareholders...	1,278	1,256
Number of Banking Staff.....	1,140	985
Number of Banking Offices.....	59	53



TO OUR STOCKHOLDERS • THE YEAR IN REVIEW

Dear Stockholder:

1972 provided gains in the activities of Peoples National Bank which were both encouraging and gratifying. New highs in total deposits, loans, capital funds and total resources were achieved. Net income increased substantially over 1971 and we feel this increase in earnings may well continue during the coming year.

It is our feeling that this substantial growth of the bank reflects the strengthening of the economy of our state as well as an aggressive policy on our part to attract new business and to maintain our traditional strong pledge to our customers to provide the very best in personalized service.

The outlook for 1973 appears favorable for all sectors of Washington's economy. The marked gains in employment in 1972 should continue this year. Retail sales are expected to reach an all-time high. The markets for aerospace, forest products and agriculture should continue strong. We will continue to be favorably affected by events in Alaska and the Orient. Many of our state's natural resources are yet

to be fully developed. Most important, the people who live and work here are confident that the area they love will enjoy a prosperous future—a confidence that Peoples Bank shares.

An important contribution to our growth this year was the acquisition of the Olympic National Bank in Port Angeles and the merger with the Bothell State Bank. As a result, we added \$27.5 million in deposits represented by the addition of three offices in the Olympic Peninsula and four offices in North King County.

During 1972, four new members were elected to the bank's Board of Directors. They are:

In April, S. C. Tozier, who is President of Tozier & Ralston Insurance Brokers, Inc. of Port Angeles,



became a director. Mr. Tozier was a member of the Board of the Olympic National Bank prior to its acquisition by Peoples. Through his wide acquaintance with successful people in the Olympic Peninsula area and his outstanding ability to sell banking services, Mr. Tozier is rendering excellent service on behalf of this institution.

In August, Howard E. Lovejoy was elected to the Board. Mr. Lovejoy is President and General Manager of Puget Sound Freight Lines in Seattle. His experience and knowledge in the Port activities of Seattle and his interests in numerous transportation associations will be most valuable to the progress and growth of your bank.

A. Dean Worthington, formerly President and Director of the Bothell State Bank, joined the Board in August. Mr. Worthington has long been prominent in the business affairs of the Bothell community, and with his extensive interests will contribute greatly to our position in this area.

Charles P. Burnett, III, was elected to the Board in December. Mr. Burnett is a financial consultant to a number of partnerships and corporations and his counsel and advice will be most helpful.

"There's A New Life Comin' " was introduced as our advertising theme in 1972. The concept evolved from our feeling that business had a much wider, more concerned and responsible role in today's society. When someone buys a new home, car or boat, it's to fulfill a dream. It's not that we have money to lend, or he has money to spend—he simply wants to enjoy life. People want to be recognized as they see themselves—someone absolutely unique; and to do it we must be concerned about the other person's interest rather than our own. If we show him that we understand what he wants out of life, the better our chances become that he will want to do business with us. We have something in common—we enjoy life and we enjoy helping each other. The theme, "There's A New Life Comin' " is right for Peoples Bank. It expresses our understanding and friendliness in a most believable way.

Details of our financial report and the many interesting activities that our bank is engaged in are found in the following pages and we hope that you will enjoy reading this annual report.

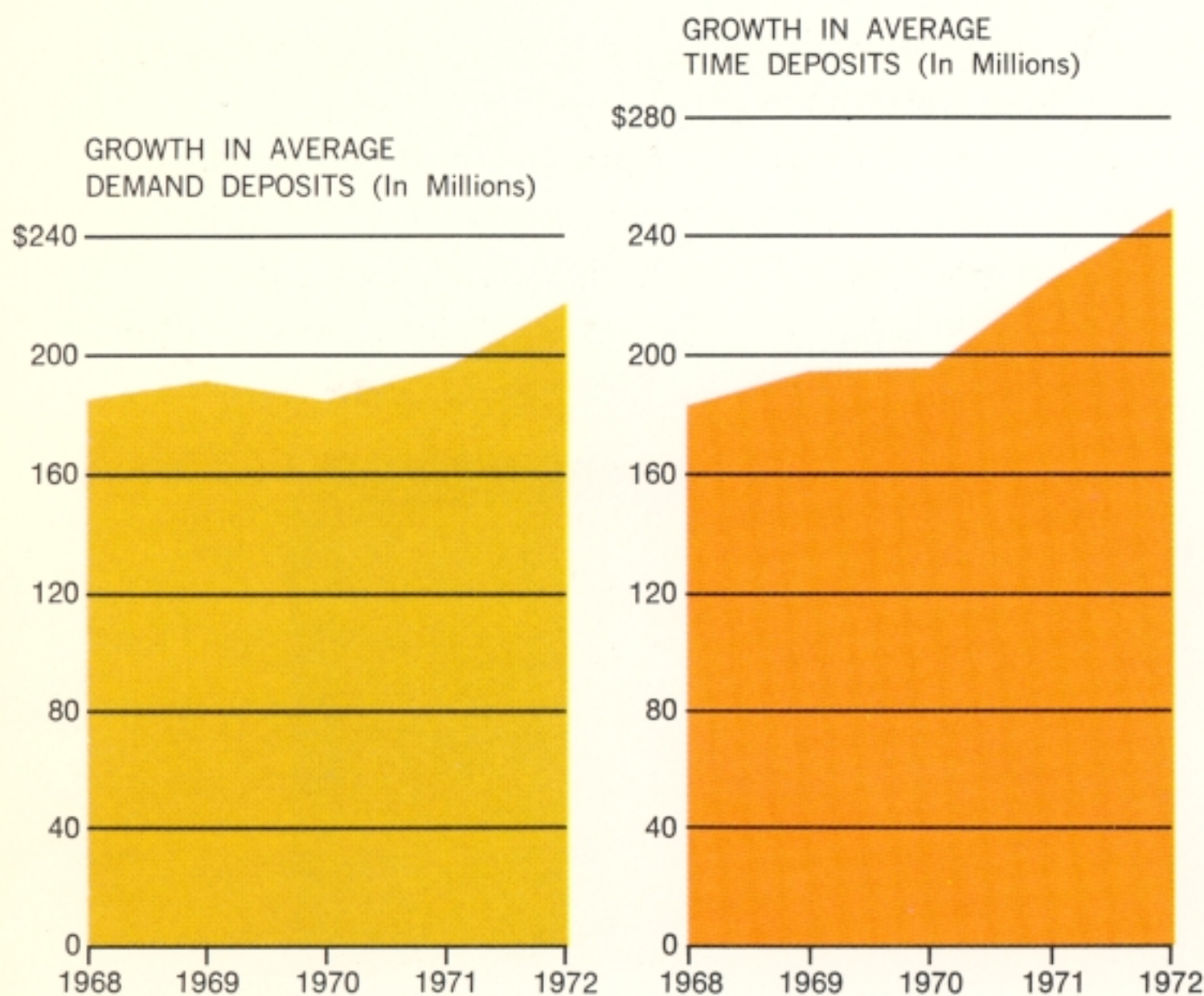
The management of our bank is deeply conscious of the fact that our progress depends upon the dedicated efforts of every employee, stockholder and director. For their outstanding contribution to the results of 1972, we are deeply grateful.



JOSHUA GREEN, JR.
Chairman of the Board and
Chief Executive Officer



HAROLD A. ROGERS
President



DEPOSITS AND LOANS

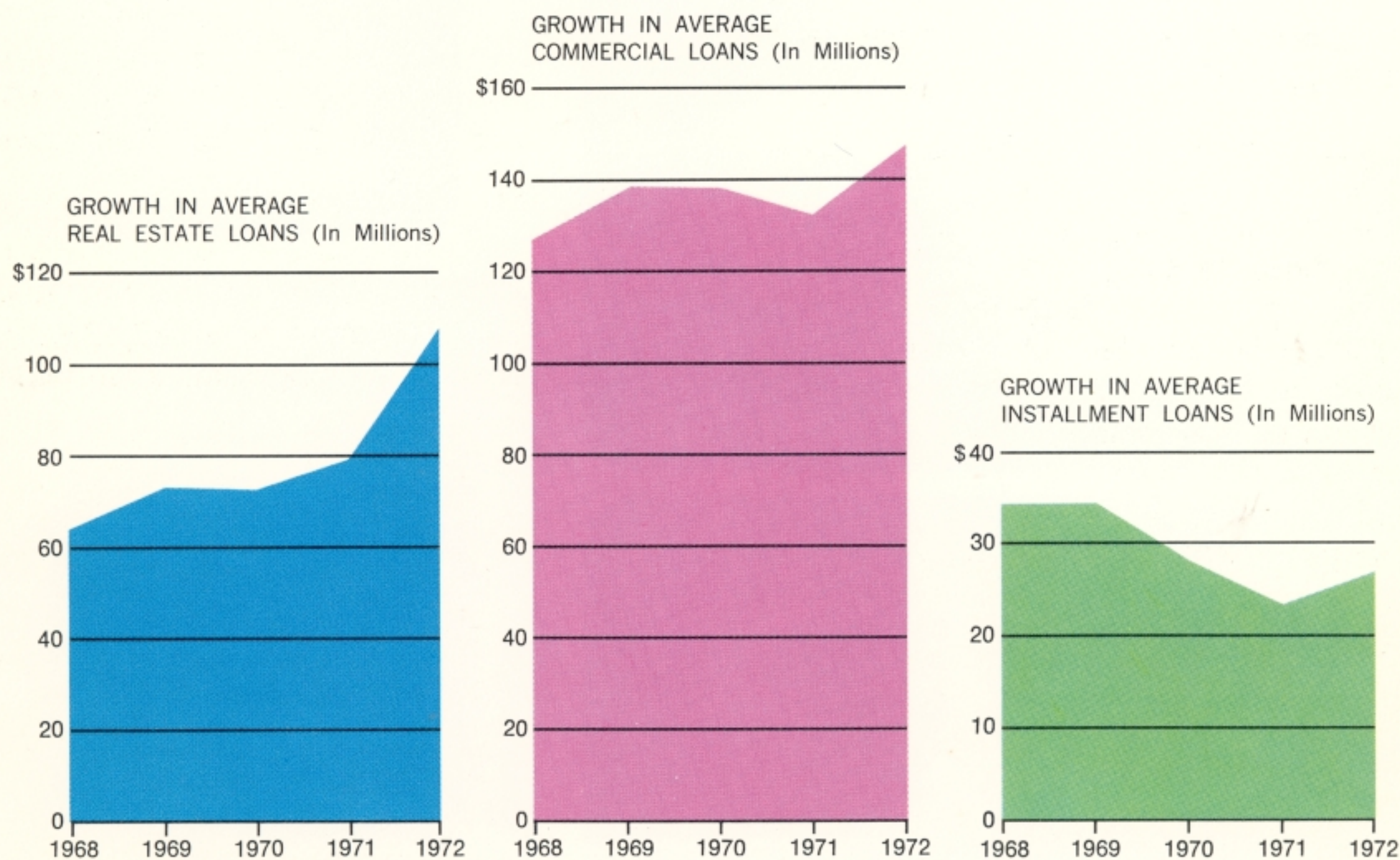
By mid-December we had exceeded our 1972 goal of \$500 million in deposits, the year-end total was \$522,750,392, an increase of \$81,910,031. Both time and demand deposits reached new highs. The percentage increase over year-end 1971 was 13.86% in time deposits and 23.84% in demand deposits.

With an improvement in our state's economy during 1972 and with increased emphasis on the part of our staff to be alert to loan opportunities, our average net loans increased 19.09% for the year. Our loan totals at year-end were \$336,735,449 as compared to \$264,348,398 in 1971, and increase of 27.38%.

Our loan to deposit ratio at the year-end 1972 was 64.42% as compared to 59.96% for 1971.

INVESTMENTS

While there was only a slight increase in the total of earning assets allocated to investments, there were decided changes in the composition of the portfolio in order to increase yields and thus provide a more substantial contribution to net income.



U. S. Government direct obligations were decreased \$10,700,000 and state, county and municipal securities were reduced \$6,900,000. At the same time, federal agency obligations were increased by \$18,100,000 so that at the end of 1972 the respective yields were as follows: 5.80%, 4.10% and 6.19%.

The schedule of maturities reflects an average life in the total of U. S. Government direct obligations and federal agencies of four and one-half years, and in the category of state, county and municipal securities, an average life of ten years and seven months.

As required by law, there are pledged to secure public and trust funds a total of \$16,965,000 in par value of securities, of which \$5,670,000 represent U. S. Government obligations and the remaining \$11,295,000 are state, county and municipal obligations.

The bank maintains a daily active market in both the sale and purchase of federal funds, as well as the closely associated market for repurchase agreements in U. S. Government and other securities. These money market transactions are designed to provide our customers with an immediate and profitable market for temporarily idle funds.

Other investment services provided for our customers include purchase and sale of securities, safekeeping and investment counseling.

OPERATING INCOME

Increased loan demand coupled with a decrease in the net cost of money and an increase in the gross yield on loans reversed the unfavorable trend in interest income that started in mid-1970. As a result loan interest income increased by \$2,634,539. Other major items of income showing satisfactory increases included service charges, trust commissions, and income from Peoples Mortgage Company. Total operating income for 1972 was \$36,279,862 as compared to \$32,771,029 in 1971, an increase of 10.71%.

OPERATING EXPENSES

Expenses, including salaries, interest paid and taxes paid, were all higher during 1972. The rate of increase, however, was lower than during 1971 and a determined effort continues to reduce costs wherever possible.

Interest paid on time deposits increased \$831,999 to a total of \$10,840,903. Taxes paid in the form of real estate, personal property, business and occupation, and excluding income tax increased by 13.23% to a total of \$1,008,146. Salaries, bonuses and other employee benefits totaling over \$11,718,000 continue to be the largest item of expense.

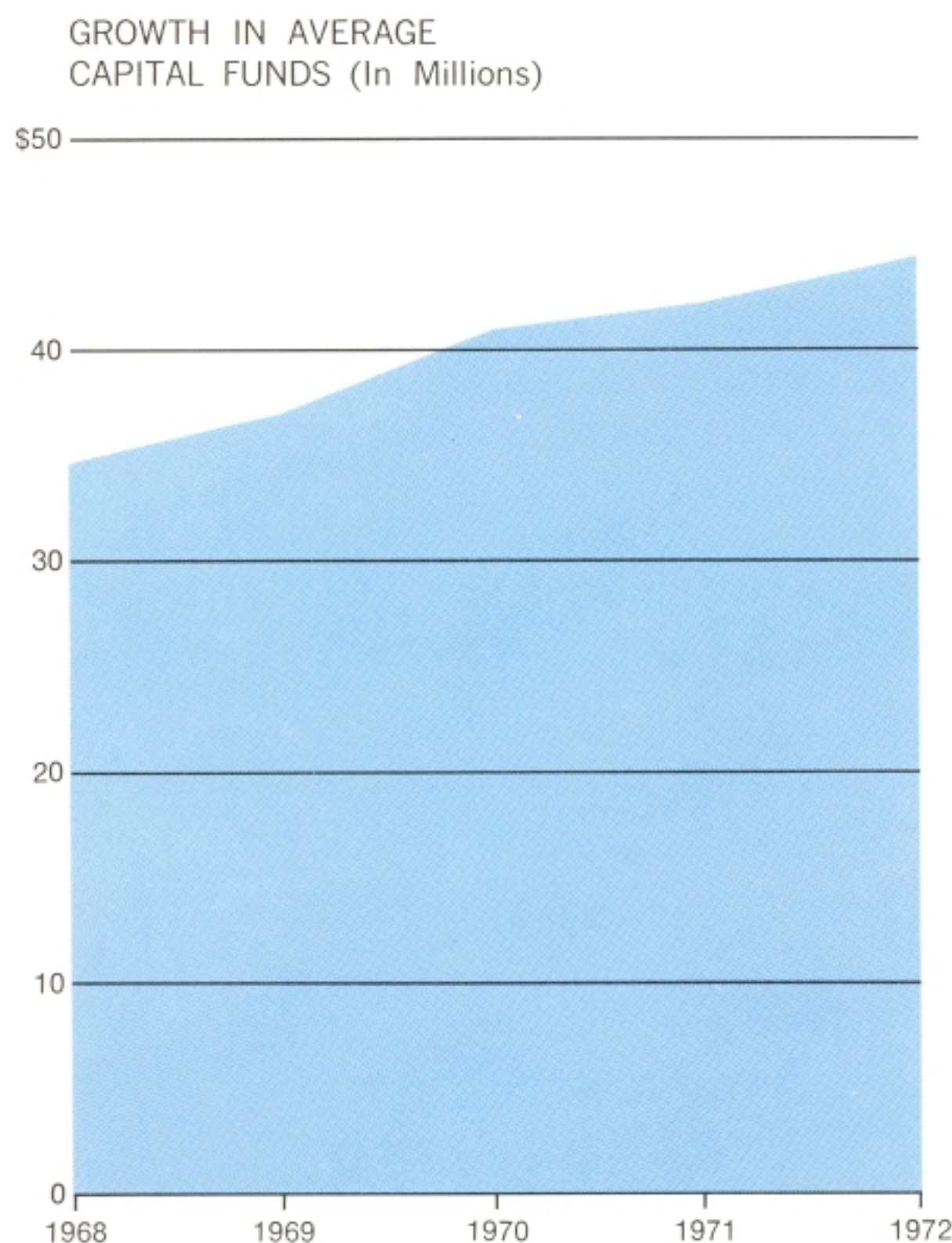
Operating expenses include the actual net loan losses charged during 1972 in the amount of \$548,834 as compared to \$1,200,759 incurred during 1971.

Total operating expenses in 1972 amounted to \$32,671,877 as compared to \$30,558,726 for 1971, an increase of 6.92%.

EARNINGS

Net Operating Income before Securities Gains amounted to \$3,128,985 as compared to \$2,123,303 in 1971, an increase of 47.36%. In addition, there were gains on sale of securities of \$69,890 after applicable taxes, which compares to \$630,889 in 1971. Net income transferred to Undivided Profits was \$3,198,875 for 1972 and \$2,754,192 in 1971, an increase of 16.15%.

In 1972, based upon 635,376 shares outstanding at year end, and after payment of preferred stock dividends of \$32,308, the net income per share was \$4.98. In 1971, there were 586,125 shares outstanding and per share earnings amounted to \$4.70.



CAPITAL FUNDS

After the declaration of preferred stock dividends of \$32,308 and common stock dividends amounting to \$1,050,598, the purchase of the Olympic National Bank for \$276,341, and the merger with the Bothell State Bank, the total capital funds at year end were \$37,857,416, an increase of 9.08%. The book value per share based on 635,376 shares outstanding December 31, 1972 is \$59.46 as compared with \$59.22 on 586,125 shares outstanding on December 31, 1971.

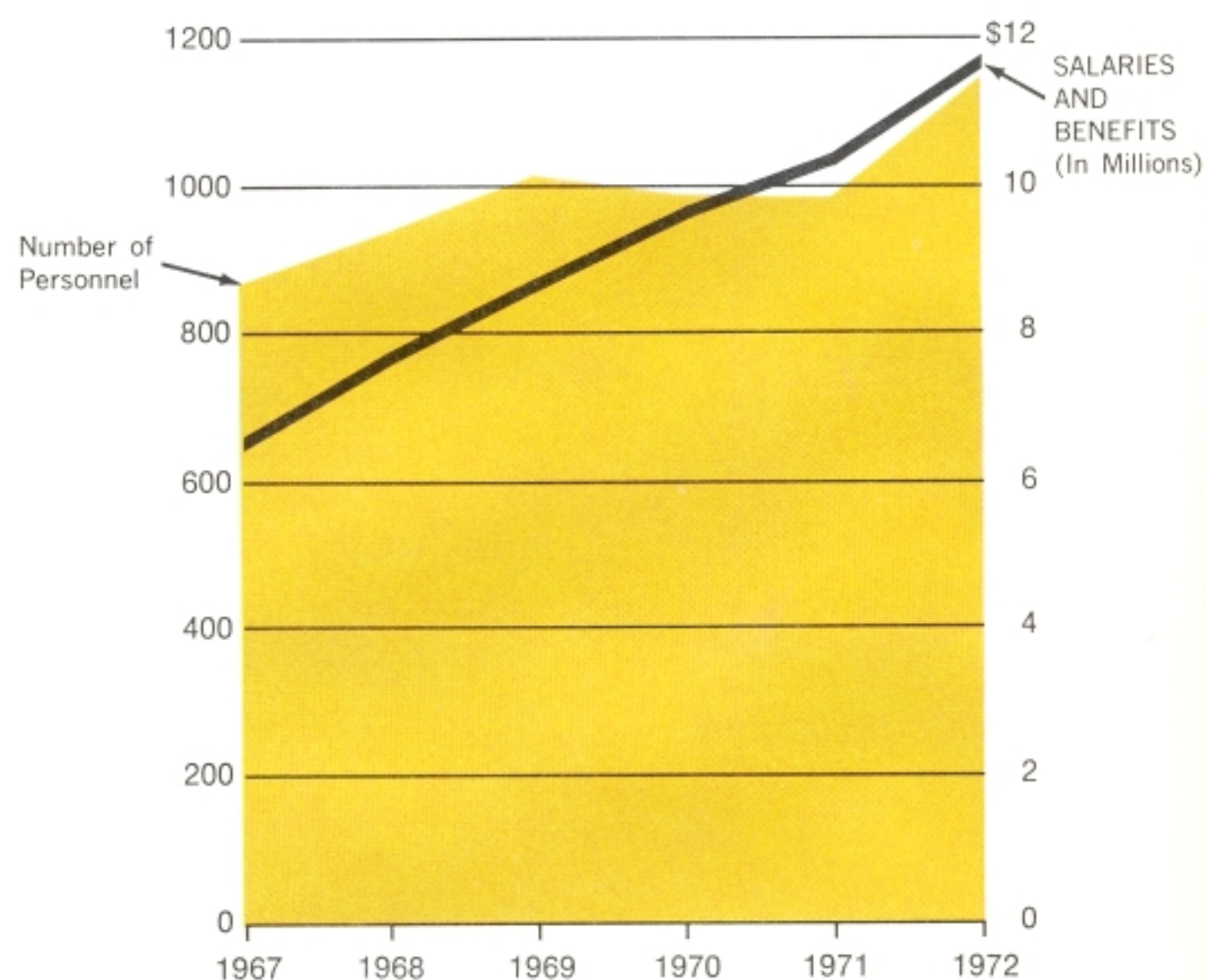
PERSONNEL

Continued emphasis on in-bank training programs and participation of staff members in the American Institute of Banking and Pacific Coast Banking School education programs were expanded in 1972. We are assisting a number of our employees in furthering their education by attendance at universities and business colleges.

Our staff is the most important resource of the bank and our efforts toward improving their abilities to serve our customers represents a sound investment.

At year end our staff totaled 1,140 of which 301 were officers. Sixty-eight, or 23%, of those officers were women. Staff members receiving their first appointment as an officer during the year numbered 47. This past year, Myrtle C. Vallager was appointed Manager of our Broadway Office, and becomes the second woman to serve in that capacity for Peoples National Bank.

Stan Holifield was promoted to Personnel Officer and assigned the principal responsibility for reviewing and revising the bank's Affirmative Action Program. He will expand the bank's efforts in the area of minority recruitment, placement and training.



INTERNATIONAL DEPARTMENT

Many of our customers are engaged in exporting airplanes, trucks, machinery, lumber, agricultural products, electronics and other equipment to foreign countries. Trade between nations is at an all-time high and we provide financial services in the form of supplying import and export letters of credit and the ability to transfer funds worldwide.

Puget Sound's unique position as the Gateway to Alaska and the Orient has monumental possibilities for the future growth of the shipping and trade industry. We are expanding the staff of our International Department to provide additional services and to meet the challenge of new problems which will develop as international trade expands.

OPERATIONS

In June, the Operations division of our bank was reorganized to place the Computer Center, Branch Operations, Systems and Publications under the responsibility of a senior officer. A thorough evaluation of all existing computers revealed the necessity of installing new equipment in the form of an IBM 370 Model 145. The new computer, which will be delivered in March, 1973, will replace two older models and should provide the required computer capacity to add new applications and to handle the projected growth in volume.

The centralization of check filing and check paying, commenced in early 1971, was completed this year, thus removing these functions from all of our Western Washington branch offices. The result has been a cost savings for the bank and a more efficient overall operation.

With the growth of our bank, both in terms of the number of offices and the number of operating subsidiaries, a more comprehensive accounting and budgeting system was required. An operating system designed to meet our needs was purchased, thoroughly tested, and will be initiated as our primary general ledger accounting system beginning January 1, 1973.

These expanded facilities and services will add to our capabilities to serve better the varying needs of our individual, corporate and correspondent bank customers in today's modern and complex financial reporting systems.

MARKETING

During 1972, Peoples Bank joined many other banks throughout the country by offering BankAmericard to merchants and individuals. In September the bank mailed over 50,000 invitations to checking account customers inviting them to apply for the bank credit card. Over 15% of those contacted immediately responded to our invitation. By year end over 12,500 individuals were carrying Peoples National Bank BankAmericards. During November and December our BankAmericard representatives working with our branch personnel were successful in signing a significant number of merchants.

In March, our Dental Budget Plan was expanded into Snohomish County. This program offers the patient an installment method of payment for dental services and provides the participating dentist with immediate credit with a minimum of paperwork. Since the program began in 1952, more than \$10 million in dental loans have been processed.

During the year a "Marketing Committee" was formed and is composed of representatives from branch offices, head office departments and bank subsidiaries. The purpose of this new committee is to analyze and to initiate new business programs which will develop new and better ways to increase our customer base. National statistics show that the more bank services a customer uses, the less likely that person is to change banks.

Late in the year a comprehensive Marketing Plan establishing both short range and long range objectives was adopted. This new program will involve all members of our staff.

TRUST DEPARTMENT

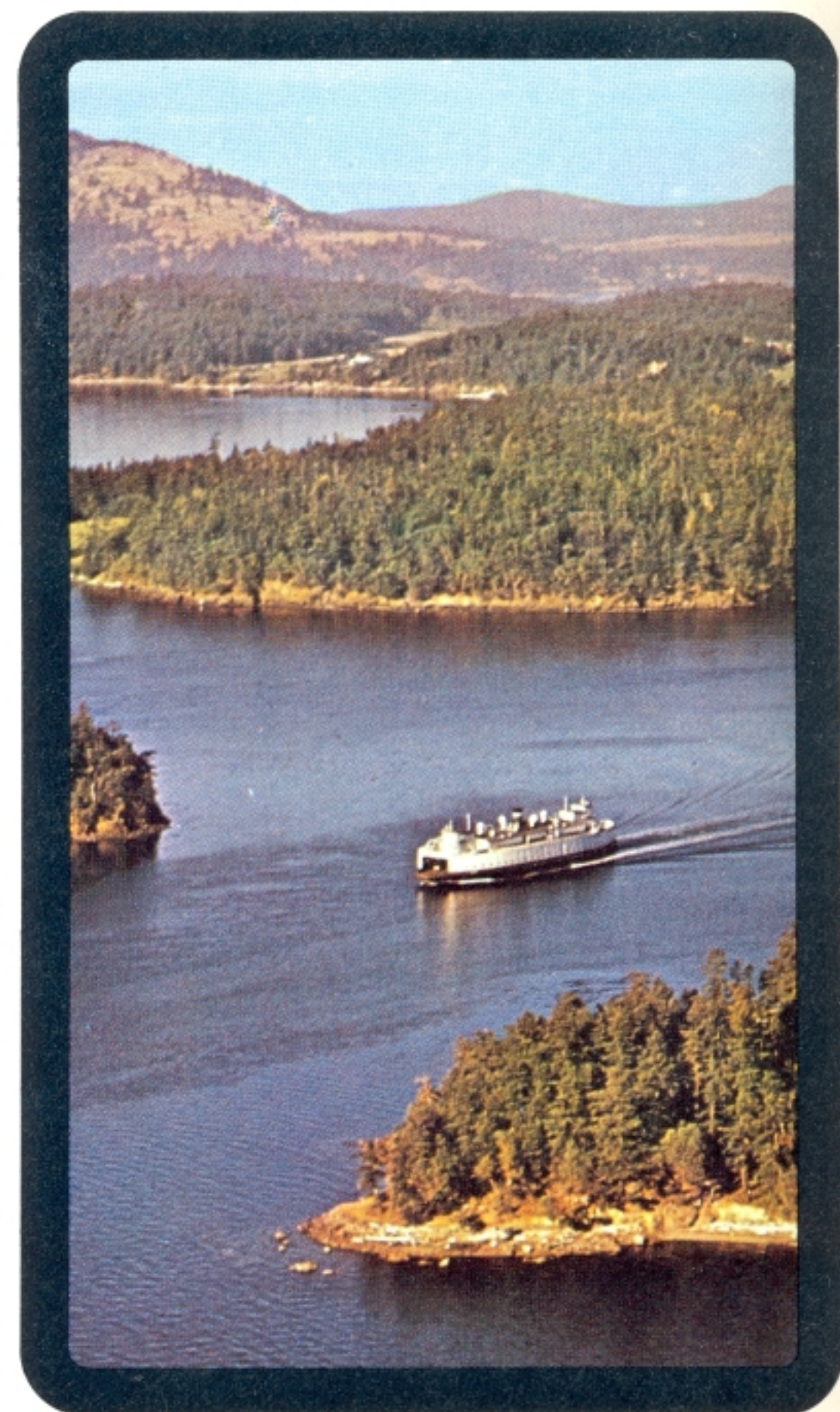
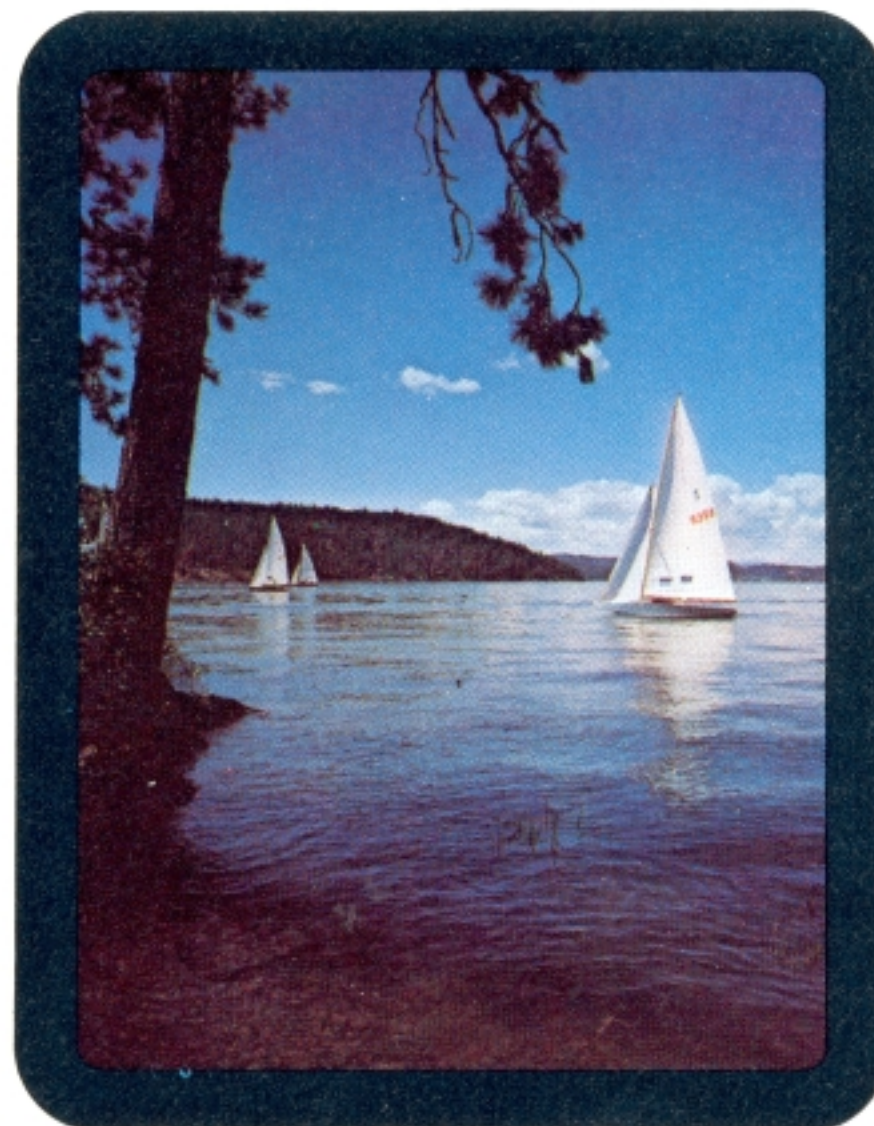
The Trust Department has a unique relationship with its customers. As trustee, we become the custodian and manager of the wealth of others through confidential documents which establish legal conditions and moral obligations and responsibilities by which we must be guided.

Because of this relationship, our bank feels the management of its Trust Department should be treated in confidence. We believe that knowledge of our philosophy of "meeting the human needs" of our trust customers, together with experienced management, is vital to a better understanding of our business by our customers, stockholders and the general public.

We provide experienced management with personal attention to each trust and estate—not as a number or record—but as an individual with special needs.

A most important area in the Trust Department is the management of investments. Our investment policies are the product of serious thought and considerable research. Every aspect of our investment position, from the standards of quality and business excellence employed in individual security selection, to the measurement of investment performance in portfolios, is written down and defined in the clearest terms and adhered to by every member of our investment team.

By clearly defining our investment policies, we accomplish two things essential for investment success. First, we manage accounts by realistic measurable objectives. By employing precise and exacting standards of security selection, we are able to choose



only those securities that best meet the objectives of each portfolio. Second, by having our standards clearly outlined, we are able to take positions sufficiently aggressive to obtain capital appreciation without abandoning the prudence that would endanger the assets entrusted to us.

In addition to managing individually invested portfolios, we also manage six collective investment funds. These funds are particularly appropriate to those smaller accounts which otherwise would not be able to participate in the securities markets without the dangers of under-diversification and the greater expense of small and odd lot buying and selling.

We manage both a stock fund and a bond fund for each of the three types of accounts we hold in trust: private trusts, estates and guardianships; employee benefit accounts; and self-employed retirement accounts.

Our bank has the knowledge and expertise to provide a complete financial service for our customers, and because of the ability and skill of the investment management "team" in the Trust Department, we can make this goal a practical reality.

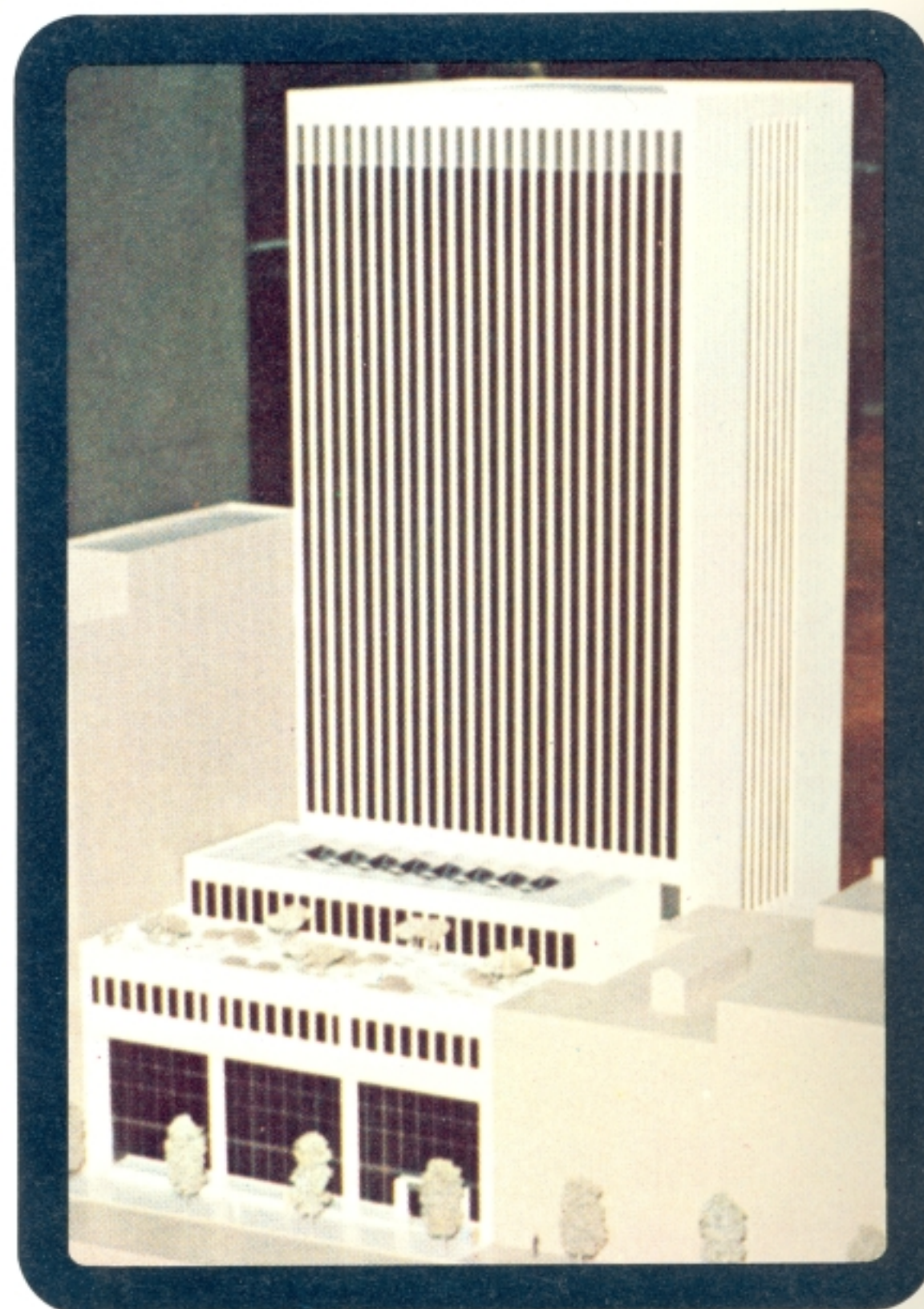
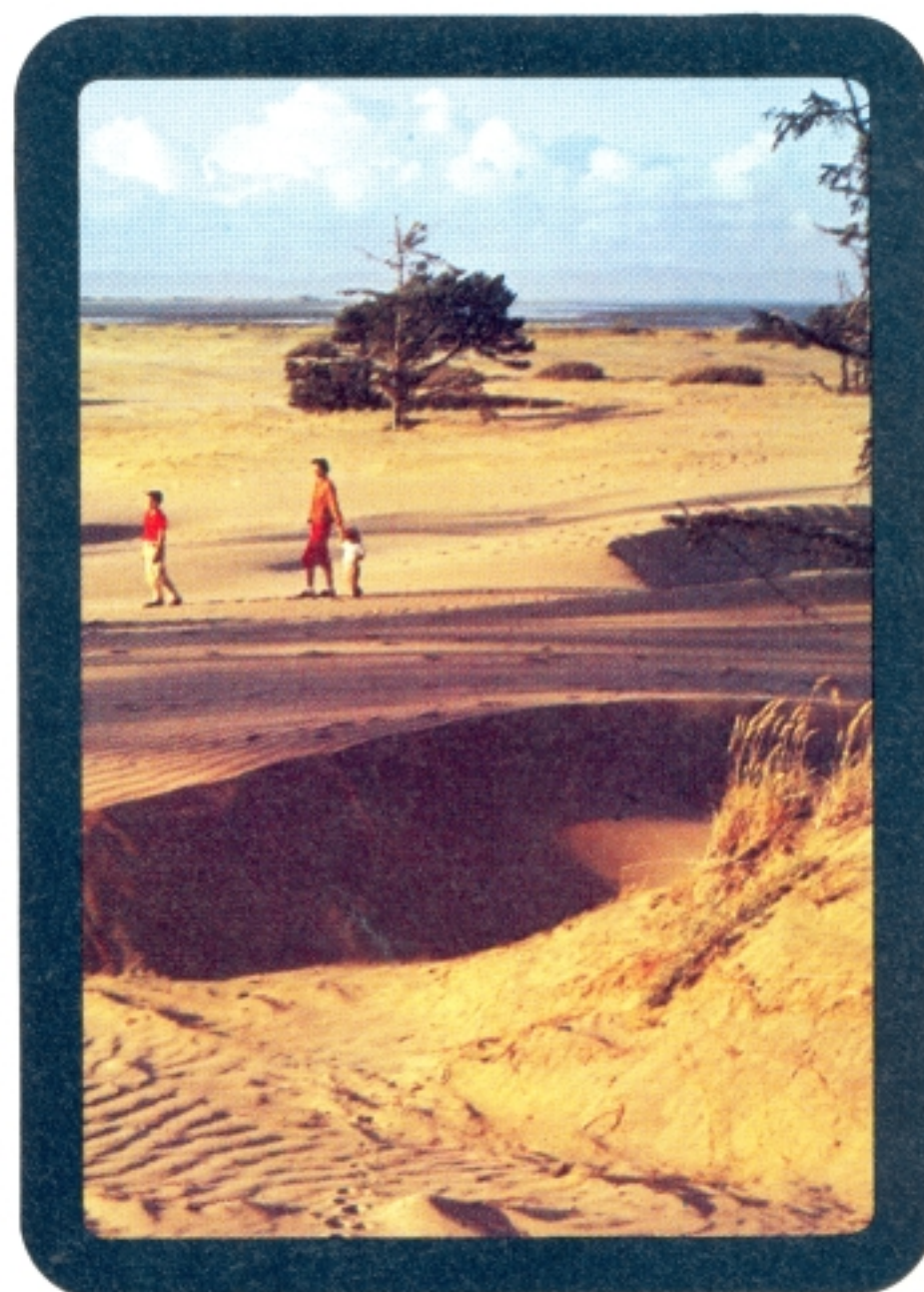


NEW DIVISIONS

In order that we might better serve our corporate customers and correspondent banks, we formed a new division. This, the national division, is responsible for the complete servicing of national accounts and correspondent bank accounts. At year end we are servicing 83 correspondent banks in nine states. Services provided to them include: officer recruitment, computer programs, loan participation, staff training, international banking, audit and credit examination, investment and trust services and many others.

This division is also active in lending to minority businessmen. The assistance ranges from direct receivable financing to federal capital SBA guaranteed term financing, and other sophisticated lending

techniques. We also offer these businessmen various types of technical assistance, including help to secure contracts, processing of SBA applications, locating office space, contacting suppliers and obtaining credit information.



Another new division established in 1972 was our mobile home division. With the improvement of mobile homes to the lovely permanent locations in park-like settings that are developing today, our bank has decided to participate in this relatively new field. In June a working agreement with Lenders Insured Service Corporation (LISCO) was established. LISCO will generate dealer loans for us and provide additional financial and collection services. Dealer financing, either wholesale or retail, is highly competitive and requires special skills and knowledge. We feel our association with LISCO will help us to enter this field at an accelerated pace. This association will not restrict our own activities with mobile home dealers. We are now involved in educating our lending officers in the techniques of mobile home financing, and encouraging them to solicit this very attractive business.

PEOPLES NATIONAL BANK BUILDING

Construction began in early 1972 on our 20-story office tower and Main Office branch. This Main Office location will be a three-story structure on Fourth Avenue and will provide the most modern and complete banking quarters for our customers.

Located in the heart of downtown Seattle, the complex is central to the city's finest retail area as well as to the financial and governmental districts. The building complex is unique since the tower and banking quarters are joined by spanning the alley with entrances on both Fourth and Fifth Avenues.

Strategic location; quality in construction, finish and environment; the highest standards of maintenance and service—all combine to make this the optimum in prestige office buildings.

It is anticipated that occupancy of our new banking quarters will take place in late 1973 and in the meantime the temporary location at Fourth Avenue and Union Street is quite satisfactory.

Completion of the office tower is scheduled for early 1974 and the leasing of office space is progressing nicely.

BANK PROPERTIES

On December 4 a new facility was opened for our office in Sequim and a week-long open house was held. Prior to that, the office occupied temporary quarters. The new building contains 3,700 square feet and is located in the heart of the downtown area.

Property has been leased for the purpose of building new quarters for our Bellevue Office. This facility will be located at the southeast corner of N.E. 8th and Bellevue Way N.E. and will contain 5,500 square feet. Demolition of several existing buildings is required and it is anticipated that construction will be completed in 1973.

Next year a planned expansion of our Operations Center will start. Floor space will increase by 14,000 square feet; construction should be completed by mid-1973.

Plans are underway to relocate our Magnolia Office to the corner of 32nd Avenue West and West McGraw. This new building will be oriented toward drive-in windows and parking with a better flow of traffic.

We have received permission to move the Port Angeles Motor-In to the busy south side of town. An interesting concept for a new building is in the planning state and completion is expected in mid-1973. We are also in the process of remodeling the main Port Angeles Office downtown.

Approval has been received for an office in a new shopping center at Federal Way. Discussions regarding space in the center are underway. Construction hopefully will begin soon and the opening is expected to be in the Fall of 1973.

PEOPLES MORTGAGE COMPANY

For the fourth consecutive year, Peoples Mortgage Company surpassed the previous year's volume of business. Total mortgage loan production of over \$92 million represents a 104% increase over 1971.

During this four-year period we have consistently increased our percentage of the overall Seattle area residential loan market from 3.6% in 1969 to 9.8% in 1972. Changing market conditions have afforded us the opportunity to expand our residential loan program to include conventional insured loans. Total residential production in 1972 surpassed that of 1971 by 46%.

Our total King County (Greater Seattle area) Mortgage Loan Recordings of over \$44,000,000 in 1972 placed us among the top three Seattle lending institutions and ahead of all other mortgage banking firms in the area.

During 1972 commercial and multi-family residential loans totaling approximately \$52 million were processed by our commercial loan department. This represents a dramatic increase of 167% in loan production over the previous year. Contributing to this increased commercial production are the demands for new services and methods of financing by institutional investors as well as real estate developers. To meet these demands our commercial loan department has developed expertise in feasibility analysis, forecasting of business trends, development consulting, equity analysis and other services requiring innovative financing techniques.

The size of individual commercial loans originated during 1972 ranged from under \$100,000 to upwards of \$20 million; the latter loan involving the construction financing of a major shopping center in Portland, Oregon. In 1972 we continued our emphasis on

FHA-insured multi-family housing complexes and local housing authority sponsored projects throughout the Pacific Northwest. Also, several commercial loans were processed utilizing the Small Business Administration Lease Guaranty Program.

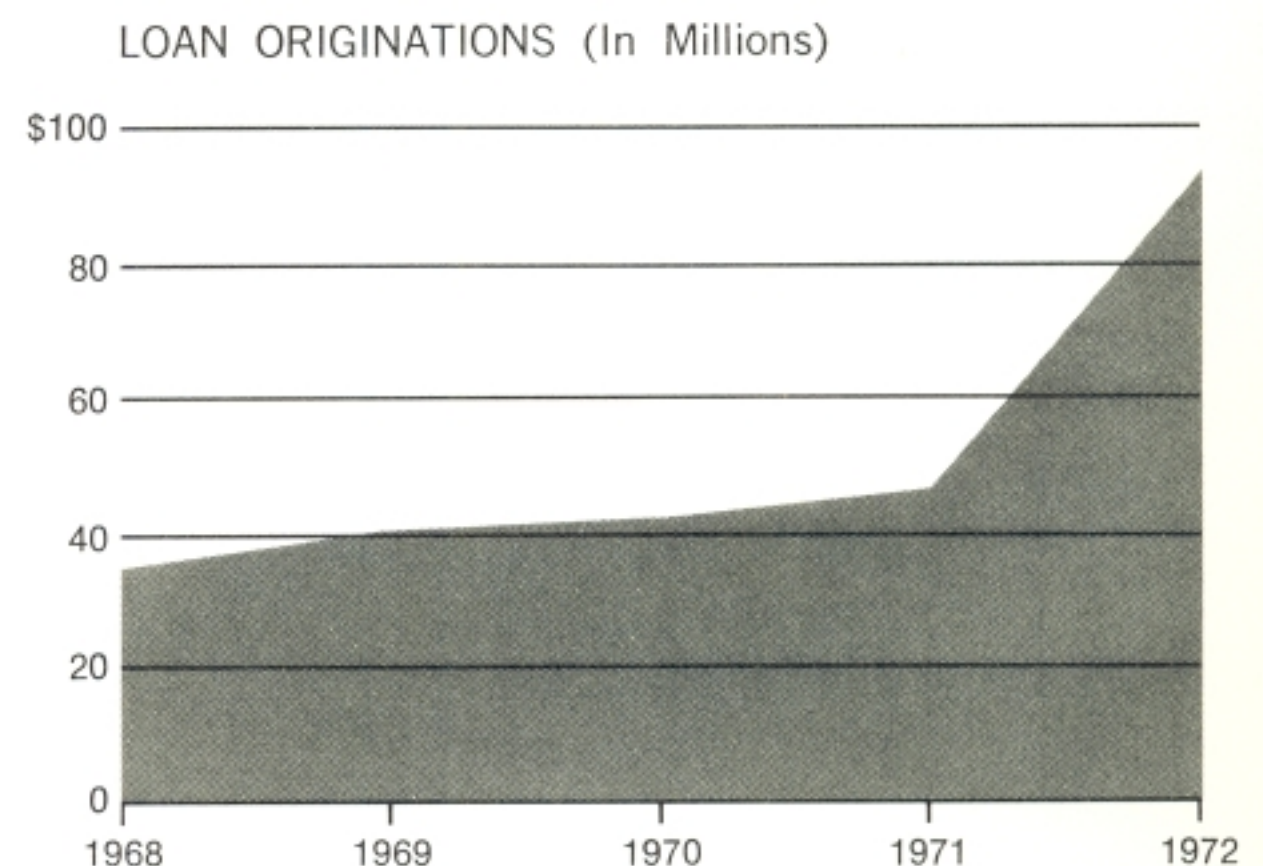
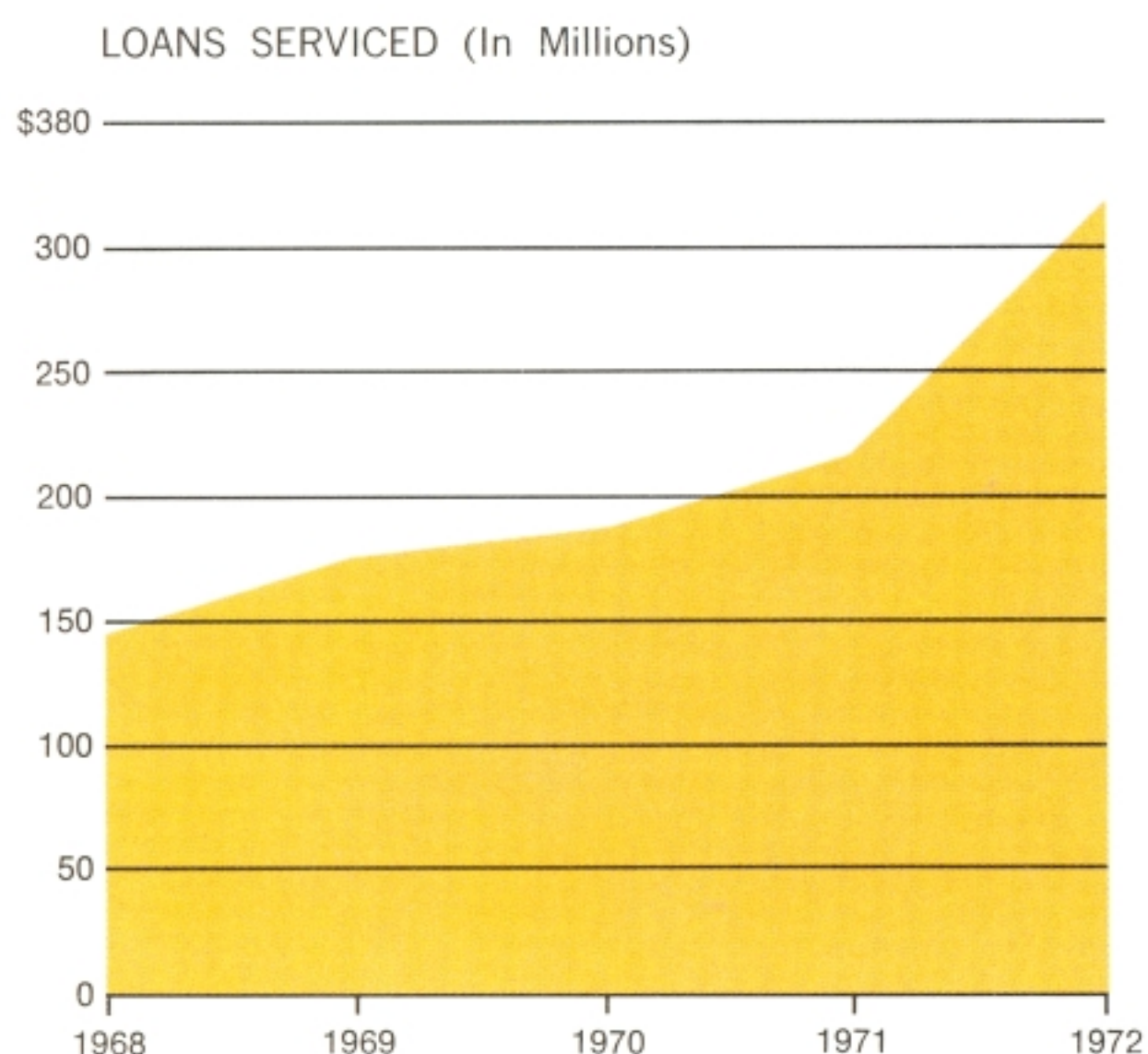
Both our residential and commercial loan departments continued to place particular emphasis on maintaining close working relationships with the 59 branch offices of Peoples National Bank, thereby affording us the opportunity to originate mortgage loans throughout the State of Washington for all our institutional investors.

During 1972 the overall delinquency ratio of the loan portfolio we service continued to remain below regional and national averages.

The use of computerized servicing methods has enabled us to expand substantially our servicing volume. During 1972 over \$40 million in loans were added to the loan portfolios of our 57 institutional investors bringing the total Peoples Mortgage Company servicing volume to \$255 million.

Another significant event in 1972 was the acquisition in December of the Olympic Mortgage Corporation, a successful and highly regarded Seattle-based mortgage banking firm specializing in single family residential loan origination and servicing. The acquisition of Olympic Mortgage adds \$60 million in loans to our servicing portfolio and increases by 11 the number of investors represented by PMC for a total year-end servicing volume of \$315 million.

With the general economy of the Pacific Northwest showing solid improvement, we are confident that the loan production results achieved during the past year may be continued into 1973. We sincerely believe that PMC has the people, the management systems and a proper balance of investor relationships to serve effectively both the mortgage financing needs of our customers and the investment goals of the institutional lenders we represent.

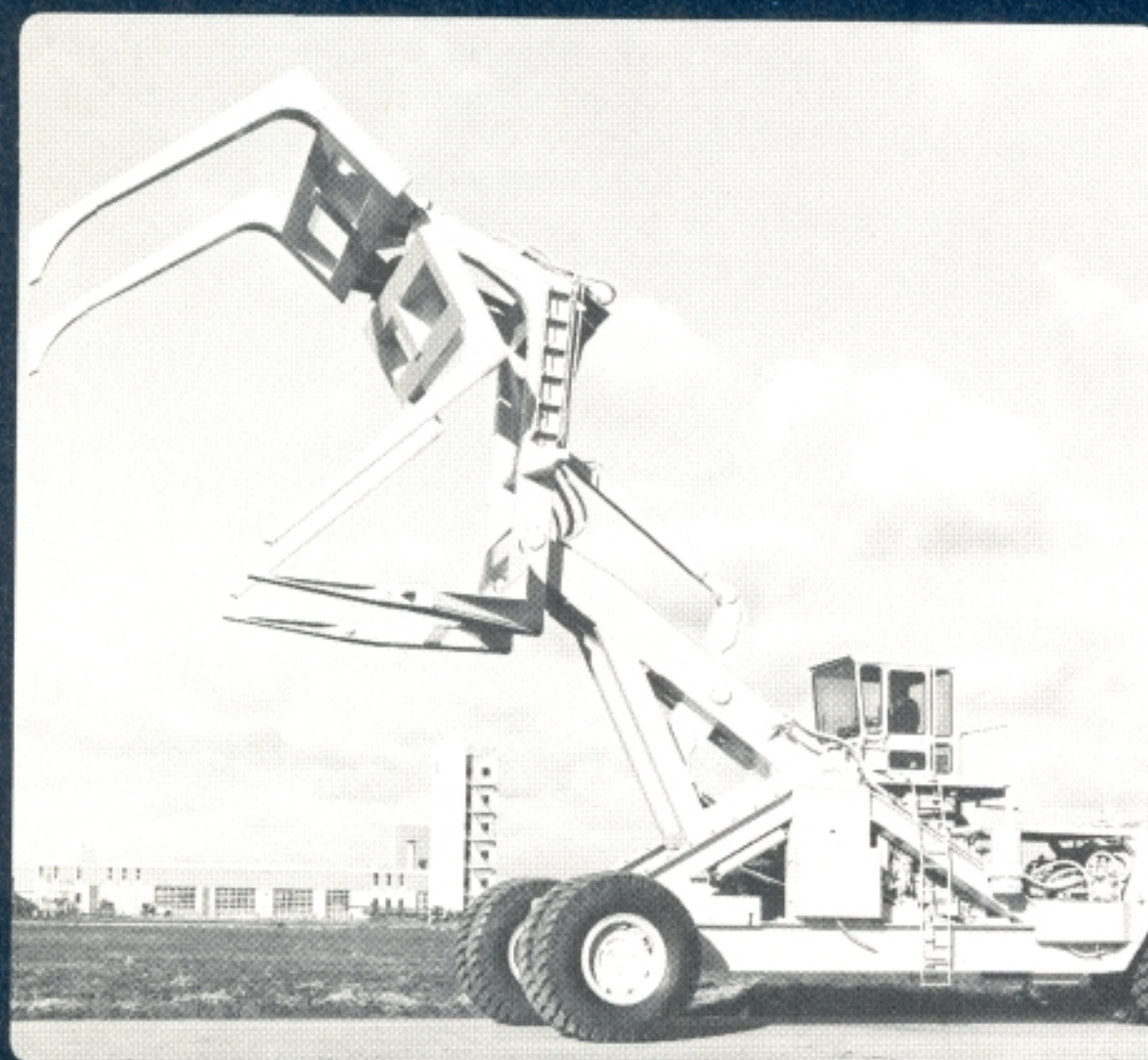


PEOPLES LEASING COMPANY

Peoples Leasing Company was formed in March to provide a new method of financing to our bank customers and to improve the profits of the bank.

The concept of leasing permits our customers to acquire equipment or automobiles without the need for large amounts of invested capital. By entering into a leasing agreement, a customer not only may conserve working capital and supplement normal credit sources, but also may generally realize greater tax savings. Leasing may provide a hedge against inflation and may allow the customer to exchange fixed assets for cash in certain instances.

Peoples National Bank is one of the first of Washington banks to offer a complete individual and fleet leasing automobile program, *plus* an equipment leasing program.



The response of the public to our Leasing Company during 1972 is indicative of this changing trend. Our accounts receivable as of year end were \$2,371,429; automobile leases alone accounted for \$986,587.

We are often asked what types of equipment are best suited for our customers; and as a general rule, it is income-producing or labor-saving equipment with an economic life between three and ten years on which a lease can be entered into of \$10,000 or more. We wish to emphasize that leases on automobiles and equipment to individuals and corporations as well as schools, port districts, city, county and state agencies are all included in our program.

It is interesting to note that the number of national banks in direct lease financing rose from 419 to 486 in 1972. The automobile companies are projecting that one out of four automobiles will be leased by 1975 and by 1980, half of all car sales will be in leasing. Automobile leasing companies, particularly in the Western United States, are showing a growth of 19% to 30% per year.

We are encouraged by the excellent growth of Peoples Leasing Company in 1972 and expect that as this growth continues a substantial contribution to the profits of Peoples National Bank will be accomplished.



OFFICES AND PERSONNEL • PEOPLES NATIONAL BANK

HEAD OFFICE

404 Union Street, Seattle, 98111
(206) 344-2300

administration and supervision

JOSHUA GREEN, Honorary Chairman of the Board
JOSHUA GREEN, JR.*, Chairman of the Board and Chief Executive Officer
HAROLD A. ROGERS*, President
JOSHUA GREEN, III*, Executive Vice-President
ROBERT G. PERRY*, Senior Vice-President and Cashier
WOOLSEY BINGAY, Senior Vice-President
ROBERT G. BOURGAIZE, Senior Vice-President
DONALD GREENFIELD, Senior Vice-President
ROBERT W. JACKSON, Senior Vice-President
JOHN C. LAUGHLIN, Senior Vice-President
JAMES H. RECKERS, Senior Vice-President
E. C. UNDERHILL*, Senior Vice-President
A. DEAN WORTHINGTON, Senior Vice-President
DAVID O. BECK, Vice-President
BRUCE E. BROUGHTON, Vice-President
JAMES G. CAIRNS, JR., Vice-President
M. S. DUNN, Vice-President
WILLIAM HARISBERGER, Vice-President
ROBERT A. HARRIS, Vice-President
RICHARD C. STRAND, Vice-President
JAMES R. TOPPER, Vice-President
VICTOR D. COUPEZ, Assistant Vice-President
LEO E. DUFFY, Assistant Vice-President
PAUL E. IRISH, Assistant Vice-President

*Administrative Committee Member

adjustment department

FRED W. MILES, Vice-President and Manager
MADELEINE R. PETTITT, Assistant Vice-President
HOWARD V. WOODRUFF, JR., Assistant Vice-President
ROBERT L. SOURS, Collection Officer

auditing department

DONALD L. McMILLAN, Vice-President and Auditor
RAYMOND E. BARCLAY, Assistant Vice-President
HUBERT G. BEILFUS, Assistant Vice-President
GERALD R. ANDERSON, Field Auditor
LAURA L. DAVIS, CPA, Field Auditor
WILLIAM A. DICKSON, Field Auditor
PAUL J. KOEHNEN, Field Auditor
EDNA S. KRANAK, Field Auditor
MARY R. REAMER, Field Auditor
DON G. SMITH, Computer Processing Auditor

bank properties department

FRANK G. BOURQUE, Vice-President
THEODORE FROULA, Assistant Vice-President
JOHN T. STEVENS, Assistant Vice-President
JEFFREY E. BECKER, Assistant Cashier

cashiers department

WILLIAM E. McMILLAN, Vice-President
L. M. RILEY, Vice-President
STANLEY M. JENNINGS, Assistant Vice-President
GRAHAM CARPENTER, Assistant Cashier
EVELYN WILLEMS, Assistant Cashier
DIEDRE H. JORDAN, Operations Officer

credit department

JOHN D. McMASTERS, JR., Vice-President and Manager
DOROTHY FOTI, Assistant Vice-President
LINDA CARRIVEAU, Credit Officer

general assignment

MARGARET F. BAIRD, Operations Officer
JOHN KRAWCZYK, Operations Officer
ROBERT A. MARLEY, Operations Officer
N. JEAN PRENGUBER, Operations Officer
IRIS S. RAMEY, Operations Officer
DIANE WEST, Operations Officer

international department

WILLIAM F. BREITEN, Vice-President and Manager
JERRY S. BALL, Assistant Manager

investment department

JOHN W. FULLER, Vice-President and Manager
RICHARD A. CHANDLER, Assistant Vice-President
MARIE F. GASPARACH, Investment Officer
MARY GREGORY, Operations Officer

loan examining department

HARRY A. TROUT, Vice-President
ROBERT F. STEWART, Assistant Vice-President
RODERICK V. ANDERSON, Credit Examiner
LEE R. ROMBOUGH, Credit Examiner

marketing department

JOHN C. LAUGHLIN, Senior Vice-President
WILLIAM S. MILLS, III, Vice-President
JOSEPH K. ABEL, Business Development Officer
COLLIN G. PORTER, Marketing Officer

national account and correspondent bank division

PAUL L. DANFORTH, Senior Vice-President
CHARLES E. RILEY, Vice-President
MURRAY S. GWYNN, Lending Officer

operations center

Z. T. SZATROWSKI, Vice-President
PETER W. ROBINSON, Vice-President and Manager, Systems and Programming
STEVEN L. BUCKMASTER, Assistant Vice-President
GENE R. FRANCISCO, Assistant Vice-President
BRUCE E. JAMESON, Assistant Vice-President
DAVID M. RADKE, Assistant Vice-President
DONALD F. WALIN, Assistant Vice-President and Manager, Proof Department
GAYLORD L. WESTBY, Assistant Vice-President
GARY L. BOOTH, Systems and Programming Officer
FRANCIS T. LINDSKOV, Systems and Programming Officer
FRANCES E. PHELPS, Systems and Programming Officer
CHERIE V. YARDLEY, Systems and Programming Officer
PENELOPE YOUNGE, Systems and Programming Officer
JAMES R. OTEY, Manager, Branch Operations
ROBERT S. LEMM, Operations Officer, Branch Services Department
SUSAN A. MADDEN, Operations Officer, Branch Services Department
PAUL KINLEY, Conversions Officer, Branch Services Department
WILLIAM H. BARTELL, Computer Sales Officer
DOUGLAS L. CHANDLER, Data Processing Officer
KAZUO NAKAGAWA, Data Processing Officer
GREGORIO P. RASALAN, Proof Officer
STEPHEN A. EBBERT, Manager, Account Services Department
HELEN CRITES, Operations Officer, Account Services Department
JAMES B. HEMENWAY, Operations Officer, Branch Services Department
JOANNE M. LANDIS, Operations Officer, Account Services Department
MAXINE McFADDEN, Operations Officer, Account Services Department
PATRICK ROCHE, Operations Officer, Publications Department
NORMAN R. SPEAR, Operations Officer, Branch Services Department

personnel department

JOSEPH T. BEMBEN, Vice-President
JAMES R. WEEKS, Assistant Vice-President
MARY WILLIAMS, Assistant Vice-President
STANLEY M. HOLIFELD, Personnel Officer, Affirmative Action Program

trust department

WALTER T. BAGNALL, Vice-President and Senior Trust Officer

O. RAY COWIN, Vice-President and Trust Officer
E. GENE TRENEER, Vice-President and Trust Officer
WILLIAM L. WILTON, Vice-President and Trust Officer
HENRY A. ALKEMA, Trust Officer
STEPHEN M. DAVIS, Trust Officer
FREDERICK G. FOGG, Trust Officer
DAVID L. HENWOOD, Trust Officer
ROBERT L. HILDRETH*, Trust Officer
EDWARD T. HUGHES, Trust Officer and Manager, Trust Real Estate Division
DEXTER H. PINKMAN, Trust Officer
DON G. PORTER, Trust Officer
ROBERT L. STEPHENSON, JR., Trust Officer
DAVID J. TONER, Trust Officer
FREDERICK N. WADE, Trust Officer
GEORGE H. CARPENTER, Assistant Trust Officer
DAVID K. ELIE, Assistant Trust Officer
THOMAS L. GRANDORF, Assistant Trust Officer
CRAIG R. JOHNSTON, Assistant Trust Officer
GEORGIA L. McINNIS, Assistant Trust Officer
ELLEN E. MITTET, Assistant Trust Officer
FRED A. SCHOEN, Assistant Trust Officer
DONALD A. SKRAITZ, Assistant Trust Officer
KAY M. WALTER, Assistant Trust Officer
JAMES R. ADAMS, Investment Officer
ABRAM E. VAN DIEST, Investment Officer
DENNIS L. HOLMA, Operations Officer
EILEEN D. NELSON, Operations Officer
BETTY LOU SIEMS, Operations Officer
ANITA K. TRIPP, Operations Officer
ROSE L. WINCHELL, Operations Officer
JEAN D. COUCH, Real Estate Officer
MARALYN L. JOHNSTON, Tax Officer
SHARON L. STEVENS, Tax Officer
MERCIE D. YEARTOUT, Trust Auditor
HELEN AARSTAD, Assistant Trust Auditor
LINDA E. JORDAN, Assistant Trust Auditor

*Columbia Basin Area (c/o Moses Lake Office)

SEATTLE OFFICES (Area code 206)

main office

1400 Fourth Avenue, 98111
344-2300

ELMER M. ANDERSON, Senior Vice-President and Manager
CARROLL H. AITKEN, Vice-President
QUENTIN H. ELLIS, Vice-President
HAROLD G. SELVIDGE, Vice-President
KENNETH D. STANDISH, Vice-President
RICHARD W. MAIDER, Assistant Vice-President
DEE BENNETT, JR., Lending Officer
BARRY FOLLMAN, Lending Officer
ELLIS K. HAMER, Lending Officer
SANDRA A. NICCUM, Lending Officer
MARYANN PEPIN, Lending Officer
JAMES L. SCROGGS, Operations Officer
BARBARA L. LAMOUREUX, Customer Services Officer
DOREEN F. WRIGHT, Customer Services Officer

aurora-midway

15555 Aurora Avenue North, 98133
364-5504

WALLACE G. MAY, Manager
JOANNE M. KARTES, Operations Officer

ballard

5602 Fifteenth Avenue N.W., 98107
344-2253

FERRIS N. ANDERSON, Assistant Vice-President and Manager
ASBJORN O. NORDHEIM, Assistant Manager
D. MARLENE BELL, Lending Officer
GENE R. WILLIAMSON, Lending Officer
ELEANOR A. STEWART, Operations Officer

broadway

133 Broadway East, 98102
344-3612

SEATTLE OFFICES *continued*

MYRTLE C. VALLAGER, Manager
PAUL G. CARKONEN, Lending Officer

burien

14641 First Avenue South, 98168
244-3876

DAVID W. LANGLEY, Manager
VIRGINIA L. STOWELL, Operations Officer

dexter and broad street

530 Dexter Avenue North, 98109
344-3608

HARRY MEANS, Vice-President and Manager
JAMES P. STARK, Assistant Manager
RICHARD A. VAN DYK, Lending Officer
GERALDINE TRALNES, Operations Officer

first avenue

723 First Avenue, 98104
344-2326

ARCH N. CURRIER, Vice-President and Manager
RICHARD G. MONSON, Vice-President
LINDA J. COOPERSTEIN, Lending Officer
ROBERT D. GASTON, JR., Lending Officer
MARLEEN S. MARSH, Lending Officer

first avenue and broad street

2813 First Avenue, 98121
344-2255

WILLIAM J. JAMESON, Manager
CHRISTOPHER W. COLLINS, Lending Officer

first hill

1200 Madison Street, 98104
344-2276

ALBERT A. GREEN, JR., Vice-President
and Manager
REX M. WALLACE, Assistant Manager
RICHARD J. BOZAN, Lending Officer

magnolia

2426 Thirty-Second Avenue West, 98199
344-4640

ROBERT R. WILSON, Manager
KAYE B. JORDAN, Assistant Manager

north seattle

1023 Northeast Sixty-Third Street, 98115
344-4683

GEORGE C. TROTTER, Vice-President
and Manager
HOWARD W. HAGEN, Assistant Manager
PATRICIA M. STAHLHUT, Lending Officer
JOAN M. ANTHONY, Operations Officer

northgate plaza

10548 Fifth Avenue N.E., 98125
364-2880

DEAN E. McBRIDE, Manager
GLADYS J. KOHOUTEK, Assistant Manager
YVONNE M. BLAINE, Operations Officer

rainier and empire

2910 Rainier Avenue South, 98144
344-4657

CLINTON D. SMITH, Manager
ROBERT D. CORBIN, Assistant Manager
WILLIS G. PARTRIDGE, Operations Officer

skyway park

12610 Seventy-Sixth Avenue South, 98178
772-4573

LYLE M. SANDELIUS, Assistant Vice-President
and Manager
OSMUND KVITHAMMER, Assistant Manager
EVELYN L. HEALY, Operations Officer

south seattle

6520 Fourth Avenue South, 98108
344-3656

ROCKWELL R. WILLSON, Vice-President
and Manager
W. L. BOATMAN, Assistant Vice-President
JOHN C. MUNROE, Lending Officer

third avenue

1903 Third Avenue, 98101
344-4650

ROLF K. RIEGER, Manager
WILLIAM R. MARKEN, Assistant Manager
DAVID R. LITTLE, Lending Officer



tukwila-andover park

151 Andover Park East, Seattle, 98188
246-1626

DENNIS C. TESCH, Manager
JAMES R. WRIGHT, Assistant Manager

wedgwood

8702 35th Avenue N.E., 98115
525-8100

CARMELA M. FACCONI, Manager
R. G. WESTON, Lending Officer

west seattle

4213 Southwest Alaska Street, 98116
344-2337

FRITZ T. LINDE, Vice-President and Manager
PAUL A. FULLER, Lending Officer
OTTO E. KRUEGER, Lending Officer
MELVIA I. ROGERS, Lending Officer
JOHN M. KINGSTON, Operations Officer
EUNICE CARDER, Customer Services Officer
BERNICE E. CHABOT, Customer Services Officer

west seattle motor-in

4200 Southwest Edmunds Street, 98116
344-3692

WESTERN WASHINGTON OFFICES **(Area code 206)**

anacortes

910 "O" Avenue, Anacortes, 98221
293-3151

FLOYD C. WALLER, Vice-President and Manager
RICHARD E. WERTTEMBERGER,
Assistant Manager
JUNE GATES, Operations Officer

bellevue

704 Bellevue Way N.E., Bellevue, 98004
(P.O. Box 1438, 98009)
455-0240

JON B. BRADFORD, Manager
HUGH H. WILLIAMS, III, Assistant Manager

bellevue-highlands

1915 140th Avenue N.E., Bellevue, 98005
746-7200

C. DEAN CASE, Manager
ROBERT C. MOHRBACHER, Assistant Manager

bothell

10027 Main Street, Bothell, 98011
486-8111

HUGH H. WILLIAMS, Vice-President
and Manager
JOHN M. LLOYD, Vice-President
LARRY L. PLUSH, Lending Officer
MICHAEL L. O'CONNOR, Operations Officer

bremerton

190 Pacific Avenue, Bremerton, 98310
377-7641

LINCOLN L. McCOY, Vice-President
and Manager
STEPHEN C. DAWSON, Assistant Manager
JAMES DE YOUNG, Lending Officer

everett

1702 Hewitt Avenue, Everett, 98201
252-5151

ROLAND P. DIDDAMS, Vice-President
and Manager
DAVID R. HARDESTY, Assistant Vice-President
DAVID B. UPHAM, Assistant Manager
THOMAS H. ALLAIRE, Lending Officer
WILLIAM F. KITTINGER, Lending Officer

federal way

1436 S. 132nd Street, Federal Way, 98002
839-1010

DEAN GULLIKSON, Manager
RICHARD A. WALKER, Assistant Manager
CARL D. NIES, Lending Officer

freeland

P.O. Box 68, Freeland, 98249
382-5246

ROLAND D. FUNK, Manager

hoquiam

727 Simpson Avenue, Hoquiam, 98550
532-3480

ANSEL W. McCULLOUGH, Vice-President
and Manager
H. F. MESERVEY, Assistant Manager
EMMA D. EDINGER, Lending Officer

kenmore

65th Avenue N.E. and Bothell Way,
Kenmore, 98028
486-8111

STANLEY R. WISCH, Assistant Vice-President
and Manager
ROBERT L. WIGREN, Assistant Manager
ROBERT J. COLEMAN, Operations Officer

kent

505 West Meeker Street, Kent, 98031
(P.O. Box 250)
852-1234

ANDREW GIGLI, Vice-President and Manager
RICHARD T. ALLEN, Assistant Manager
DONALD E. BROWN, Lending Officer
FLOYD O. CAVANAUGH, Operations Officer

kirkland

177 Central Way, Kirkland, 98033
827-4661

EARL A. CRANDALL, Assistant Vice-President
and Manager
HARRY RAATZ, Assistant Manager
HARRIET J. JASPER, Lending Officer

langley

P.O. Box 107, Langley, 98260
321-5204

DALE A. LYSKI, Manager
PEARL MACKIE, Assistant Manager

mountlake terrace

5703 232nd S.W., Mountlake Terrace, 98043
776-9101

WILLIAM G. WYLY, Manager
TED S. MYERS, Assistant Manager

port angeles

First and Laurel, Port Angeles, 98362
457-8571

WESTERN WASHINGTON *continued*

JAMES F. STEPP, Vice-President and Manager
GLENN W. MATZ, Assistant Manager
JAMES J. BYRNE, Lending Officer
IVAR A. STRANG, Lending Officer
LESLY R. CASNER, Customer Services Officer

port angeles motor-in

605 Front Street, Port Angeles, 98362
457-4792

redmond

8005 161st N.E., Redmond, 98052
885-4153
JAMES W. CHRISTENSEN, Manager
JEAN L. AGEE, Operations Officer

renton

858 South Second Street, Renton, 98055
344-2227
JAMES A. HENWOOD, Vice-President
and Manager
THOMAS J. STEPHENS, Assistant Vice-President
JEFF J. CLARK, Lending Officer
WILLIAM R. FAVRO, Lending Officer
RONALD R. GEORGE, Lending Officer
HAZELLE L. DuBOIS, Operations Officer

sequim

101 W. Washington St., Sequim, 98382
(P.O. Box 1287)
683-4149
FRANK P. VIRANT, Vice-President and Manager
JAMES F. GRABICKI, Assistant Manager

tacoma offices

pacific avenue

2317 Pacific Avenue, Tacoma, 98402
272-3178
N. S. PENROSE, JR., Vice-President
and Manager
ATLE N. FOSS, Assistant Manager
JOAN L. COLGATE, Operations Officer

sixth avenue at pine

607 South Pine Street, Tacoma, 98405
627-8191
RODNEY S. PETRECHAK, Manager
CARLTON J. NAGEL, Assistant Manager
JUNE A. BELL, Operations Officer

12th and "k" street

1123 South "K" Street, Tacoma, 98405
383-2555
KENNETH R. WEIDERSTROM, Manager
JANET R. HARPER, Operations Officer

vancouver

109 East 13th Street, Vancouver, 98660
694-2593
JOHN T. LEWIS, Manager
ROBERT D. KEATING, Assistant Manager

vashon island

P.O. Box 428, Vashon, 98070
463-9161
DAVID S. COOMBER, Manager
LAWRENCE B. DeYOUNG, Assistant Manager

west renton

707 Rainier Avenue South, Renton, 98055
228-4800
KENNETH F. LEHMAN, Manager

woodinville

13216 N.E. 175th, Woodinville, 98072
486-8111
FORREST D. JOHNSON, Manager
FRED R. SINGER, Lending Officer

CENTRAL WASHINGTON OFFICES
(Area code 509)

ephrata

121 Basin Street N.W., Ephrata, 98823
754-2431
ROBERT B. SMOCK, Assistant Vice-President
and Manager
CONRAD J. TOBIN, Assistant Manager
ROBERT J. BARCLAY, Lending Officer

moses lake

203 E. Third Avenue, Moses Lake, 98837
765-3405
THOMAS O. SELLSTED, Manager
DUANE B. RAGSDALE, Assistant Manager
PHILIP T. ENG, Lending Officer
JOSEPH J. REES, Lending Officer
JOAN P. STERN, Customer Services Officer

othello

101 East Main Street, Othello, 99344
488-2645
JAMES H. TAYLOR, Manager
RAYMOND R. ANDERSON, Assistant Manager
DARREL H. GOODWIN, Lending Officer
C. RODERICK POWELL, Lending Officer
MELBA B. GUNTER, Operations Officer

pasco

203 North Fourth Avenue, Pasco, 99301
547-3358
VIRGIL A. GAMLEM, Manager
C. ROBERT WILLIAMSON, Assistant Manager

royal city

100 South Evergreen, Royal City, 99357
346-2233
LAWRENCE C. EBNER, Manager
LaVERNE GETTMANN, Operations Officer

soap lake

421 East Main Street, Soap Lake, 98851
246-2300
JEAN T. FORTUN, Manager
ALICE L. OSBORN, Operations Officer

warden

116 South Main Street, Warden, 98857
349-2351
VINCENT J. JOLLO, Manager
EUGENE JOHNSON, Assistant Manager

The following offices are presently served
on a set schedule of two or more hours a day,
two or more days a week.

JAMES H. TAYLOR, Manager, Othello, Mesa and
Washtucna Offices

mesa

P.O. Box 124, Mesa, 99343
265-4465
EDWARD H. WILLBORN, Assistant Manager

washtucna

P.O. Box 664, Washtucna, 99371
646-3255
EDWARD H. WILLBORN, Assistant Manager
THOMAS O. SELLSTED, Manager, Moses Lake,
George and Wilson Creek Offices

george

P.O. Box 5, George, 98824
766-2361
JOHN D. URNESS, Assistant Manager

wilson creek

P.O. Box 26, Wilson Creek, 98860
345-2551
JOHN D. URNESS, Assistant Manager
LAWRENCE C. EBNER, Manager, Royal City
and Mattawa Offices

mattawa

P.O. Box 875, Mattawa, 99344
932-4781
LaVERNE GETTMANN, Operations Officer

agricultural representatives
serving columbia basin area

(c/o Moses Lake Office)
BRADLEY N. BISHOP, Farm Services Officer
HOWARD V. COPENHAVER, Farm Services
Officer



OFFICERS AND DIRECTORS, PEOPLES MORTGAGE COMPANY

1101 Pike Street, Seattle, Wa. 98101
(206) 344-4500

JOSHUA GREEN, JR.
Chairman of the Board and Director

HAROLD A. ROGERS
President and Director

ROBERT G. PERRY
Secretary-Treasurer and Director

J. G. CAIRNS, JR.
Senior Vice-President and Director

JOSHUA GREEN, III
Senior Vice-President and Director

E. C. UNDERHILL
Senior Vice-President and Director

DEAN M. OLSON
Senior Vice-President and Manager

DARRELL A. DEVINE 
Vice-President

ROBERT R. FARQUHAR
Vice-President

O. L. JOHNSON
Vice-President

ROBERT E. JONES
Vice-President

MURIEL H. NELSON
Vice-President

WILLIAM H. NYBERG
Vice-President

DAVID E. THATCHER
Vice-President

RICHARD V. TODHUNTER
Vice-President

DAN L. CARLO
Assistant Vice-President

JOHN G. HENKLE
Assistant Vice-President

RUSSELL A. JACOBSON
Assistant Vice-President

JAMES H. McMAHAN
Assistant Vice-President

CHARLES W. MOORE
Assistant Vice-President

GORDON W. SCHLICHE
Assistant Vice-President

JAY C. WILLIAMS
Assistant Vice-President

ZELLA G. CHRISTOPHER
Assistant Treasurer

LOAN PRODUCTION CENTERS, PEOPLES MORTGAGE COMPANY

kennewick

117 Vista Way
Kennewick, Washington 99336
(509) 783-8178
MARGIE JOHNSON, Manager

north seattle

11042 8th Avenue N.E.
Seattle, Washington 98125
(206) 365-8900
THOMAS S. STOUT, Manager

renton

Suite 117, Evergreen Building
15 South Grady Way
Renton, Washington 98055
(206) 271-1300
WILLIAM STRUCHEN, Manager

tacoma

2317 Pacific Avenue
Tacoma, Washington 98402
(206) 383-2445
RICHARD A. HOPPER, Manager

vancouver

109 East 13th Street
Vancouver, Washington 98660
(206) 696-4361
LARRY J. KELLEY, Manager

southwest regional

3500 North Central Avenue
Phoenix, Arizona 85012
(602) 264-5821
WILLIAM H. NYBERG, Vice-President
and Manager

PEOPLES LEASING COMPANY, INC.

526 Union Street, Seattle, Washington 98101
(206) 344-2370

JOSHUA GREEN, JR.
Chairman

HAROLD A. ROGERS
President

ROBERT G. PERRY
Secretary/Treasurer

E. C. UNDERHILL
Vice-President

JAMES H. RECKERS
Vice-President and Manager

MELEDATH GOPINATH
Assistant Vice-President

ROBERT F. THOMETZ
Leasing Officer

RICHARD W. RAY
Leasing Officer



*Administrative Committee:
Harold A. Rogers,
Joshua Green, Jr.,
Joshua Green, III,
Robert G. Perry,
E. C. Underhill.*

BOARD OF DIRECTORS

JOSHUA GREEN, Honorary Chairman of the Board
JOSHUA GREEN, JR., Chairman of the Board and
Chief Executive Officer
BENNETT BALDY*, Seattle
M. L. BEAN*, Chairman of the Board, Pay'n Save Corporation
M. LAMONT BEAN, President, Pay'n Save Corporation
WARREN H. BEAN*, Seattle
E. L. BLAINE, JR. *, Seattle
R. G. BOURGAIZE, Senior Vice-President
BEN E. BOWLING, Executive Vice-President,
The Seattle Foundation
CHARLES P. BURNETT, III, Investor
LOUIS K. BYE, Investments
SIDNEY D. CAMPBELL, Chairman of the Board,
Foss Launch & Tug Co., A Division of
Dillingham Corporation
C. H. CARLANDER*, Chairman of the Board,
Puget Sound Freight Lines
KENNETH B. COLMAN*, Chairman of the Board, Smith-Gandy, Inc.
GARRETT EDDY, President, Eddy Investment Company; President,
Port Blakely Mill Company
J. W. FISH*, Vancouver, Washington
JOHN M. FLUKE, Chairman of the Board and
Chief Executive Officer, John Fluke Mfg. Co., Inc.
F. S. FOSTER, Hoquiam
E. PETER GARRETT, President, Welco Lumber Company;
President, M&R Timber, Inc.
J. A. GREEN, Everett

JOSHUA GREEN, III, Executive Vice-President
HOWARD H. HANSEN*, Seattle
HOWARD E. LOVEJOY, President and General Manager,
Puget Sound Freight Lines
THOMAS H. MACBRIDE, Attorney at Law
HARRY H. MASTO, Owner-Operator, Harry Masto Farms;
Owner-Operator, Harry Masto Produce Co., Inc.
ROBERT G. PERRY, Senior Vice-President and Cashier;
Secretary to the Board
STEPHEN C. PHIPPS*, Seattle
HAROLD A. ROGERS, President
WARD L. SAX, Attorney at Law
CARL A. SCHAFER*, Montesano
JAMES B. SCROGGS, General Manager, Catalog Order,
Sears, Roebuck and Co.
P. A. STRACK*, Bellevue
S. C. TOZIER, President, Tozier & Ralston
Insurance Brokers, Inc.
E. C. UNDERHILL, Senior Vice-President
A. DEAN WORTHINGTON, Senior Vice-President
WALTER L. WYCKOFF, Chairman, Wyckoff Company

* Advisory Directors to the Board

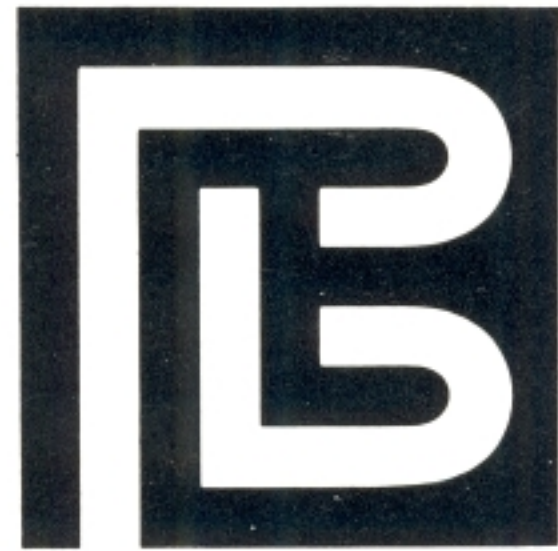


*Joshua Green
Honorary Chairman
of the Board*

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PACIFIC
ANNUAL REPORT
DUPLICATE

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PEOPLES NATIONAL BANK OF WASHINGTON

FINANCIAL STATEMENT 1972

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PEOPLES MORTGAGE COMPANY

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PEOPLES NATIONAL BANK OF WASHINGTON

COMPARATIVE CONSOLIDATED STATEMENT OF CONDITION

DECEMBER 31

resources

	1972	1971
Cash and Due from Banks	\$103,299,029	\$ 91,389,752
Investments:		
U. S. Government Direct Obligations	36,502,307	47,203,940
State, County and Municipal Securities	50,555,944	57,450,350
Federal Agencies Obligations	23,574,724	5,648,085
Other Securities	1,050,453	958,453
TOTAL INVESTMENTS	<u>\$111,683,428</u>	<u>\$111,260,828</u>
Time Balances with Domestic Banks	\$ 6,500,000	\$ 27,492,532
Time Balances with Foreign Banks	5,000,000	—0—
Loans and Discounts	336,735,449	264,348,398
Federal Funds Sold and Securities Purchased Under Agreement to Resell	7,000,000	—0—
Customers' Liability Account Acceptances, Letters of Credit and Foreign Exchange	5,498,670	6,267,262
Equipment Under Customer Lease, Less Depreciation of \$268,636 and \$232,499	2,638,875	237,289
Bank Premises, Improvements and Equipment at Cost, Less Depreciation Reserve of \$8,854,809 and \$7,837,621	17,845,279	14,591,783
Interest Accrued, Not Collected	3,784,309	3,199,594
Other Resources	4,734,230	3,807,835
TOTAL RESOURCES	<u><u>\$604,719,269</u></u>	<u><u>\$522,595,273</u></u>

liabilities

Demand Deposits	\$258,022,682	\$208,344,611
Time Deposits:		
Regular Savings	161,674,379	146,250,156
Other Time	103,053,331	86,245,594
TOTAL DEPOSITS	<u>\$522,750,392</u>	<u>\$440,840,361</u>
Acceptances, Letters of Credit and Foreign Exchange	\$ 5,498,670	\$ 6,267,262
Dividends Payable	699,722	644,738
Securities Sold Under Agreement to Repurchase	21,314,000	22,186,000
Reserve for Federal Income Tax	1,827,566	1,657,200
Accrued Taxes and Expenses	2,400,729	1,757,395
Interest Collected but Not Earned	3,183,266	1,877,338
Other Liabilities	4,412,647	8,084,933
TOTAL LIABILITIES	<u>\$562,086,992</u>	<u>\$483,315,227</u>
Reserve for Possible Loan Losses	\$ 4,774,861	\$ 4,572,504
Equity Capital:		
Capital Preferred—\$75 Par Value, Authorized and Outstanding—1,026 in 1972	\$ 76,950	\$ —0—
Capital Common—\$20 Par Value, Authorized and Outstanding—635,376 in 1972; 586,125 in 1971	12,707,520	11,722,500
Surplus	14,415,530	11,777,500
Undivided Profits	9,793,790	10,402,494
Reserve for Contingencies	863,626	805,048
TOTAL CAPITAL FUNDS	<u>\$ 37,857,416</u>	<u>\$ 34,707,542</u>
TOTAL LIABILITIES, RESERVES AND CAPITAL FUNDS...	<u><u>\$604,719,269</u></u>	<u><u>\$522,595,273</u></u>

See accompanying notes on pages 4 and 5

PEOPLES NATIONAL BANK OF WASHINGTON

COMPARATIVE CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDING DECEMBER 31

	1972	1971
operating income		
Interest and Fees on Loans	\$ 24,525,290	\$ 21,890,751
Interest and Dividends on:		
U. S. Government Direct Obligations	2,476,067	2,485,893
State, County and Municipal Securities	2,051,319	2,184,409
Other Securities	1,303,158	868,540
	<u>\$ 30,355,834</u>	<u>\$ 27,429,593</u>
Service Charges on Deposit Accounts	\$ 2,576,484	\$ 2,485,424
Trust Department Income	1,157,790	1,016,911
Other Operating Income	2,189,754	1,839,101
TOTAL OPERATING INCOME	<u>\$ 36,279,862</u>	<u>\$ 32,771,029</u>
operating expenses		
Salaries and Bonuses	\$ 10,192,007	\$ 9,180,835
Profit Sharing and Other Employee Benefits	1,526,199	1,195,802
Interest Paid	12,444,852	11,626,986
Net Occupancy Expenses	1,773,080	1,631,203
Equipment Rentals, Depreciation and Maintenance	1,349,866	1,229,616
Provision for Loan Losses	548,434	1,200,759
Other Operating Expenses	4,837,439	4,493,525
TOTAL OPERATING EXPENSES	<u>\$ 32,671,877</u>	<u>\$ 30,558,726</u>
Income Before Income Taxes and Securities Gains	\$ 3,607,985	\$ 2,212,303
Less Applicable Income Taxes		
Current	(80,000)	185,000
Deferred	559,000	(96,000)
Income Before Securities Gains	<u>\$ 3,128,985</u>	<u>\$ 2,123,303</u>
Securities Gains Less Related Income Tax Effect of \$64,514 in 1972 and \$582,359 in 1971	<u>69,890</u>	<u>630,889</u>
NET INCOME	<u>\$ 3,198,875</u>	<u>\$ 2,754,192</u>
Preferred Stock Dividends Declared	\$ 32,308	\$ —0—
Income Available for Common Shareholders	\$ 3,166,567	\$ 2,754,192
Earnings Per Common Share		
Shares Outstanding at end of Year	635,376	586,125
Income Before Securities Gains	\$4.87	\$3.62
Net Income	4.98	4.70

See accompanying notes on pages 4 and 5

PEOPLES NATIONAL BANK OF WASHINGTON

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL ACCOUNTS

	Capital Preferred	Capital Common	Surplus	Undivided Profits	Reserve for Contingencies	Total
Balance at December 31, 1970	\$ —0—	\$11,722,500	\$11,777,500	\$ 9,023,669	\$ 788,749	\$33,312,418
Net Income for the Year 1971				\$ 2,754,192		\$ 2,754,192
Transfers, Net, from Invest- ment Securities Reserve..				36,969		36,969
Cash Dividends Declared ..				(996,413)		(996,413)
Transfer to "Deferred Income Tax"..				(81,000)		(81,000)
Transfer from Reserve for Possible Loan Losses ...				82,655		82,655
Transfers Net to Reserve for Contingencies				(16,299)	16,299	
Excess of Purchase Cost over Allowed Carrying Value of Bank Assets Acquired....				(401,279)		(401,279)
BALANCE AT DECEMBER 31, 1971....	<u>\$ —0—</u>	<u>\$11,722,500</u>	<u>\$11,777,500</u>	<u>\$10,402,494</u>	<u>\$ 805,048</u>	<u>\$34,707,542</u>
Net Income for the Year 1972				\$ 3,198,875		\$ 3,198,875
Transfer from Reserve for Canadian Funds				5,000		5,000
Total Capital Funds Bothell State Bank per Merger Agreement				1,969,976		1,969,976
Transfer to Surplus.....			700,000	(700,000)		
Issuance of Capital Preferred Stock (40,000 Shares at \$75.00 par each).....	3,000,000			(3,000,000)		
Conversion of 38,974 Shares of Preferred Stock into 49,251 Shares Common Stock	(2,923,050)	985,020	1,938,030			
Transfer Net to Investment Securities Reserve				(78)		(78)
Cash Dividends Declared...				(1,082,897)		(1,082,897)
Transfer to Deferred Income Tax Expense				(81,000)		(81,000)
Transfer to Reserve for Possible Loan Losses....				(36,012)		(36,012)
Transfer Net to Reserve for Contingencies				(58,578)	58,578	
Transfer to Reserve for Taxes for disputed Federal Income Tax liability for 1967 and 1968				(67,072)		(67,072)
Excess of Purchase Cost over Allowed Carrying Value of Bank Assets Acquired....				(756,918)		(756,918)
BALANCE AT DECEMBER 31, 1972	<u>\$ 76,950</u>	<u>\$12,707,520</u>	<u>\$14,415,530</u>	<u>\$ 9,793,790</u>	<u>\$ 863,626</u>	<u>\$37,857,416</u>

See accompanying notes on pages 4 and 5

PEOPLES NATIONAL BANK OF WASHINGTON

CONSOLIDATED STATEMENT OF CHANGES IN RESERVE FOR POSSIBLE LOAN LOSSES

	1972	1971
Balance at Beginning of Year.....	\$ 4,572,504	\$ 4,729,148
ADDITIONS:		
Reserve Balance of Bothell State Bank on date of merger.....	133,103	—0—
Provision Charged to Operating Expense.....	548,434	1,200,759
Transferred from Undivided Profits.....	36,012	—0—
Transferred from Reserve for Taxes.....	33,242	—0—
TOTAL ADDITIONS	<u>\$ 750,791</u>	<u>\$ 1,200,759</u>
	<u>\$ 5,323,295</u>	<u>\$ 5,929,907</u>
DEDUCTIONS:		
Loans Charged Off.....	\$ 1,243,230	\$ 1,518,780
Less Recoveries on Loans Previously Charged Off.....	694,796	318,021
NET LOANS CHARGED OFF.....	<u>\$ 548,434</u>	<u>\$ 1,200,759</u>
Transferred to Undivided Profits.....	—0—	82,655
Transferred to Reserve for Taxes.....	—0—	73,989
BALANCE AT END OF YEAR.....	<u><u>\$ 4,774,861</u></u>	<u><u>\$ 4,572,504</u></u>

See accompanying notes on pages 4 and 5

PEOPLES NATIONAL BANK OF WASHINGTON

NOTES TO FINANCIAL STATEMENTS

December 31, 1972 and 1971

note 1 • summary of significant accounting policies:

The accounting and reporting policies of Peoples National Bank of Washington and its subsidiaries, conform to generally accepted accounting principles and to predominant practice within the banking industry.

A. Principles of Consolidation.

The consolidated financial statements include the accounts of Peoples National Bank of Washington and its wholly-owned subsidiaries, Peoples Mortgage Company and Peoples Leasing Company. All significant intercompany transactions and balances have been eliminated in consolidation.

B. Investments.

Securities are stated at cost or amortized cost. At December 31, 1972, United States Government obligations with a par value of \$5,670,000 and \$11,295,000 in state and municipal bonds are pledged to secure deposits of public and trust funds as required by law.

C. Reserve for Possible Loan Losses.

As permitted by the Comptroller of the Currency, loan loss provisions are based on actual net charge-offs in both years. Management believes that the actual net charge-off method gives the stockholders a more accurate appraisal than the use of a five-year average, which is also permitted.

D. Income Taxes.

The bank accounts for certain income and expense items in different time periods for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are made in recognition of such timing differences. Investment tax credits realized at the time of property acquisitions are used to reduce applicable income taxes.

note 2 • bank premises, improvements and equipment:

Bank premises, improvements and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed by both straight-line and accelerated methods over the estimated useful life of the related assets. Gains and losses on routine dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and betterments are capitalized.

Lives used in computing depreciation are as follows:

Bank premises and improvements	5-40 years
Furniture and fixtures	10 years
Leased equipment and other facilities	5-13 years
Leasehold improvements	Life of Lease

The total provision for depreciation amounted to \$1,287,043 in 1972 and \$1,348,080 in 1971.

note 3 • bank acquisitions and mergers:

The excess of purchase and merger cost over allowed carrying value of bank assets acquired from Bank of Vancouver, N.A. on April 5, 1971, Olympic National Bank on March 18, 1972 and Bothell State Bank on July 15, 1972, has been charged to Undivided Profits as required by the Comptroller of the Currency. These amounts include the net income of the respective banks from January 1 to date of acquisition as follows; 1972 — \$415,925, 1971 — \$35,884.

note 4 • retirement plans:

The Bank has two retirement plans; a trustee profit-sharing plan and a deferred compensation plan. Eligibility for participation in both plans requires five years of continuous service and, for the deferred compensation plan, also a specified minimum salary and the approval of the Directors' Committee. Benefits under the trustee profit-sharing plan are based on each participant's proportionate share of the trust assets and are fully vested after ten years participation, attainment of age 65, death or disability, whichever occurs first. Annual payments required under a trustee profit-sharing plan are charged to current earnings. Benefits under the deferred compensation plan are based on rate of earnings during employment but are vested only after continuous employment to age 65, or to date of death or disability retirement if sooner. Under the deferred compensation plan current earnings are charged with payments to previously retired personnel and amortization of past service costs, accrued each year for presently employed personnel. At December 31, 1971, the unfunded liability for past service of presently employed personnel amounted to approximately \$977,000; it is anticipated that this amount will be fully recorded by 1981. The Bank's contribution to the profit-sharing plan amounted to \$167,057 in 1972 and \$137,185 in 1971. The Bank's expense under the deferred compensation plan amounted to approximately \$417,000 and \$315,000 in 1972 and 1971 respectively.

note 5 • commitments, contingencies and other matters:

The Bank is committed to the payment of annual rentals of approximately \$768,000 under various month-to-month and long-term leases expiring between 1973 and 1990, covering principally bank premises, computer and automotive equipment. At December 31, 1972, the Bank was a defendant in two actions for aggregate alleged damages of \$3,000,000. After trial a jury verdict in favor of the bank was rendered in one action and a judgment entered in favor of the bank in the other action. Both cases are on appeal and the liability of the bank, if any, will probably not be finally determined during 1973.

The Bank is currently constructing a new Head Office building. The building is scheduled to be completed in late 1973 and it is estimated that construction costs will approximate \$12,250,000.

STATISTICAL DATA, 1972 - 1964

PEOPLES NATIONAL BANK OF WASHINGTON

balance sheet statistics—year end	1972	1971	1970	1969	1968	1967	1966	1965	1964
Total Loans	\$336,735,449	\$264,348,398	\$250,691,071	\$256,105,431	\$245,289,310	\$214,231,416	\$189,394,862	\$172,107,757	\$151,447,339
U.S. Government Securities	36,502,307	47,203,940	42,996,283	40,252,285	42,466,224	53,501,308	50,082,880	48,708,926	54,674,304
State, County and Municipal Securities	50,555,944	57,450,350	52,455,654	52,721,182	53,657,699	50,253,050	38,652,952	34,406,023	29,124,658
Other Securities	24,625,177	6,606,538	16,917,965	4,005,040	7,396,173	4,604,500	630,909	589,841	548,772
Total Securities	111,683,428	111,260,828	112,369,902	96,978,507	103,520,096	108,358,858	89,366,741	83,704,790	84,347,734
Demand Deposits	258,022,682	208,344,611	194,180,993	198,952,629	198,526,256	190,980,523	169,539,292	164,688,472	159,341,846
Time Deposits	264,727,710	232,495,750	220,088,638	186,255,588	190,135,630	174,173,884	143,204,899	132,669,535	112,219,801
Total Deposits	522,750,392	440,840,361	414,269,631	385,208,217	388,661,886	365,154,407	312,744,191	297,358,007	271,561,647
Capital Funds	37,857,416	34,707,542	33,312,418	31,228,834	28,562,515	26,582,339	24,514,640	22,742,474	22,006,741
Total Resources	604,719,269	522,595,273	512,934,825	450,577,553	430,193,865	399,800,124	343,225,577	322,787,131	297,992,990
earnings and dividend statistics—year end									
Interest and Fees on Loans	\$ 24,525,290	\$ 21,890,751	\$ 22,318,632	\$ 21,059,878	\$ 17,268,107	\$ 14,006,276	\$ 11,739,621	\$ 10,015,552	\$ 9,034,021
Interest and Dividends on Securities	5,830,544	5,538,842	4,936,844	4,370,535	3,969,803	3,595,680	3,305,287	3,023,674	2,868,916
Trust Department and Other Operating Income	5,924,028	5,344,436	4,927,898	4,808,103	4,501,673	4,065,074	3,579,463	3,147,452	2,927,863
Total Operating Income	36,279,862	32,771,029	32,183,374	30,238,516	25,739,583	21,667,030	18,624,371	16,186,678	14,830,800
Salaries and Benefits	11,718,206	10,376,637	9,645,261	8,696,584	7,657,157	6,544,027	5,765,190	5,333,948	5,076,348
Interest Paid	12,444,852	11,626,986	10,638,043	9,271,458	7,800,041	6,628,301	5,332,718	4,713,132	3,567,215
Other Operating Expenses	8,508,819	8,555,103	7,987,353	7,190,154	5,138,476	4,004,843	3,666,904	3,274,929	2,982,813
Total Operating Expenses	32,671,877	30,558,726	28,270,657	25,158,196	20,595,674	17,177,171	14,764,812	13,322,009	11,626,376
Income Before Securities Gains or Losses	3,128,985	2,123,303	3,100,717	3,557,320	3,339,627	3,096,716	2,796,221	1,940,375	2,007,840
Net Income	3,198,875	2,754,192	3,219,141	3,538,489	3,168,472	2,896,470	2,608,740	1,725,503	1,914,679
Cash Dividends Declared	1,082,897	996,413	879,188	908,494	703,350	726,795	562,680	562,680	562,680
Stock Dividends Paid	—	—	—	2,344,500	—	1,875,600	—	—	—
per share statistics (adjusted for stock dividends)									
Income Before Securities Gains or Losses	\$ 4.87	\$ 3.62	\$ 5.29	\$ 6.07	\$ 5.70	\$ 5.28	\$ 4.77	\$ 3.31	\$ 3.43
Net Income	4.98	4.70	5.49	6.04	5.41	4.94	4.45	2.94	3.27
Cash Dividends Paid	1.70	1.60	1.50	1.50	1.50	1.50	1.50	1.50	1.50
Book Value	59.46	59.22	56.84	53.28	48.72	45.35	41.82	38.80	37.55
Number of Common Shareholders—Year End	1,278	1,256	1,233	1,228	1,172	1,166	1,145	1,144	1,086
average earning rates (fully taxable basis)									
Total Loans	7.10%	7.66%	8.19%	7.70%	7.08%	6.84%	6.56%	6.15%	6.16%
U.S. Government Securities	5.50	5.80	6.89	6.30	5.40	4.59	4.47	3.92	3.72
State, County and Municipal Securities	8.15	7.99	8.24	8.39	7.19	6.46	6.18	6.10	6.24
Gross Rate on Earning Assets	6.83	6.93	7.50	7.08	6.36	5.88	5.70	5.33	5.29
key percentages—year end									
Income Before Securities Gains or Losses To Total Resources	0.52%	0.41%	0.61%	0.80%	0.78%	0.78%	0.82%	0.60%	0.68%
Income Before Securities Gains or Losses to Capital Funds	9.02	6.37	9.93	12.46	12.56	12.63	12.30	8.82	9.72
Capital Funds to Deposits	7.24	7.87	8.04	8.11	7.34	7.28	7.84	7.65	8.10
Capital Funds to Loans	11.24	13.13	13.29	12.19	11.64	12.41	12.94	13.21	14.53
Loans to Deposits	64.42	59.96	60.51	66.48	63.11	58.67	60.56	57.88	55.77

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank
STATEMENT OF INCOME AND RETAINED EARNINGS

	YEAR ENDING DECEMBER 31	
	1972	1971
income:		
Commissions and fees from mortgage loan origination and servicing—Note 5	\$2,033,603	\$1,660,784
Interest on notes and mortgage loans.....	190,001	203,639
Other	88,097	94,546
	<u>\$2,311,701</u>	<u>\$1,958,969</u>
expenses:		
Salaries and bonuses.....	\$ 836,599	\$ 668,826
Other employee benefits—Note 10.....	105,934	74,680
Interest	207,024	181,789
Depreciation—Note 6.....	34,270	22,962
Management fee to Peoples National Bank.....	24,000	24,000
Provision for loan losses—Note 8.....	56,687	63,615
Other operating expenses including amortization of mortgage service acquisition costs—Note 2.....	738,334	772,605
	<u>\$2,002,848</u>	<u>\$1,808,477</u>
Income from operations before provision for federal income taxes...	\$ 308,853	\$ 150,492
Provision for federal income taxes—Note 9.....	146,000	58,000
Net operating income.....	162,853	92,492
Retained earnings, beginning of year.....	57,206	103,714
Dividends, \$15.70 and \$13.90 per share.....	(157,000)	(139,000)
Retained earnings, end of year.....	<u>\$ 63,059</u>	<u>\$ 57,206</u>

See accompanying notes to financial statements

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

BALANCE SHEET

ASSETS

current assets:

Cash on hand and in banks
Cash in savings and loan associations
—Note 3

First Mortgage loans in process (net
of undisbursed commitments of
\$8,819,408 and \$6,059,941) or held
for resale (net of \$374,563 and
\$484,338 discount) at December 31,
1972 and 1971, respectively—Note 4

Accrued interest receivable

Less—

Participations sold to Peoples
National Bank—Note 5

Real estate held for resale

Reserve for possible loss

Notes and accounts receivable

Prepaid expenses and deposits

trust funds:

Cash in bank

Less—Contra liability

fixed assets:

At cost, net of accumulated deprecia-
tion of \$99,801 and \$71,497, respec-
tively—Note 6

investments:

FNMA stock, at cost, market value,
\$377,000 and \$305,000, respectively

GNMA mortgage-backed securities
(net of \$60,260 discount), at cost
which approximates market

Less—Participations sold to Peoples
National Bank—Note 5

other assets—Note 2

LIABILITIES

current liabilities:

Notes payable—Note 7

Accrued interest payable

Accounts payable and accrued
expenses

Commitment fees received

Federal income taxes—Note 9

stockholder's equity—Note 2:

Common stock, \$100 par value—
10,000 shares authorized, issued
and outstanding

Retained earnings

DECEMBER 31

1972

1971

\$ 145,105

\$ 66,632

8,046

12,166

\$25,132,467

\$19,309,226

201,930

193,806

25,334,397

19,503,032

(21,012,782)

4,321,615

(14,707,988)

4,795,044

381,815

362,565

(20,000)

(20,000)

97,223

112,736

29,585

65,885

4,963,389

5,395,028

6,023,647

3,639,347

(6,023,647)

(3,639,347)

184,119

142,490

243,114

112,367

2,952,742

(2,952,742)

—

1,009,200

496,161

\$6,399,822

\$6,146,046

\$4,970,068

\$4,882,503

47,570

71,455

180,642

76,775

5,773

13,143

132,710

44,964

5,336,763

5,088,840

\$ 1,000,000

\$ 1,000,000

63,059

1,063,059

57,206

1,057,206

\$6,399,822

\$6,146,046

See accompanying notes to financial statements

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDING DECEMBER 31

	1972	1971
Financial resources were provided by:		
Net income	\$ 162,853	\$ 92,492
Add back charges not representing a use of financial resources—		
Depreciation and amortization . . .	\$ 51,780	\$ 26,342
Amortization of mortgage servicing premium	<u>99,797</u>	<u>89,436</u>
	151,577	115,778
	314,430	208,270
Sale of fixed assets	11,703	—
Sale of investments	<u>22,524</u>	<u>39,210</u>
	348,657	247,480
Financial resources were used for:		
Noncurrent assets acquired in con- nection with purchase of Olym- pic Mortgage Corporation—		
Additions to fixed assets	31,932	
Additions to FNMA stock	152,631	
Acquisition of mortgage servicing rights	<u>582,389</u>	
	766,952	
Acquisition of furniture and lease- hold improvements	55,670	47,835
Additions to other assets	47,957	60,586
Additions to investments	640	8,579
Dividends	<u>157,000</u>	<u>139,000</u>
	1,028,219	256,000
Net decrease in working capital	<u>\$ (679,562)</u>	<u>\$ (8,520)</u>
Analysis of changes in working capital:		
Increase (decrease) in current assets—		
Cash on hand and in banks and savings and loan associations	\$ 74,353	\$ (69,777)
First mortgage loans in process . .	5,823,241	7,871,758
Accrued interest receivable	8,124	41,619
Participations sold to Peoples National Bank	(6,304,794)	(6,583,403)
Real estate held for resale	19,250	(359,109)
Reserve for possible losses	—	2,500
Notes and accounts receivable . .	(15,513)	22,228
Prepaid expenses and deposits . .	<u>(36,300)</u>	<u>34,627</u>
	(431,639)	960,443
(Increase) decrease in current liabilities—		
Notes payable	(87,565)	(940,303)
Accrued interest payable	23,885	(11,348)
Accounts payable and accrued expenses	(103,867)	(31,390)
Commitment fees received	7,370	(13,143)
Federal income taxes	(87,746)	(22,779)
Dividends payable	—	50,000
	<u>(247,923)</u>	<u>(968,963)</u>
Net decrease in working capital	<u>\$ (679,562)</u>	<u>\$ (8,520)</u>

See accompanying notes to financial statements

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

NOTES TO FINANCIAL STATEMENTS

December 31, 1972 and 1971

note 1 • ownership and summary of significant accounting policies:

The accounting and reporting policies of Peoples Mortgage Company conform to generally accepted accounting principles and to predominant practice within the mortgage industry.

corporate ownership—

Peoples Mortgage Company is a wholly-owned subsidiary of Peoples National Bank of Washington.

securities—

Investments in securities are recorded at cost, which are adjusted for accretion of discounts. Such discounts are amortized over the life of the mortgage portfolios using the interest method.

fixed assets—

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line or declining-balance basis over the estimated useful life of each type of asset. Gains and losses on routine dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and betterments are capitalized.

note 2 • acquisitions and operations:

On December 28, 1972, the company consummated the purchase of all of the outstanding stock of Olympic Mortgage Corporation effective December 15, 1972 for approximately \$985,000, of which \$172,500 is contingently payable on a monthly basis over the ensuing five years. The acquired company was liquidated and its assets, subject to the liabilities, were transferred to Peoples Mortgage Company. The transaction has been accounted for under the purchase method. Accordingly, the acquired net assets have been recorded at their market values, which includes an amount paid for the right to service loans owned by various investors. This latter cost is being amortized over the expected average life of the acquired servicing rights and is included in the accompanying balance sheet under the caption Other Assets, along with similar amounts resulting from the purchases of two other non-affiliated mortgage companies in 1968 and 1969. The unamortized servicing acquisition costs at December 31, 1972 and 1971 amounted to \$925,723 and \$406,118, respectively.

The accompanying statements of income and retained earnings and changes in financial position include the results of operations of Olympic Mortgage Corporation from the effective date of the purchase. The following supplemental information summarizes the combined results of operations on a pro forma basis as though the companies had been combined January 1, 1971. The financial statements of Olympic Mortgage Corporation, included in the 1971 tabulation amounts shown below, were not audited.

	Year ended December 31	
	1972	1971
Income	<u>\$2,843,829</u>	<u>\$2,824,735</u>
Net operating income.....	<u>\$ 166,865</u>	<u>\$ 131,657</u>

In 1971, maintenance of the company's accounting and servicing records was transferred from a computer service bureau to its parent company's computer. In this connection, "Other Operating Expenses" in the accompanying financial statements include approximately \$134,000 and \$185,000 paid to the parent for the use of these computer facilities for the years ending December 31, 1972 and 1971, respectively.

note 3 • cash in savings and loan associations:

The company has sold various loans and notes to savings and loan associations which are secured to the extent of savings accounts

AUDITOR'S OPINION

The Board of Directors
Peoples Mortgage Company

We have examined the balance sheets of Peoples Mortgage Company as of December 31, 1972 and 1971, the related statements of income and retained earnings and the statements of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

on deposit with the associations. It has reserved the right to repurchase the notes or contracts in the event of delinquency. The balances of the loans and notes amounted to \$47,513 and \$75,642 at December 31, 1972 and 1971, respectively.

note 4 • foreclosure proceedings:

At December 31, 1972, foreclosure proceedings had been initiated to convey title on various FHA and VA insured home loans totaling \$1,053,373. No losses in excess of that provided for in the reserve for possible losses are anticipated upon final disposition.

note 5 • participation agreements:

The company is party to agreements with Peoples National Bank of Washington whereby it has sold at market value, and agreed to sell by participation, at its discretion, its interest in loans in process. The bank has discretionary power with respect to loans offered, but once accepted its recourse is limited to its pro rata interest in the acquired loan. The mortgage company continues to manage these loans and receives a fee for this service.

note 6 • depreciation:

The company provides for depreciation of fixed assets over their estimated useful lives as follows:

	Method	Years
Furniture and fixtures.....	Declining-balance	6-10
Automobiles	Declining-balance	3
Leasehold improvements	Straight-line	5-17

Depreciation of \$34,270 and \$22,962 has been provided for the years ended December 31, 1972 and 1971, respectively.

note 7 • notes payable:

Notes payable are comprised of:

	December 31	
	1972	1971
Peoples National Bank, payable on demand, bearing interest at 6% per annum	\$2,500,000	\$2,000,000
Commercial Paper, generally payable within 90 days, at rates varying from 5¼ % to 6% per annum.....	<u>2,470,068</u>	<u>2,882,503</u>
	<u>\$4,970,068</u>	<u>\$4,882,503</u>

The above Commercial Paper is secured by letters of credit issued by Peoples National Bank of Washington.

note 8 • provision for loan losses:

As permitted by the Comptroller of the Currency, loan loss provisions are based on actual net charge-offs in both years. Management believes that the actual net charge-off method gives the stockholders a more accurate appraisal than the use of a five-year average, which is also permitted.

note 9 • federal income taxes:

In 1972, the company changed from filing a separate income tax return to filing a consolidated return with its parent company. Accordingly, the federal income tax provision is based on financially reported income computed at a 48% tax rate. Investment tax credits are realized at the time of property acquisitions utilizing the flow-through method of accounting.

note 10 • profit sharing:

Peoples Mortgage Company maintains a profit-sharing plan, whereby annual contributions are made to the fund trustee based upon net operating income of the company before federal income taxes. Contributions were \$16,827 and \$10,205 for the years ended December 31, 1972 and 1971, respectively.

January 9, 1973
Seattle, Wash.

In our opinion, the financial statements examined by us present fairly the financial position of Peoples Mortgage Company at December 31, 1972 and 1971, and the results of its operations and the changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied.

PRICE WATERHOUSE & CO.

INVESTORS REPRESENTED BY PEOPLES MORTGAGE COMPANY

Ancient Order United Workmen
 Arlington Heights Federal Savings and Loan Association
 Bankers Life
 Bell Federal Savings and Loan Association
 Buffalo Savings Bank
 The Canada Life Assurance Company
 Carpenters Trust of Western Washington
 Central Savings Bank in the City of New York
 Century Federal Savings and Loan Association of Long Island
 College Point Savings Bank
 Columbia Pacific Life Insurance Company
 Columbia Savings and Loan Association
 Community Savings and Loan Association
 Country Life Insurance Company
 Emigrant Savings Bank
 Federal National Mortgage Association
 Federal Home Loan Mortgage Association
 First Federal Savings and Loan Association of Chicago
 First Federal Savings and Loan Association of Great Falls
 First Federal Savings and Loan Association of Port Jervis
 First Federal Savings and Loan Association of Rochester
 General Security Life Company
 Government National Mortgage Association
 The Great West Life Assurance Company
 The Greater New York Savings Bank
 Ideal National Insurance Company
 Institutional Securities Corporation
 Kansas City Life Insurance Company
 Magyar Savings and Loan Association
 Metropolitan Savings Bank
 Mid-Jersey Savings and Loan Association
 The Minnesota Mutual Life Insurance Company
 National Life Insurance Company
 Northern Federal Savings and Loan Association
 Northern National Life Insurance Company
 Olympic National Life Insurance Company
 Palomar Savings and Loan Association
 Peoples National Bank of Washington
 Portland Federal Savings and Loan Association
 Provident Mutual Life Insurance Company of Philadelphia
 Prudential Savings and Loan Association
 Safeco Life Insurance Company
 Schenectady Savings Bank
 The Second Federal Savings and Loan Association of Cleveland
 Security Federal Savings and Loan Association
 State Farm Life Insurance Company
 State of Washington Public Employees Retirement Board
 Teachers State Bank
 United Benefit Life Insurance Company
 United States Savings Bank of New Jersey
 Washington Law Enforcement Officers and Fire Fighters Retirement Board
 Washington State Employees Retirement Board
 Washington State Finance Committee
 Wells Fargo Bank