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Peoples Bancorporation

Annual Report 1983



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 Peoples
 Bancorporation
 Corporate Headquarters
 P.O. Box 720
 1414 Fourth Avenue
 Seattle, Washington
 98111. From Seattle:
 (206) 344-2300
 From Washington
 State outside of Seattle:
 1-800-552-7138
 From outside of
 Washington State in
 the continental
 United States:
 1-800-426-0648.



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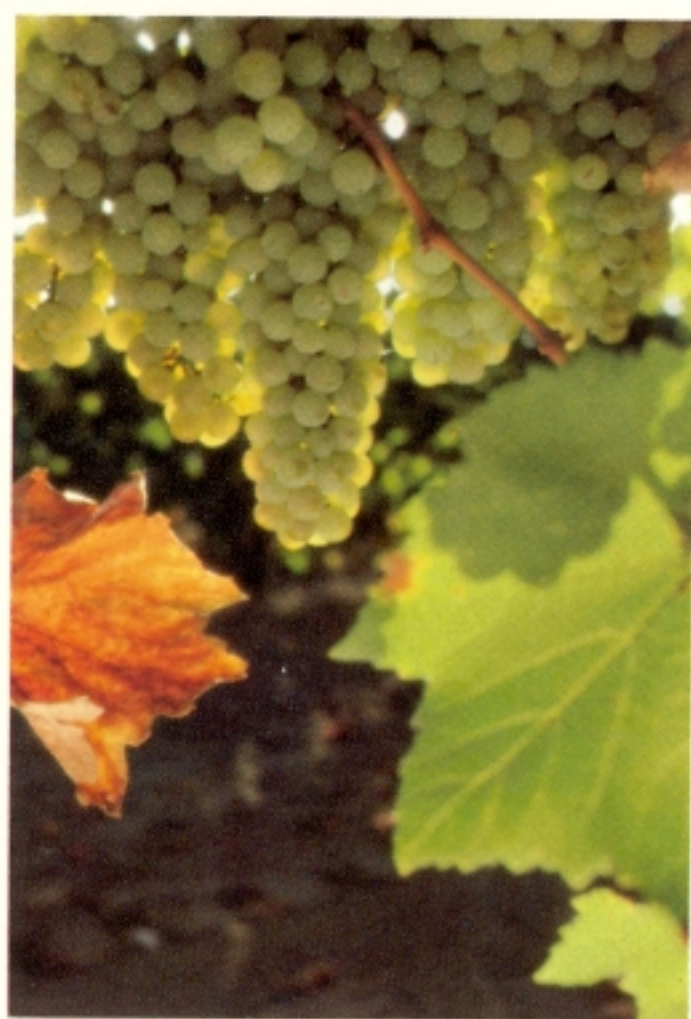


Consolidated Financial Highlights

Peoples Bancorporation and Subsidiaries

(In Thousands, Except Per Share)

	1983	1982	% Change
For The Year			
Net income	\$6,032	\$13,423	(55)%
Cash dividends declared	3,780	3,823	(1)
Per Share			
Net income	\$1.59	\$3.51	(55)%
Cash dividends declared	1.00	1.00	—
Book value	31.17	30.44	2
At Year-End			
Total assets	\$1,985,762	\$2,005,262	(1)%
Deposits	1,744,049	1,494,163	17
Loans and leases	1,082,632	1,064,190	2
Investment securities	322,374	292,721	10
Shareholders' equity	117,845	116,128	1



Letter to Shareholders

1 983 was a challenging year for PeoplesBank. Deposit deregulation, although beneficial to our customers, had a much more dramatic impact on net income than had been anticipated. Increasing costs of deposits and sharply declining loan yields reduced pre-tax income approximately \$16 million during 1983. When combined with the cost of settling the Peoples Leasing Company litigation, this narrowing of interest margins resulted in a decline in annual earnings of 55% to \$6,032,000.

PeoplesBank has had a greater percentage of low interest cost core deposits than most regional banks of our size in the country. The result of deregulation has been that the average cost of our deposits has increased significantly more than our competitors who relied on a higher percentage of expensive time deposits. The rapid growth of our money market accounts, together with a modest increase in loan demand, resulted in a lowering of our loan to deposit ratio to 62.1% from 71.2% at year-end 1982.

Long term, we are optimistic that we will be able to benefit from this unanticipated growth in deposits, but until loan demand improves the short term effect is a reduction in earnings. Much of PeoplesBank's profitability in the past has been generated by service-oriented customers in small retail branches. With the increased costs of deposits, we are challenged to streamline our handling of transaction services through the use of more sophisticated technology including our new branch on line system, automated teller machines and other innovations so that our personnel may concentrate on selling additional profitable services to our customers.

We continue to focus our staff's attention on the priority of cross-selling services to our customers through sales incentive programs including a special fourth quarter sales promotion which resulted in dramatic increases in the sales of targeted products.

Although reported year-end non-performing assets are above normal levels for us, the asset quality of the loan portfolio remains high. We anticipate no significant losses in any seven figure credit, and current loan portfolio reviews would indicate a significant reduction in net charged off loans in 1984 as compared to 1982 or 1983. The increase in non-accrual loans and other real estate owned may be partially attributed to legal changes which have the effect of increasing the time necessary to foreclose and liquidate real estate. We anticipate reducing non-performing loans and other real estate by approximately \$9,000,000 by mid year through the closing of commitments to purchase real estate. These transactions should result in a recovery of pre-tax earnings of approximately \$700,000.

During the year, the Peoples Leasing Company litigation was settled for a net payment of \$2.4 million. While management did not believe that the potential for a substantial loss was probable, the dollar amounts involved were of sufficient magnitude to require our auditors to qualify the 1982 financial statements. In the opinion of management, the freedom from the uncertainties generated by this litigation and the projected length of defense justified settlement of the lawsuit.

1984 would appear to be a period of modest growth for the Pacific Northwest's economy. Increases in aerospace deliveries and forest product sales combined with ris-



ing prices for agricultural products suggest that a modest recovery is underway.

During the year, new offices were opened in Puget Park in south Snohomish County; One Bellevue Center in downtown Bellevue, and in Olympia. We sold our Washtucna Office, closed our Totem Lake Office, and have announced the closure of the George Branch and the Third Avenue Office in Seattle.

A highlight of the year was the election of our President, Jim Cairns, to the position of President-Elect of the American Bankers Association. When Jim is installed as President of the Association in October of 1984, he will be the youngest banker ever to hold that position and only the second banker from the State of Washington.

During the year, Don Greenfield, Executive Vice President of the bank; and Quentin Ellis, President of Peoples S.B.I.C., retired, both after 46 years of service.

We mourned the passing of our director, John Sellen, whose advice and counsel had been deeply appreciated over many years.

1984's results should show a substantial improvement from the profit levels experienced during the past year. With improved operational procedures, and an improved Northwest economy, we will return the company to levels of profitability comparable to industry standards. Your continuing support is deeply appreciated.

Joshua Green III,
Chairman of the Board and Chief Executive Officer
Peoples Bancorporation
January 31, 1984



(Left) Peoples Bancorporation Corporate Headquarters. (Right) J.G. Cairns, Jr.; President, Peoples Bancorporation; President-Elect, American Bankers Association

Meeting the Financial Needs of Washington and the Pacific Northwest

The Pacific Northwest states of Washington, Oregon, Idaho and Alaska comprise one of the nation's most vital regions. Population growth in the region from 1950 to 1980 was 33 percent greater than the nation as a whole, and non-farm employment grew 25 percent faster. The region produces 40 percent of the nation's lumber and plywood and is a leading producer of a wide variety of agricultural products. Its manufacturing and service industries are growing and diversifying as well.

Peoples Bancorporation, headquartered in the financial and economic hub of the Pacific Northwest, brings an array of strengths to the industries and residents of the region. An independent bank, Peoples has been committed to serving the Northwest since 1889. With average 1983 assets in excess of \$2 billion, Peoples now ranks within the top one percent of all U.S. commercial banks.

Peoples has a strong record of service to businesses in nearly every regional industry: aerospace, food processing, wood products, fishing, mining, and manufacturing of all kinds. Peoples has also long been a leading supporter of agriculture and is currently the nation's

27th largest agricultural lender.

Our correspondent bank network, ranked 77th in the nation, structures us to serve the needs of our customers on a regional, national and international level. Peoples is also a founding member of the largest automated teller machine

network in the Northwest with over 170 machines in Washington and Oregon and over 600 machines nationwide to serve our customers' growing needs.

Washington State, our primary market, has over half of the population and 56 percent of the deposit market of the Pacific Northwest. It also provides 51 percent of the region's non-farm employment.

Washington, too, has become a focal point for international trade. Over 2,500 state businesses are engaged in foreign trade.

Boeing, the nation's number one exporter and Washington's number one industry, as well as other major industries in the state, such as forest products and agriculture, export large portions of their production.

The following pages examine the three major geographic markets Peoples serves within Washington State: King County, Western Washington and Eastern Washington.



King County



(Background) Lake Washington, lying between Seattle and Bellevue and the other rapidly growing communities in East King County. (Left) Seattle's skyline, reflecting its emergence as a financial and trade center. (Center) The University of Washington, one of the nation's leading research institutions, is served by Peoples with two on-campus branches. (Right) Bellevue, the state's fourth largest city, is attracting many high technology industries.

King County, which includes the city of Seattle, is Washington State's most populous county. Its 1.3 million people represent 31 percent of the state's total population and hold 47 percent of Washington's total deposits.

Also concentrated in King County are 45,000 or 37 percent of Washington's businesses. Many of these are in Seattle. However, East King County, which includes the city of Bellevue, is rapidly becoming a second financial and business center, attracting a major share of the county's growing high technology industry.

Boeing is still the county's major employer, providing 10 percent of all jobs in the Seattle metropolitan area. However, growth in the services, foreign trade, high technology and other industries has diversified the county's economy considerably since the early 1970s, when Boeing accounted for nearly 20 percent of all jobs.

King County, bordering Puget Sound, has become the gateway to Pacific trade. The port of Seattle is the nation's third largest container port. In 1983, it handled 22 percent of all cargo shipped to the West Coast and a record 840,000 containers.

Jackson International Airport, located in South King County, is a major transportation link to the nation and the Pacific. Over 10 million passengers used the airport in 1983, an all-time high.

With three universities and five community colleges, King County is also a vital educational center, supplying many of the skilled personnel our diversified

industrial base requires.

Peoples Bancorporation views the county as one of its most important markets. Both PeoplesBank and PeoplesMortgage are headquartered here, employing 1,600 of our total staff of 2,300. Sixty-two percent of our total deposits and 82 percent of our loans originate here.

Our thirty-six banking offices located throughout the county provide a full range of financial services to our customers. In 1983, we opened a consumer credit center to centrally handle loan approval and processing for these offices, a concept that is now being extended to other areas of the state.

Also in 1983, Peoples opened five financial centers to serve the King County corporate market. These centers bring a full range of commercial banking services to our business customers—more efficiently and more conveniently. In the seven months following the opening of these centers, commercial loans in King County grew by over 11 percent, from \$290 million to \$322 million.

PeoplesBank also serves many of the municipalities in King County. In 1983, the bank was awarded a second multi-year contract with Seattle as the city's primary depository. Peoples is also the primary bank for the cities of Renton, Redmond and Kent, three of the county's largest cities.

We anticipate that King County, with its diverse industry and growing population, will continue to provide a major share of our business opportunities in the years ahead.

Western Washington



(Background) Forest on the Olympic Peninsula located in Northwest Washington. (Left) The Interstate 5 Bridge connecting Vancouver to Portland, Oregon. (Right) The newly rebuilt Hood's Canal Bridge, destroyed by wind in 1979, reopened in 1982 and joins Kitsap County to the Olympic Peninsula. (Below) The State Capitol Building in Olympia.

Nearly half of the population of Washington State resides in the 18 counties in Western Washington outside of King County. The five largest counties in this group (Clark, Kitsap, Pierce, Snohomish and Thurston) contain over 20 percent of the state's deposit market. With the 1983 opening of our branch in Olympia, the state's capital in Thurston County, Peoples now offers financial services in all five of these counties.

In total, we have 26 branches serving 20 different communities in Western Washington, ranging from Hoquiam to Tacoma; from Anacortes to Vancouver. Peoples generates 22 percent of our deposits and 6 percent of our loans from Western Washington outside of King County. Following is a brief look at some of the major markets we serve in this region.

Clark County, in Southwestern Washington, incorporates the city of Vancouver, which is adjacent to Portland, Oregon. Peoples opened its first Vancouver office in 1971. A decade later, three new branches were added in Vancouver, Washougal and Hazel Dell. Our strong presence in Vancouver enables us to serve the needs of our many corporate customers who conduct business in the Portland market.

Kitsap County, where our Bremerton branch has been located since 1949, is also a major growth area of the state. The recently reopened Hood's Canal Bridge connects the county to the Olympic Peninsula, which Peoples has served since 1972 with branches in Port Angeles and Sequim. In 1982 three additional branches were acquired in the communities of Port Townsend, Quilcene and Hadlock.

Pierce County, incorporating the city of Tacoma, is the state's second largest county with 12 percent of the population and 9 percent of the deposit market. Peoples has served this market with three branches since 1965.

Snohomish County and its major metropolitan area, Everett, share many of the business and economic characteristics of neighboring King County. Our Everett office was opened in 1935, becoming one of our earliest expansions outside of Seattle. We now serve Snohomish County with five offices, including a newly opened office in Puget Park.

Between 1970 and 1980, Clark, Kitsap, Pierce, Snohomish and Thurston counties were among the ten fastest growing counties in the state. Our strong presence in these growing markets has positioned us well to participate in this growth.



Eastern Washington

(Background) Apple orchard in Eastern Washington. (Above) The Pasco-Kennewick Intercity Bridge over the Columbia River, the first major cable-stayed bridge in the United States. (Left) A circle irrigation system, used throughout Eastern Washington to improve farm productivity. (Right) Mt. Adams from a farm outside of Yakima.

The 20 counties comprising Eastern Washington include well over half of Washington's geographic area, 20 percent of the state's population and about 16 percent of the state's deposit market.

This area of the state is one of the nation's leaders in agricultural production, including such crops as wheat, hops, potatoes, apples, pears and sweet cherries. The total value of its farm products in 1983 was over \$3 billion. Like other Washington industries, agriculture is developing growing foreign markets for its production. Nearly 90 percent of its wheat crop, for example, is now exported.

1983 was an improved year for Washington agriculture with rising prices for many crops and exceptional growing conditions, which helped produce a record apple crop and the second largest wheat crop in history.

Peoples serves 13 communities in Eastern Washington with 26 branches. Sixteen percent of our deposits are from this area and twelve percent of our loans.

Our efforts in Eastern Washington are concentrated in the counties of Benton, Franklin, Grant and Yakima. These counties form the state's prime agricultural regions: the Tri-Cities area, the Columbia Basin and the Yakima Valley.

From 1970 to 1980, Benton County was the fastest growing county in Washington, with a 62 percent increase in

population. From 1977 to 1982, total deposits in the county for all banks increased 81 percent, also the highest rate of increase in the state. Most of this growth was in the Tri-Cities of Kennewick and Richland in Benton County and Pasco in adjoining Franklin County. Our first expansion into this area was in Pasco in 1962. In 1980, we expanded our presence in the area by adding five offices in Kennewick and Richland.

The opening of our branch in Ephrata in 1954 marked the beginning of Peoples' branch network in Eastern Washington. Since that date, we have established branches in several other Grant County communities including Moses Lake, Royal City, Mattawa, Soap Lake and Warden.

Yakima, the second most populous county in Eastern Washington, is also one of the faster growing counties in the state. Peoples entered this market in 1977 with 12 offices in Yakima as well as offices in Sunnyside, Ellensburg and Prosser.

Peoples has been committed to serving the financial needs of Eastern Washington's businesses, farming customers and residents for over 30 years. Our outstanding agricultural loans now total \$70 million. Peoples will continue to support the professional men and women who have dedicated their lives to making agribusiness such an important element in our state's economy.



**Administrative
Committee**

From right to left:
Joshua Green III
Chairman of the
Board and Chief
Executive Officer

J.G. Cairns, Jr.
President

Elmer M. Anderson
Executive
Vice President

Leo M. Riley
Executive
Vice President
and Secretary-
Treasurer

Charles E. Riley
Executive
Vice President

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Financial Review

Consolidated net income totaled \$6.0 million in 1983, decreasing 55.1% from earnings of \$13.4 million in 1982. On a per share basis, net income was \$1.59 compared to \$3.51 in the previous year.

Peoples Bancorporation was faced with numerous challenges in 1983, as were most financial institutions in such a volatile and competitive operating environment.

The impact of deregulation on the Corporation's historically stable low cost of funds combined with weaker than anticipated loan demand was reflected in the \$5.7 million or 7.2% decline in net interest income.

Non-interest expenses continued to rise, although at a much slower pace than in 1982. Included in 1983 non-interest expenses was a \$2.4 million non-recurring charge stemming from the settlement of the Rouse vs. Peoples Leasing Company litigation. Costs related to this settlement reduced earnings per share by \$.34. Excluding this item, operating expenses increased \$7.6 million or 8.2%, compared to an increase of \$14.0 million or 17.9% in 1982.

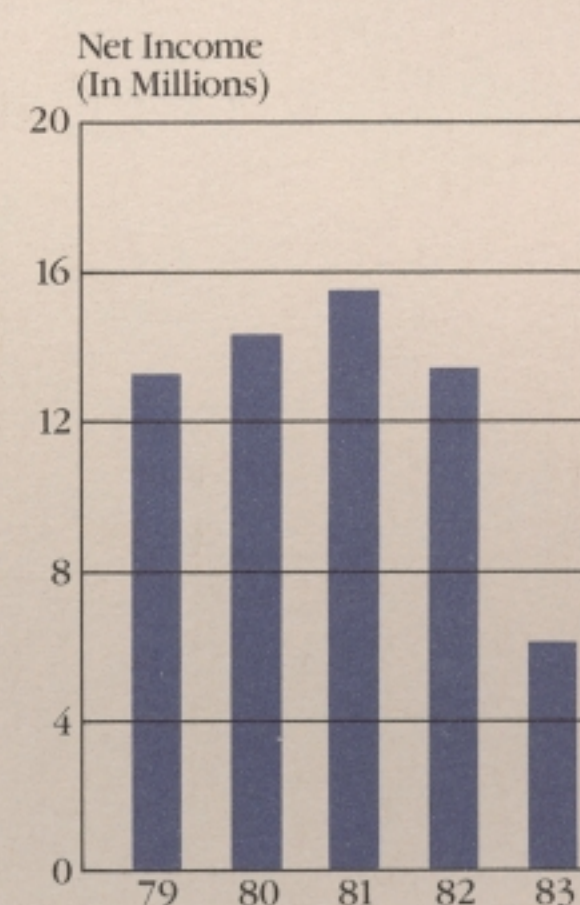
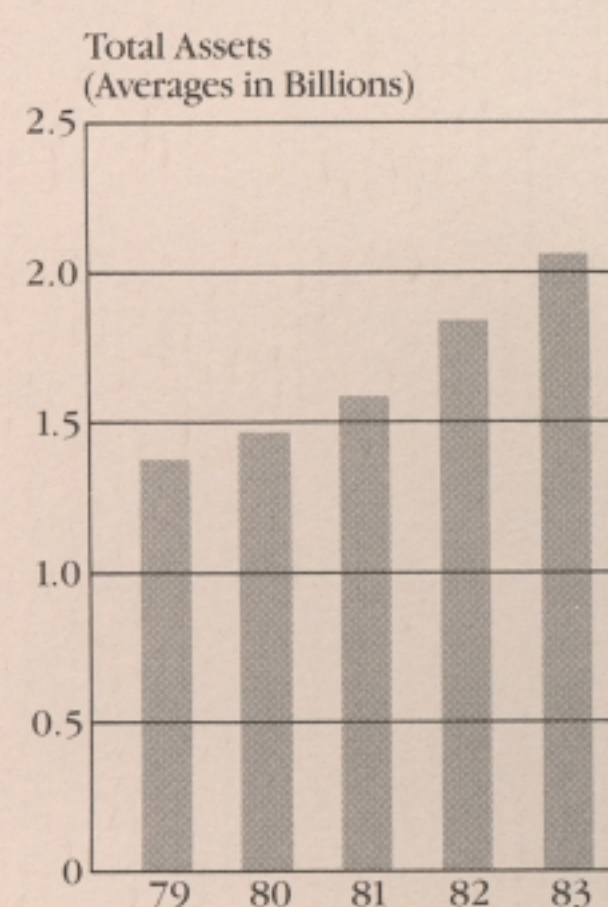
The provision for credit losses increased 7.3% in 1983. Net charge-offs totaled \$5.8 million, increasing 18.2% from \$4.9 million in 1982. Although the region's economy showed definite signs of improvement, the lingering effects of the recession continued to impact the Corporation's loan portfolio.

1983 earnings were favorably affected by the 10.2% increase in non-interest income. However, this was less than the 17.8% growth recorded last year.

Selected Financial Data

Selected Financial Data						Change 83/82	
(In Thousands, Except Per Share)	1983	1982	1981	1980	1979	\$	%
Earnings Summary							
Net interest income	\$ 74,429	\$ 80,177	\$ 75,833	\$ 70,812	\$ 64,222	\$ (5,748)	(7.2)%
Provision for possible credit losses	6,099	5,684	3,880	4,238	4,218	415	7.3
Non-interest income	37,452	33,986	28,840	24,194	19,923	3,466	10.2
Non-interest expense	102,477	92,465	78,423	69,240	59,708	10,012	10.8
Net income	6,032	13,423	15,613	14,271	13,269	(7,391)	(55.1)
Per Share							
Net income	\$ 1.59	\$ 3.51	\$ 4.09	\$ 3.75	\$ 3.74	\$(1.92)	(54.7)%
Cash dividends declared	1.00	1.00	1.00	.91	.88	—	—
Book value	31.17	30.44	27.88	22.56	20.32	0.73	2.4
Balance Sheet Averages							
Total assets	\$2,046,031	\$1,841,848	\$1,580,516	\$1,473,827	\$1,380,909	\$204,183	11.1%
Deposits	1,626,013	1,372,593	1,201,687	1,133,594	1,094,371	253,420	18.5
Loans and leases	1,066,155	979,971	892,132	855,083	857,129	86,184	8.8
Long-term debt	21,502	18,906	16,402	17,274	18,405	2,596	13.7
Shareholders' equity	116,049	112,286	97,045	82,659	69,695	3,763	3.4

Per share data has been adjusted for all stock dividends and stock splits to date.



Key Ratios

	1983	1982	1981	1980	1979
Return on average assets	.29%	.73%	.99%	.97%	.96%
Return on average equity	5.20	11.95	16.09	17.27	19.04
Average equity to average assets	5.67	6.10	6.14	5.61	5.05
Cash dividends declared/net income per share	62.89	28.49	24.45	24.27	23.53

Net Interest Income

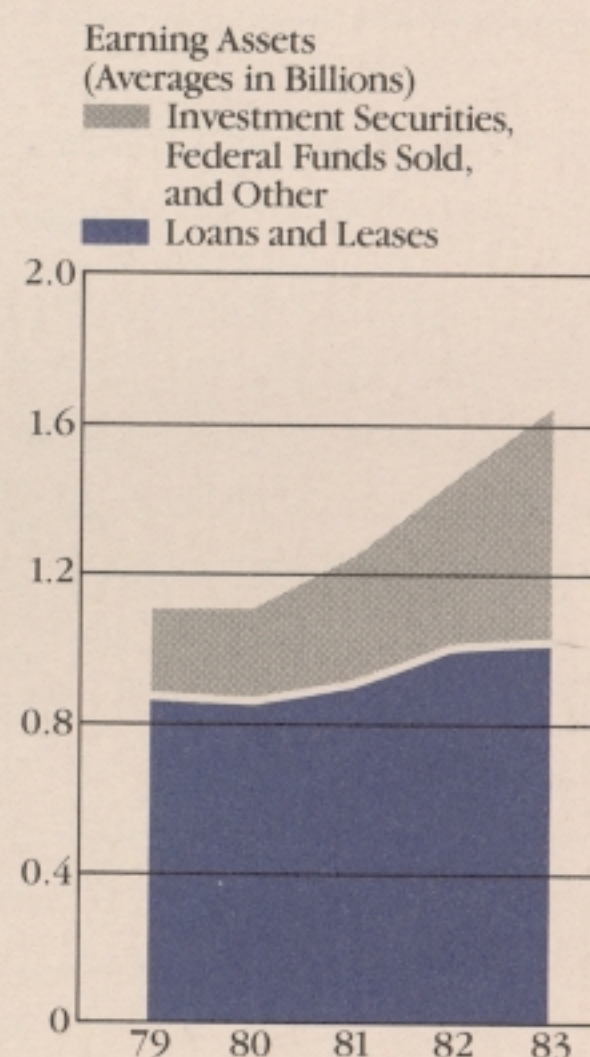
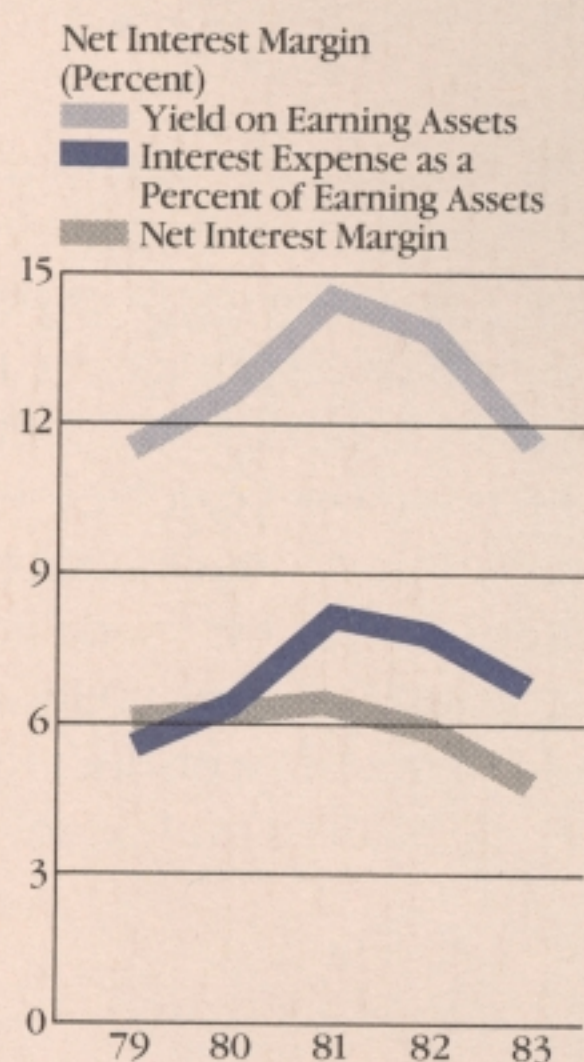
Net interest income decreased 7.2% in 1983. This follows an increase of 5.7% last year. Changes in net interest income are a function of changes in rate, volume and mix of funds. During 1982, interest rates fell dramatically, investment growth outpaced loan growth and deposit mix changed with the introduction of new market rate instruments. Although these factors reduced the net interest margin 52 basis points, they were offset sufficiently by the 16.6% growth in earning assets to produce a \$4.3 million increase in net interest income. In 1983, however, changes in rates and mix reduced the net interest margin by 102 basis points and produced a \$5.7 million decline in net interest income. This occurred despite 13.3% growth in average earning assets.

While interest rates changed very little during 1983, average rates dropped considerably in comparison to 1982. Both the average rates earned and paid on funds decreased, but due to the change in mix of funds, the yield on earning assets fell more rapidly than the rates paid for liabilities to support those assets. Interest income as a percent of average earning assets declined 214 basis points (compared to 74 in 1982) while interest expense as a percent of earning assets declined only 112 basis points (compared to 22 in 1982).

Changes in mix of funds occurred on both sides of the balance sheet, but overall, our average loan to deposit ratio declined from 71.4% in 1982 to 65.6% in 1983. The introduction of Money Market Accounts in late 1982 significantly impacted the Corporation's deposit

mix, which was historically comprised of a relatively large percentage of interest-free and low-cost consumer instruments. Money Market Accounts averaged \$293.5 million for the year or 18.1% of total deposits and had an average rate of 8.1%. Although a portion of these new accounts represented money shifting from higher costing time deposits, the remainder was transferred from savings, NOW or interest-free demand deposits or came from outside sources. As a result, interest-free accounts and low-cost savings and NOW accounts declined as a percentage of the Corporation's total source of funds. Despite the adverse impact Money Market Account growth had on the current year's net interest margin, it is management's hope that in the long-run their rates will prove more favorable than alternative sources of funds.

Concurrently, on the asset side of our balance sheet, loans and leases declined to 64.3% of earning assets from 67.0% in the previous year. Profitable loan opportunities did not meet expectations due to the continuing effects of the recession. Consequently, excess funds provided by the 18.5% growth in deposits were invested in short-term securities, overnight fed funds and short-term loan participations with other banks. While providing a great deal of liquidity, these investments did not provide us with the desired profit margin.



Net interest income was also reduced by the interest income foregone on non-performing assets. As indicated in the discussion on credit quality, non-accrual loans and leases increased from 1982 levels, totaling \$17.6 million at December 31, 1983. Interest income foregone on these assets during the year totaled \$1.7 million, reducing the net interest margin by 11 basis points.

Non-Interest Income

Non-interest income totaled \$37.5 million in 1983, an increase of \$3.5 million or 10.2%. This compares to an increase of \$5.1 million or 17.8% in 1982.

Trust commissions increased \$.6 million or 15.4%, following growth of \$.6 million or 16.2% last year. Service charges on deposit accounts, which represented approximately 30% of total non-interest income, contributed over 60% of the growth, increasing \$2.2 million or 24.5%. This compares to an increase of \$1.8 million or 23.7% in 1982. During both years, growth resulted from increased volumes and restructured rates. The realistic pricing of deposit services has become extremely important as a means of compensating for

Other non-interest income, which totaled \$2.9 million in 1983, decreased \$.1 million or 4.1% from 1982. Bond trading profit was down \$229,000 or 22.1% and foreign exchange income decreased \$162,000 or 39.9%. These declines were partially offset by increases in safe deposit box rent, operating recoveries and other miscellaneous income.

Non-Interest Expense

Non-interest expenses increased \$10.0 million or 10.8% in 1983. Costs related to the settlement of litigation described in Note L to the financial statements totaled \$2.4 million. Excluding this non-recurring charge, non-interest expenses were up \$7.6 million or 8.2%. This increase was nearly half the \$14.0 million or 17.9% increase reported in 1982, a reflection of the emphasis placed on expense control during this past year.

Salaries and benefits, which represented 52.7% of total overhead, were up \$1.8 million or 3.5% compared to growth of \$5.6 million or 12.4% in 1982. Full-time equivalent employees decreased during 1983, while a lower inflation rate reduced the general level of salary increases.

Non-Interest Income

Year Ended December 31 (In Thousands)	1983	1982	1981	Change 83/82	
				\$	%
Trust income	\$ 4,705	\$ 4,077	\$ 3,508	\$ 628	15.4%
Service charges on deposit accounts	11,407	9,163	7,410	2,244	24.5
Loan servicing fees	5,404	5,436	4,668	(32)	(0.6)
Service charges on computer services	5,292	5,408	4,499	(116)	(2.1)
Service charges on credit card services	3,770	2,927	2,525	843	28.8
Other service charges and fees	4,122	3,971	3,806	151	3.8
Securities gains (losses)	(102)	28	6	(130)	(100.0 +)
Trading account profits	809	1,038	882	(229)	(22.1)
Other	2,045	1,938	1,536	107	5.5
Total	\$37,452	\$33,986	\$28,840	\$3,466	10.2%

increased costs, as depositors demand higher yielding instruments and a more extensive range of services.

Growth in other service charges, commissions and fees of \$.8 million or 4.8% did not parallel the rise in service charges on deposit accounts. The increase in 1982 of \$2.2 million or 14.5% was primarily due to 16.5% growth in loan servicing fees, arising from the acquisition of Tellus Financial Services, and a 20.2% increase in computer processing income resulting from price changes and a larger customer base. In contrast, loan servicing income decreased .6% in 1983, while fees from computer services decreased 2.1% due to the conversion of over half the customer base to more efficient on-line processing.

Occupancy expense rose \$.4 million or 6.9%, following a \$.5 million or 11.1% increase in 1982. 1983 expenses were impacted by the opening of our new financial centers and the mid-1982 opening of our new computer center.

Furniture and equipment expense has been a major factor contributing to the increase in operating expenses during the last few years. This category of expense, which includes machine rentals, depreciation and maintenance, increased \$1.8 million or 18.8%, following a \$2.3 million or 30.9% increase last year. Despite efforts to reduce overhead, the rapidly changing and competitive nature of the banking industry has made continued investments in computerization and automation a necessity. Examples of such investments include the installation of a highly sophisticated on-line teller sys-

Non-Interest Expense

Year Ended December 31 (In Thousands)	1983	1982	1981	Change 83/82	
				\$	%
Salaries	\$ 43,388	\$41,999	\$37,425	\$ 1,389	3.3%
Employee benefits	9,325	8,950	7,909	375	4.2
Occupancy	5,636	5,272	4,747	364	6.9
Furniture and equipment	11,682	9,835	7,515	1,847	18.8
Professional and other fees	5,795	3,977	3,011	1,818	45.7
Stationery and supplies	2,710	2,908	2,702	(198)	(6.8)
State and local taxes	3,889	2,621	2,251	1,268	48.4
Telephone	2,495	2,211	1,553	284	12.8
Litigation settlement	2,400	—	—	2,400	—
Other	15,157	14,692	11,310	465	3.2
Total	\$102,477	\$92,465	\$78,423	\$10,012	10.8%

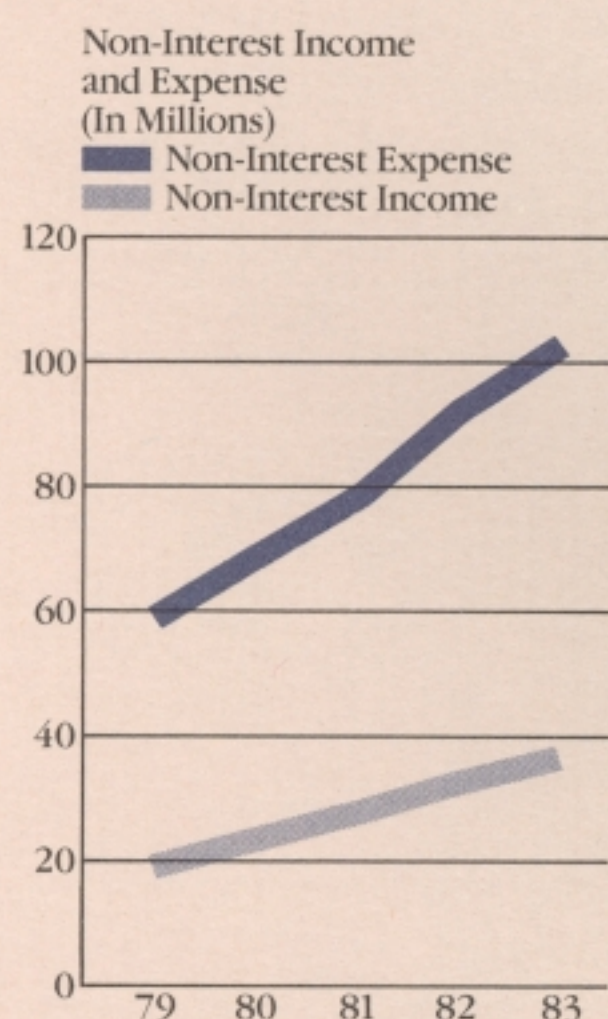
tem and additional computer equipment to support new advanced software for deposit and loan systems.

Other non-interest expenses increased \$3.6 million or 13.8% in 1983. This compares to an increase of \$5.6 million or 26.8% last year. Most expenses in this category decreased, following substantial increases in 1982. However, both professional fees and state and local taxes were up over the prior year, increasing 45.7% and 48.4%, respectively. State and local taxes increased \$1.3 million due to higher tax rates and an adjustment to our 1982 tax assessment, while fee expense increased \$1.8 million. Fees paid for Federal Reserve Bank services were up \$.3 million, following an increase of \$.6 million in 1982. The remaining increase stemmed from fees paid to Frank Russell Investment Company [which provides investment services for our trust department customers], increased credit card processing fees, and

fees paid to outside consultants working on special bank projects, such as the new deposit and loan systems and studies related to profitability improvement.

Income Taxes

In 1983, the Corporation recorded a net tax benefit of \$2.7 million. This compares to income tax expense of \$2.6 million in 1982. The 1983 tax benefit was due to the combination of decreased earnings and the increase in the proportion of tax-exempt income to total pre-tax income. The effective federal income tax rate went from expense of 16.2% in 1982 to a benefit of 85.9% in 1983. See Note K in the Notes to the Financial Statements for further discussion of federal income taxes.



Source and Use of Funds

The following discussion on sources and uses of funds is based on year-to-date average balances, which are more meaningful for comparative purposes than December 31 balances.

Use of Funds

1983 earning asset growth of \$194.6 million or 13.3% was slightly more modest than the \$208.1 million or 16.6% increase reported in 1982. Loans and leases, which are the primary components of earning assets, increased \$86.2 million or 8.8% versus \$87.8 million or 9.8% last year.

The Corporation has focused on loan growth in the commercial sector, which increased 16.1% in 1983. This compares to a 20.2% gain in 1982. Commercial loans have steadily increased as a percentage of total loans, representing 49% of the portfolio in 1983 compared to 42% in 1981.

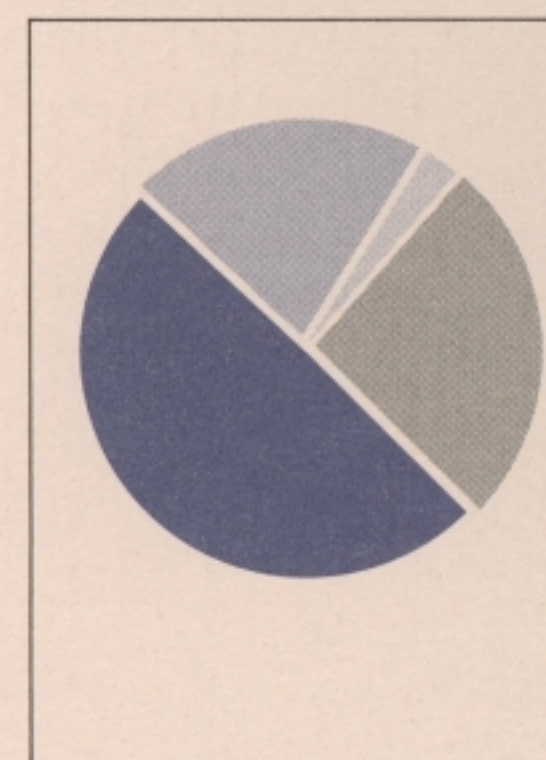
Average consumer loan volumes remained at the same level as in the prior year, increasing only 1.7%. Demand was weak, particularly during the first three quarters of the year. However, growth began to accelerate during the fourth quarter.

With the upturn in the housing and construction market, real estate loan volumes increased 6.2%. This compares to growth of only 1% in 1982.

Loan and Lease Portfolio

December 31 (In Thousands)	1983	1982	1981	1980	1979
Commercial, financial and agricultural	\$ 511,115	\$ 504,889	\$409,878	\$373,457	\$339,127
Real estate construction	36,904	22,096	29,326	30,312	39,098
Real estate mortgage	302,238	309,482	274,620	253,396	255,775
Consumer	209,698	202,839	185,409	179,478	180,060
Lease financing	30,656	34,704	46,447	54,813	81,877
Less unearned income	(7,979)	(9,820)	(12,309)	(13,282)	(23,228)
Total	\$1,082,632	\$1,064,190	\$933,371	\$878,174	\$872,709

Loan Mix
(Based on 1983 Averages)



Investment Portfolio

Book value at December 31

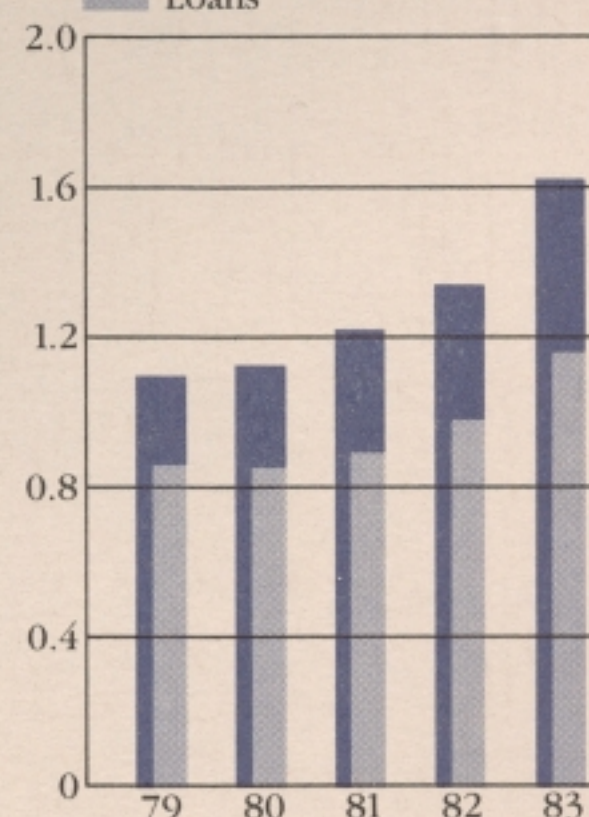
(In Thousands)	1983	1982	1981
U.S. Treasury and other U.S. Government Agencies and corporations	\$233,546	\$186,942	\$104,594
State and political subdivisions	86,486	102,855	104,811
Other taxable securities	2,342	2,924	1,711
Total	\$322,374	\$292,721	\$211,116

Lease volumes have declined in each of the last three years due to the discontinuance of auto leasing activities.

The table below provides a breakdown of loans by type as of December 31 for the last five years.

During both 1983 and 1982, deregulation accelerated deposit growth, while the effects of the economic downturn depressed loan demand. As a result, the rate of growth for both investment securities and fed funds sold exceeded that of the loan portfolio. Average investment securities increased \$72.7 million or 28.8% in 1983, following a \$38.3 million or 17.9% increase in 1982. As in 1982, growth was primarily in short-term taxable securities, providing liquidity for future loan opportunities.

Loans and Deposits
(Averages in Billions)

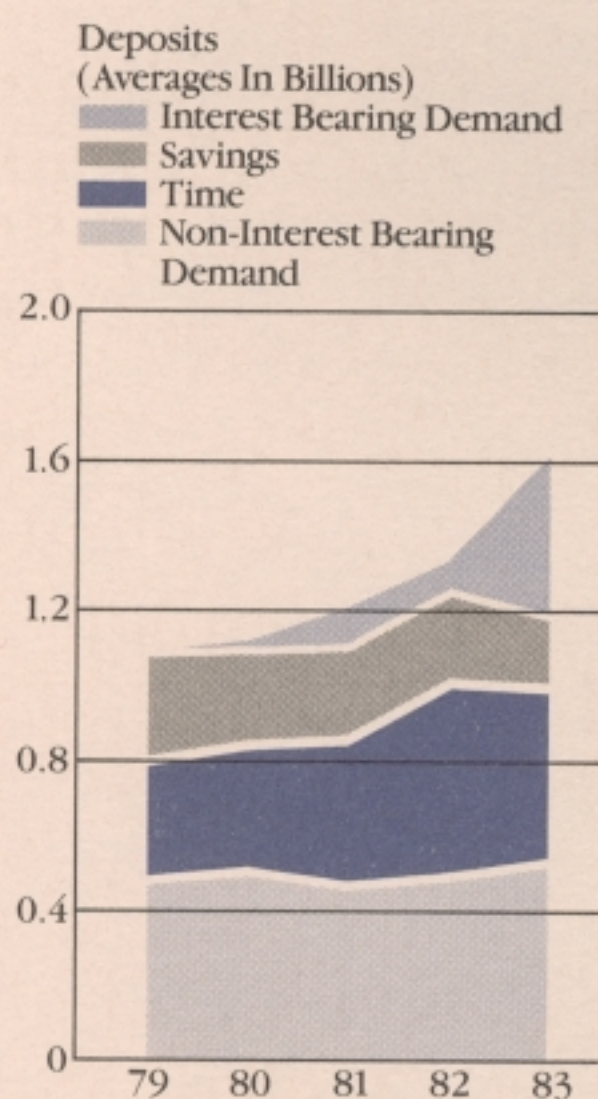


Source of Funds

Core deposits are the Corporation's basic source of funds. Average core deposits increased 23.7% and 15.1%, in 1983 and 1982, respectively. Total deposits increased \$253.4 million or 18.5% in 1983, following an increase of \$170.9 million or 14.2% in 1982. During both years, deposit growth was provided chiefly by the new deregulated market rate instruments. In 1982, these included a variety of consumer time products, such as IRA Accounts, Tax-Free Accounts, six-month Money Market Certificates and 2-1/2 year High Yield Bonds. In 1983, Money Market Accounts were the primary source of new funds. These new deposits averaged \$293.5 million for the year resulting in an increase of over 200% in interest bearing demand deposits. The introduction of MMA's caused a 16.6% decrease in regular savings accounts. Time deposits over \$100,000 declined from \$83.1 million in the prior year to \$31.4 million in 1983. Time deposits under \$100,000 increased \$5.2 million or 1.2%. This contrasts with an increase of \$123.5 million or 40.5% in 1982.

Non-interest bearing demand deposits, which have traditionally been a very important source of funds for the Corporation, increased \$37.8 million or 7.8% in 1983. This compares to growth of \$13.8 million or 2.9% in 1982. Higher volumes in 1983 were contributed by commercial accounts, reflecting efforts to expand in the corporate market. Consumer accounts remained at the same level as the prior year, due to the attraction to interest bearing demand instruments.

As depicted in the chart below, the growth experienced during the last few years in market rate and interest bearing demand accounts has profoundly impacted the Corporation's deposit mix. Both savings and interest-free demand deposits have steadily declined as a percentage of total deposits. Savings accounts were 12.1% of total deposits in 1983 compared to 24.7% in 1979.



Interest-free demand deposits decreased from 43.5% of total deposits in 1979 to 32.1% in 1983. Core time deposits increased sharply during the period 1979 through 1982, but decreased as a percentage of total deposits from 1982 to 1983, as interest bearing demand accounts increased from 10.4% of total deposits to 27.3%.

Capital Adequacy

There are a variety of measures which management uses to evaluate capital adequacy. These include several ratios which are presented in the table below. The ratio of average primary equity to average assets is based on the regulatory concept which defines primary equity as the total of equity and the allowance for loan and lease losses. Average total equity is defined as primary equity plus subordinated notes and debentures.

Although these measures declined during the period 1981 through 1983, they remain in a range which is considered more than adequate by industry standards. Management is confident that improved earnings in 1984 will help strengthen the Corporation's capital position.

Total shareholders' equity was \$117.8 million at December 31, 1983, increasing \$1.7 million from \$116.1 million at year-end 1982. Book value per share was \$31.17 compared to \$30.44 at year-end 1982 and \$27.88 at year-end 1981.

Capital Adequacy Ratios

	1983	1982	1981
Average equity to average assets	5.67%	6.10%	6.14%
Average primary equity to average assets	6.18	6.64	6.72
Average total equity to average assets	6.92	7.47	7.76

Liquidity and Interest Sensitivity

Liquidity is defined as the ability to provide sufficient cash to fund operations and meet obligations and commitments on a timely basis. Maintaining adequate liquidity is an essential part of asset/liability management.

Liquidity is provided by marketable investments, maturing loans and fed funds sold. Investment securities represented 19.6% of average earning assets in 1983, and as of December 31, 45.4% of the total portfolio had remaining maturities of one year or less. This compares to 38.9% in 1982 and 33.5% in 1981. Approximately 68.6% of the year-end loan portfolio (excluding consumer and 1-4 family residential loans) had remaining

maturities of less than one year. The total dollar amount increased from \$451.5 million in 1982 to \$465.4 million in 1983. The average balance of fed funds sold increased \$35.3 million over the prior year.

Core deposits strengthen the Corporation's liquidity position, providing a relatively stable and low-cost funding base. Average core deposits totaled \$1.6 billion in 1983, increasing \$305.1 million or 23.7%. Over the last three years, core deposits have increased \$474.1 million or 42.3%. Other funding sources include fed funds purchased, security repurchase agreements, U.S. Treasury demand notes and short-term commercial

Investment Portfolio

Remaining maturities and average yield at December 31, 1983

(In Thousands)	U.S. Treasury and Other U.S. Government Agencies and Corporations		State and Political Subdivisions		Other Taxable Securities		Total	
	Amount	Yield	Amount	Yield*	Amount	Yield	Amount	Yield
Maturities within 1 year	\$119,677	10.50%	\$26,763	13.20%	\$ —	—%	\$146,440	10.99%
After 1 year but within 5	97,623	10.24	37,606	8.82	200	11.50	135,429	9.85
After 5 years but within 10	5,681	10.91	19,893	10.71	215	13.41	25,789	10.78
After 10 years	10,565	7.85	2,224	11.87	1,927	4.32	14,716	8.00
Total	\$233,546	10.28%	\$86,486	10.69%	\$2,342	5.76%	\$322,374	10.36%

* Weighted average yields on tax-exempt obligations have been computed on a fully taxable equivalent basis assuming a tax rate of 46%.

Short-Term Borrowings

Short-term borrowings are summarized as follows:

(In Thousands)	U. S. Treasury Demand Notes		Commercial Paper		Total	
	1983	1982	1983	1982	1983	1982
Balance at December 31	\$16,904	\$30,432	\$ 4,196	\$24,204	\$21,100	\$54,636
Average interest rate at December 31	8.71%	8.54%	8.79%	9.35%	8.73%	8.90%
Maximum outstanding at any month-end	\$30,865	\$32,194	\$40,466	\$38,575	\$71,331	\$70,769
Average daily balance	20,543	20,617	23,109	33,612	43,652	54,229
Weighted average interest rate	9.43%	12.67%	8.74%	12.87%	9.06%	12.80%

Commercial paper has maturities generally ranging from 14 to 270 days. Transactions involving federal funds purchased and securities sold under agreements to repurchase are engaged in primarily as a service for correspondent banks and customers. The weighted average interest rate on short-term borrowings is computed by dividing the respective interest expense by the average daily balance.

Remaining Maturity and Interest Rate Sensitivity of Selected Loans

December 31, 1983 (In Thousands)	Maturing			Total
	Within 1 Year	1 - 5 Years	Over 5 Years	
Commercial, financial and agricultural	\$398,645	\$ 89,157	\$ 23,313	\$511,115
Real estate construction	35,459	1,445	—	36,904
Other loans secured by real estate*	31,257	41,066	58,153	130,476
Total	\$465,361	\$131,668	\$ 81,466	\$678,495
Loans with predetermined rates	\$336,882	\$ 68,621	\$ 12,027	\$417,530
Loans with floating rates	128,479	63,047	69,439	260,965
Total	\$465,361	\$131,668	\$ 81,466	\$678,495

*Does not include 1 - 4 family residential loans.

paper, which in the aggregate decreased \$31.0 million or 11.9% from the prior year. Time deposits of \$100,000 or more have traditionally been a relatively minor source of funds. They totaled \$31.2 million at year-end, representing less than 2% of total deposits. Of this total balance, \$22.6 million or 72.4% was due to mature within three months, with only \$.9 million maturing after 12 months.

Time Deposits

Maturities of time deposits of \$100,000 or more as of December 31, 1983 were as follows:

(In Thousands)	
Maturities within 3 months	\$22,609
After 3 months but within 6 months	6,358
After 6 months but within 12 months	1,404
After 12 months	857
Total	\$31,228

Interest rate sensitivity management is closely tied to liquidity management. In analyzing interest rate sensitivity, assets and liabilities are categorized based on the time periods in which they reprice. Repricing occurs either due to maturity or because rates are tied to market rates of interest. The difference between the amount of assets and liabilities repricing within a specified time period is known as "Interest Rate Sensitivity Gap." A positive gap indicates interest sensitive assets are greater than interest sensitive liabilities, and a negative gap arises when interest sensitive liabilities are greater than interest sensitive assets. Although profits can be realized from mismatches, minimizing the gap limits the risks associated with fluctuating rates and helps produce stable growth in net interest income.

With increased rate volatility and the growth of interest sensitive liabilities, the analysis of interest sensitivity has become an increasingly important part of asset/liability management.

As indicated in the table below, Peoples Bancorporation had a positive interest sensitivity gap for the period 0-90 days and a negative gap for the periods 91-180 days and 181-365 days.

Interest Rate Sensitivity Analysis

December 31, 1983 (In Millions)	Interest Sensitivity Period			
	0-90 Days	91-180 Days	181-365 Days	Over 1 Year
Total earning assets	\$847	\$ 50	\$ 82	\$590
Total sources of funds for earning assets	795	120	382	272
Interest Sensitivity Gap	\$ 52	\$(70)	\$(300)	\$318

Credit Risk Management

Peoples Bancorporation maintains a system of credit quality control, which includes careful screening and analysis of all potential credits, monitoring of the loan and lease portfolio for the continuing soundness of credits, and close review and evaluation of problem credits in order to minimize losses.

Despite these measures, the adverse economic climate of the past several years has caused the level of problem credits and charge-offs to increase. Our region has suffered record levels of unemployment, business failures and personal bankruptcies. We feel, however, that Peoples Bancorporation's portfolio is performing equal to or better than other banks in the area, as well as nationally. The credit policies outlined above, combined with a very diversified loan portfolio and limited foreign exposure, has reduced the impact of the economic recession.

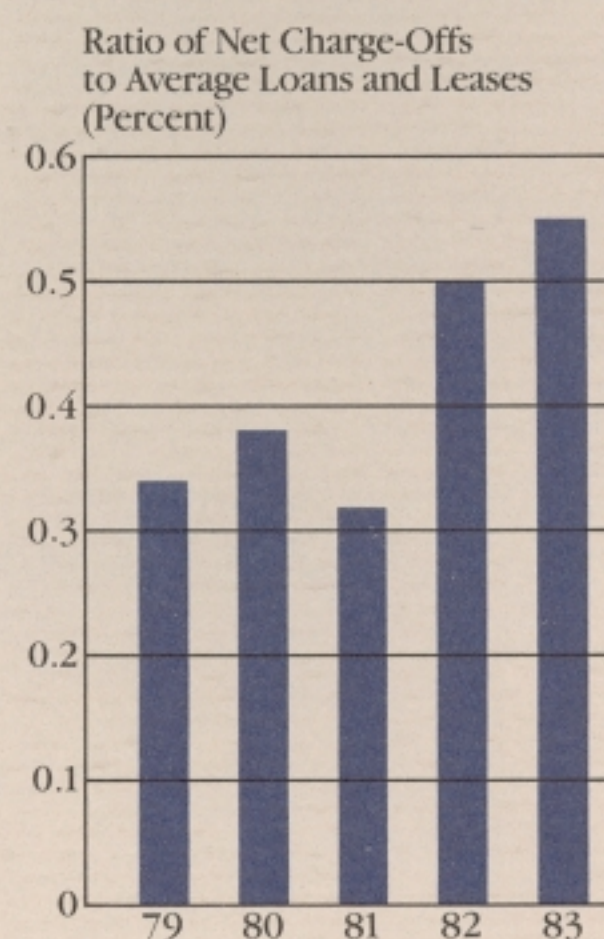
Credit Losses

The allowance for possible credit losses is maintained at a level which management considers to be adequate to cover future loan and lease losses. Management's assessment of future losses is based on several factors, including the size and risk characteristics of the portfolio, historical loss experience, the current economic environment and the outlook for future economic conditions. At December 31, 1983, the allowance for possible credit losses was \$10.7 million or .99% of outstanding loans and leases.

The allowance is increased by the amount of provision charged against earnings and is reduced by net charge-offs. The provision totaled \$6.1 million for 1983, an increase of \$.4 million or 7.3% over 1982. Net charge-offs totaled \$5.8 million in 1983 compared to \$4.9 million in 1982 and \$2.9 million in 1981. The ratio of net charge-offs to average loans and leases also increased from .32% in 1981 to .50% and .55% in 1982 and 1983, respectively. While charge-offs increased \$1.9 million in 1983, recoveries were also up \$1.0 million.

Summary of Loan Loss Experience

(In Thousands)	1983	1982	1981	1980	1979
Allowance for possible credit losses:					
Balance at beginning of year	\$10,432	\$ 9,682	\$8,655	\$7,705	\$6,419
Charge-offs:					
Commercial, financial and agricultural	4,387	3,272	1,885	1,608	1,956
Real estate construction	—	—	—	—	—
Real estate mortgage	678	371	287	212	85
Consumer	2,554	1,903	1,449	1,369	966
Lease financing	777	921	807	1,040	574
Total	8,396	6,467	4,428	4,229	3,581
Recoveries:					
Commercial, financial and agricultural	995	628	930	551	333
Real estate construction	—	—	—	—	—
Real estate mortgage	127	26	35	6	20
Consumer	1,135	634	454	293	236
Lease financing	305	245	156	91	60
Total	2,562	1,533	1,575	941	649
Net charge-offs	5,834	4,934	2,853	3,288	2,932
Provision charged against earnings	6,099	5,684	3,880	4,238	4,218
Balance at end of year	\$10,697	\$10,432	\$9,682	\$8,655	\$7,705
Loans and leases outstanding at					
December 31 (net of unearned income)	\$1,082,632	\$1,064,190	\$933,371	\$878,174	\$872,709
Average loans and leases outstanding (net of unearned income)	1,066,155	979,971	892,132	855,083	857,129
Ratio of net charge-offs to average loans and leases	.55%	.50%	.32%	.38%	.34%
Ratio of allowance for possible credit losses to loans and leases outstanding at December 31	.99	.98	1.04	.99	.88



Net charge-offs were higher for all loan categories in 1983. Net commercial loan charge-offs were up \$748,000, producing a net charge-off ratio of .65% of average loans compared to .59% in the prior year. Net real estate charge-offs increased \$206,000, resulting in a net charge-off ratio of .13% of average loans compared to .19% in 1982. Net consumer loan charge-offs totaled .61% of average loans, up from .56% in 1982. Net lease charge-offs declined from 2.17% of average leases to 1.94%.

Non-Performing Assets

Non-performing assets increased sharply during 1982 and 1983, reflecting the effects of the economic recession. Total non-performing assets, which includes non-

time an asset is placed on non-accrual status, any interest income previously accrued but uncollected is reversed against earnings.

It should be noted that non-performing status does not necessarily indicate an anticipated loss or ultimate loss of interest, as assets in this category are generally well-secured by collateral or guaranties.

As of December 31, 1983, there were \$1,316,000 of loans which were not included in any category under non-performing assets, but about which management has concerns regarding the continuing ability of the borrower to comply with present loan repayment terms. These loans are being monitored very closely by management and their classification is reviewed on a

Non-Performing Assets

December 31 (In Thousands)	1983	1982	1981	1980	1979
Non-Performing Loans and Leases					
Non-accrual	\$17,642	\$ 7,212	\$ 6,401	\$ 2,724	\$ 1,723
Restructured—Note 1	—	—	—	—	—
Real estate in process of foreclosure	3,489	4,724	—	—	—
Total	\$21,131	\$11,936	\$ 6,401	\$ 2,724	\$ 1,723
Other real estate owned	\$10,556	\$ 4,566	\$ 1,759	\$ 765	\$ 301
Past due loans and leases—Note 2	6,700	10,855	12,040	44,362	35,998

Note 1—Due to the change in the Securities and Exchange Commission's criteria for disclosing restructured loans, \$5.1 million of loans included in this category in the 1982 Annual Report have been omitted from the above table.

Note 2—Past-due loans and leases are here defined as contractually past-due 90 days or more for 1983, 1982 and 1981 and 30 days or more for 1980 and 1979, for which 90 day past-due information is unavailable. Loans and leases past due 30 days or more amounted to \$31,062,000, \$54,17,000 and \$55,124,000 as of December 31, 1983, 1982 and 1981, respectively.

accrual loans and leases, real estate in the process of foreclosure and other real estate owned, rose from \$8.2 million or .5% of total assets in 1981 to \$31.7 million or 1.6% of total assets in 1983.

Non-performing loans and leases constituted 2.0% of total loans and leases in 1983, increasing from 1.1% and .7% in 1982 and 1981, respectively. Non-accruals were \$17.6 million at December 31, 1983 compared to \$7.2 million at year-end 1982. The point at which a credit is placed on non-accrual status on the Corporation's books depends on several factors, but generally, it is management's policy to discontinue the accrual of interest for income statement purposes whenever circumstances indicate collection is questionable. At the

regular basis. There are currently no commitments to lend additional funds to customers whose loans were classified as non-performing at December 31, 1983.

Other information with respect to non-accrual loans at December 31, 1983 is as follows:

(In Thousands)	Year ended December 31, 1983
Interest income which would have been recorded under original terms	\$2,354
Interest income recorded	608

As of December 31, 1983, Peoples Bancorporation had \$2.0 million of loans outstanding to Brazil and \$9.6 million outstanding to Mexico.

Supplemental Information on the Effects of Changing Prices

Basis of Presentation

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the following information is presented concerning the effects of changing prices on the financial statements.

Statement No. 33 requires the adjustment of key historical data for the effects of general inflation (constant dollar) using the Consumer Price Index (CPI) and for the effects of specific price changes (current cost). There is no material difference between the disclosed general price level impact and the impact of specific price changes and therefore, the current cost disclosure is omitted.

As specified by Statement No. 33, no adjustments to or allocation of the amount of income tax expense in the primary financial statements were made in the computation of the supplemental information.

Impact of Changing Prices on Historical Financial Data

The FASB does not require each financial statement item to be restated for the impact of changing prices. Instead, the FASB has focused disclosures on those items which are most affected by changing prices—premises and equipment and monetary assets and liabilities.

In periods of general inflation, non-monetary assets such as premises and equipment purchased in prior years normally have a constant dollar value higher than their nominal dollar value. Depreciation expense based on these constant dollar values would accordingly be

higher. For 1983, the effect of restating non-monetary assets on a constant dollar basis using the 1983 average CPI would have been an increase to depreciation expense of \$1,675,000.

Inflation will also impact the purchasing power of net monetary assets. In 1983, the Corporation experienced a loss in the purchasing power of its net monetary assets of \$1,656,000. This was computed by determining the difference between net monetary assets at the beginning and end of 1983, after conversion into average dollars using the average CPI for 1983.

It should be noted that a bank's asset and liability structure is substantially different from that of an industrial company, in that virtually all assets and liabilities of a bank are monetary in nature. Accordingly, changes in interest rates may have a significant impact on a bank's performance. Interest rates do not necessarily move in the same direction, or in the same magnitude, as the prices of other goods and services.

Statement of Income Adjusted for Changing Prices

(In Thousands)	Year Ended December 31, 1983
Net income, as reported in the consolidated statement of income	\$6,032
Less:	
Increase in depreciation expense to reflect the effect of changing prices	1,675
Net income adjusted for changing prices	\$4,357

The table below presents comparative historical information which has been adjusted for the effect of general inflation by applying the average CPI for 1983 to the amounts as originally reported.

Five-Year Comparison of Selected Supplemental Financial Data Adjusted for Effects of Changing Prices

(In Thousands, Except Per Share)	Year Ended December 31				
	1983	1982	1981	1980	1979
Net interest income	\$ 74,429	\$ 82,784	\$ 83,099	\$ 85,646	\$ 88,180
Net income	4,357	12,010	15,269	12,671	14,849
Net assets at year-end	148,594	151,508	148,994	124,412	122,701
Purchasing power loss from holding net monetary assets during the year	1,656	1,767	4,730	6,032	5,329
Per common share—Note 1:					
Net income	1.15	3.14	4.00	3.33	4.19
Cash dividends declared	1.00	1.03	1.09	1.10	1.21
Market bid price (at year-end)	23.25	16.26	21.09	19.96	22.31
Average consumer price index for all urban consumers	298.5	289.2	272.5	246.8	217.4

Note 1—Adjusted for all stock dividends and stock splits to date.

Quarterly Financial Information

(In Thousands, Except Per Share)	1983				1982			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Interest income	\$ 44,856	\$ 46,418	\$ 47,692	\$ 47,026	\$ 46,308	\$ 50,239	\$ 50,930	\$ 47,463
Interest expense	26,783	27,522	28,929	28,329	27,510	29,925	29,792	27,536
Net interest income	18,073	18,896	18,763	18,697	18,798	20,314	21,138	19,927
Provision for possible credit losses	1,917	1,230	1,051	1,901	965	1,143	1,968	1,608
Non-interest income	8,798	9,559	9,248	9,847	7,846	8,066	8,967	9,107
Non-interest expense	29,302	25,100	22,379	25,696	22,133	23,582	23,057	23,693
Income (loss) before taxes	(4,348)	2,125	4,581	947	3,546	3,655	5,080	3,733
Income tax expense (benefit)	(3,070)	(24)	949	(582)	584	576	1,152	279
Net income (loss)	\$ (1,278)	\$ 2,149	\$ 3,632	\$ 1,529	\$ 2,962	\$ 3,079	\$ 3,928	\$ 3,454
Net income (loss) per share:								
Primary	\$(.34)	\$.57	\$.96	\$.40	\$.77	\$.81	\$1.03	\$.90
Fully diluted	(.29)	.55	.91	.39	.73	.76	.97	.86
Quarterly Common Stock Data								
Market bid price:								
High	\$21	\$24	\$23½	\$23¼	\$19½	\$16½	\$15	\$18¾
Low	15¾	18¾	18¾	20	15¼	12¼	12½	14¾
Dividends declared per share	.25	.25	.25	.25	.25	.25	.25	.25

During the first quarter of 1983, \$5 million was reserved for the settlement of litigation described in Note L to the financial statements. The provision for settlement costs was included in non-interest expenses. First quarter net income was reduced by \$2.7 million as a result of this charge. During the third quarter, the settlement was implemented and payments were made totaling \$2.4 million. Consequently, the original provision was reduced by \$2.6 million or \$1.4 after taxes.

Peoples Bancorporation's common stock is traded in the over-the-counter market under the NASDAQ symbol PEOP and quoted daily in leading financial publications. There were approximately 1,867 shareholders of record as of December 31, 1983. The payment of dividends on common stock is subject to the restrictions described in Note I to the consolidated financial statements. The above bid quotations were compiled by the National Quotation Bureau, Inc.

Average Balances/Interest Income and Expense/Rates

(In Thousands)	1983			1982			1981		
	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid
Assets									
Investment securities:									
Taxable	\$ 232,398	\$ 25,133	10.81%	\$ 148,303	\$ 18,842	12.70%	\$ 112,340	\$ 13,354	11.89%
Non-taxable	93,112	10,196	10.95	104,471	12,410	11.88	102,087	11,804	11.56
Total investment securities	325,510	35,329	10.85	252,774	31,252	12.36	214,427	25,158	11.73
Interest bearing deposits with banks	247	28	11.15	8,585	1,275	14.85	1,323	140	10.55
Trading account securities	15,746	1,767	11.22	7,055	881	12.49	2,453	390	15.91
Federal funds sold and securities purchased under agreements to resell	249,598	22,828	9.15	214,290	25,886	12.08	144,266	23,491	16.28
Loans and leases:									
Commercial	520,538	62,772	12.06	448,391	69,801	15.57	372,938	64,979	17.42
Consumer	231,013	30,198	13.07	227,197	31,884	14.03	208,764	26,552	12.72
Real estate	290,230	30,404	10.48	273,285	29,625	10.84	270,518	29,849	11.03
Lease financing	24,374	3,180	13.05	31,098	4,541	14.60	39,912	5,368	13.45
Total loans and leases	1,066,155	126,554	11.87	979,971	135,851	13.86	892,132	126,748	14.21
Loan fees	—	6,671	.63	—	6,750	.69	—	6,510	.73
Total—including loan fees	1,066,155	133,225	12.50	979,971	142,601	14.55	892,132	133,258	14.94
Total earning assets	1,657,256	\$193,177	11.66%	1,462,675	\$201,895	13.80%	1,254,601	\$ 182,437	14.54%
Less allowance for possible credit losses	(10,390)			(9,936)			(9,216)		
Cash and due from banks	264,964			238,259			221,540		
Other non-earning assets	134,201			150,850			113,591		
Total Assets	\$2,046,031			\$1,841,848			\$1,580,516		
Liabilities and Shareholders' Equity									
Interest bearing deposits:									
Demand	\$ 443,547	\$ 31,386	7.08%	\$ 142,525	\$ 7,456	5.23%	\$111,705	\$ 5,757	5.15%
Savings	196,154	10,366	5.29	235,126	12,395	5.27	234,142	12,377	5.29
Time deposits over \$100,000	31,403	2,654	8.45	83,051	10,368	12.48	81,187	12,615	15.54
Other time deposits	433,707	45,582	10.51	428,531	53,364	12.45	305,079	38,145	12.50
Total interest bearing deposits	1,104,811	89,988	8.15	889,233	83,583	9.40	732,113	68,894	9.41
Federal funds purchased and securities sold under agreements to repurchase	186,865	15,675	8.39	207,324	22,520	10.86	154,547	22,589	14.62
Other short-term borrowings	43,652	3,956	9.06	54,229	6,939	12.80	52,020	8,324	16.00
Long-term debt	21,502	1,944	9.04	18,906	1,721	9.10	16,402	1,367	8.33
Total interest bearing liabilities	1,356,830	\$111,563	8.22%	1,169,692	\$114,763	9.81%	955,082	\$101,174	10.59%
Non-interest bearing demand deposits	521,202			483,360			469,574		
Other liabilities	51,950			76,510			58,815		
Shareholders' equity	116,049			112,286			97,045		
Total Liabilities and Shareholders' Equity	\$2,046,031			\$1,841,848			\$1,580,516		
Yield on earning assets		\$193,177	11.66%		\$201,895	13.80%		\$182,437	14.54%
Interest expense related to earning assets		111,563	6.73		114,763	7.85		101,174	8.07
Net Interest Margin		\$ 81,614	4.93%		\$ 87,132	5.95%		\$ 81,263	6.47%

The above table is presented on a fully taxable equivalent basis assuming a 46% income tax rate. Non-accrual loans are included in average loan balances. Certain loans previously included in the commercial loan category were reclassified to consumer loans. Changes in net interest margin not due solely to changes in volume or rate have been allocated to rate.

Analysis of Changes in Net Interest Margin

Year Ended 1983 over 1982			Year Ended 1982 over 1981		
Volume	Rate	Total	Volume	Rate	Total
\$ 10,684	\$ (4,393)	\$ 6,291	\$ 4,275	\$ 1,213	\$ 5,488
(1,349)	(865)	(2,214)	276	330	606
9,335	(5,258)	4,077	4,551	1,543	6,094
(1,238)	(9)	(1,247)	768	367	1,135
1,085	(199)	886	731	(240)	491
4,265	(7,323)	(3,058)	11,402	(9,007)	2,395
11,233	(18,262)	(7,029)	13,143	(8,321)	4,822
535	(2,221)	(1,686)	2,345	2,987	5,332
1,837	(1,058)	779	305	(529)	(224)
(982)	(379)	(1,361)	(1,185)	358	(827)
12,623	(21,920)	(9,297)	14,608	(5,505)	9,103
595	(674)	(79)	641	(401)	240
13,218	(22,594)	(9,376)	15,249	(5,906)	9,343
\$26,665	\$(35,383)	\$ (8,718)	\$32,701	\$(13,243)	\$19,458
\$15,743	\$ 8,187	\$23,930	\$ 1,588	\$ 111	\$ 1,699
(2,054)	25	(2,029)	52	(34)	18
(6,448)	(1,266)	(7,714)	290	(2,537)	(2,247)
644	(8,426)	(7,782)	15,436	(217)	15,219
7,885	(1,480)	6,405	17,366	(2,677)	14,689
(2,222)	(4,623)	(6,845)	7,714	(7,783)	(69)
(1,354)	(1,629)	(2,983)	353	(1,738)	(1,385)
236	(13)	223	209	145	354
\$ 4,545	\$ (7,745)	\$ (3,200)	\$25,642	\$(12,053)	\$13,589
\$22,120	\$(27,638)	\$ (5,518)	\$ 7,059	\$ (1,190)	\$ 5,869

Consolidated Balance Sheets
Peoples Bancorporation and Subsidiaries

December 31 (In Thousands)	1983	1982
Assets		
Cash and due from banks	\$ 284,606	\$ 249,061
Interest bearing deposits with banks	45,000	—
Investment securities (market value—\$317,219 in 1983 and \$285,237 in 1982)—Note B	322,374	292,721
Trading account securities	17,501	32,632
Federal funds sold and securities purchased under agreements to resell	105,574	235,906
Loans and leases (net of unearned income—\$7,979 in 1983 and \$9,820 in 1982)—Note C	1,082,632	1,064,190
Less allowance for possible credit losses—Note D	(10,697)	(10,432)
Net loans and leases	1,071,935	1,053,758
Premises and equipment—Note E	53,119	52,755
Customers' acceptance liability	22,128	35,227
Other assets	63,525	53,202
Total Assets	\$1,985,762	\$2,005,262
Liabilities and Shareholders' Equity		
Deposits:		
Non-interest bearing demand	\$ 580,399	\$ 520,365
Interest bearing demand	478,243	237,526
Savings	188,224	229,429
Time	497,183	506,843
Total deposits	1,744,049	1,494,163
Federal funds purchased and securities sold under agreements to repurchase	35,721	245,529
Other short-term borrowings	21,100	54,636
Acceptances outstanding	22,128	35,227
Other liabilities	22,428	39,066
Long-term debt—Note F	22,491	20,513
Total Liabilities	1,867,917	1,889,134
Shareholders' Equity		
Common stock, par value \$5.00 a share—authorized 10,000,000 shares, issued 3,827,818 shares in 1983 and 3,827,069 shares in 1982—Note G	19,139	19,135
Surplus	23,164	23,148
Retained earnings	76,270	74,018
	118,573	116,301
Less common stock in treasury, at cost—47,000 shares in 1983 and 12,500 shares in 1982	(728)	(173)
Total Shareholders' Equity	117,845	116,128
Total Liabilities and Shareholders' Equity	\$1,985,762	\$2,005,262

See notes to consolidated financial statements.

Consolidated Statements of Income
Peoples Bancorporation and Subsidiaries

Year Ended December 31 (In Thousands, Except Per Share)

	1983	1982	1981
Interest Income			
Interest and fees on loans and leases	\$131,196	\$141,444	\$133,258
Interest on deposits with banks	28	1,275	140
Interest on federal funds sold	22,828	25,886	23,491
Interest on investment securities:			
Taxable	25,133	18,842	13,354
Exempt from federal income taxes	5,506	6,701	6,374
Interest on trading account securities	1,301	792	390
Total Interest Income	185,992	194,940	177,007
Interest Expense			
Interest on deposits	89,988	83,583	68,894
Interest on federal funds purchased	15,675	22,520	22,589
Interest on short-term borrowings	3,956	6,939	8,324
Interest on long-term debt	1,944	1,721	1,367
Total Interest Expense	111,563	114,763	101,174
Net Interest Income	74,429	80,177	75,833
Provision for possible credit losses—Note D	6,099	5,684	3,880
Net Interest Income After Provision for Possible Credit Losses	68,330	74,493	71,953
Non-Interest Income			
Trust income	4,705	4,077	3,508
Service charges on deposit accounts	11,407	9,163	7,410
Other service charges, commissions and fees	18,588	17,742	15,498
Securities gains (losses)	(102)	28	6
Other	2,854	2,976	2,418
Total Non-Interest Income	37,452	33,986	28,840
	105,782	108,479	100,793
Non-Interest Expense			
Salaries	43,388	41,999	37,425
Employee benefits—Note J	9,325	8,950	7,909
Occupancy expense—Note E	5,636	5,272	4,747
Furniture and equipment expense—Note E	11,682	9,835	7,515
Litigation settlement—Note L	2,400	—	—
Other	30,046	26,409	20,827
Total Non-Interest Expense	102,477	92,465	78,423
Income before income taxes	3,305	16,014	22,370
Income tax expense (benefit)—Note K	(2,727)	2,591	6,757
Net Income	\$ 6,032	\$ 13,423	\$ 15,613
Net Income Per Share:			
Primary	\$1.59	\$3.51	\$4.09
Fully diluted	\$1.56	\$3.33	\$3.83

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position
Peoples Bancorporation and Subsidiaries

Year Ended December 31 (In Thousands)	1983	1982	1981
Source of Funds			
Net income	\$ 6,032	\$ 13,423	\$ 15,613
Charges to income not requiring funds:			
Depreciation and amortization	9,375	7,623	4,721
Provision for possible credit losses	6,099	5,684	3,880
Deferred tax expense	2,779	1,145	1,326
Total from operations	24,285	27,875	25,540
Increase in:			
Deposits	249,886	191,705	67,718
Federal funds purchased and securities sold under agreements to repurchase	—	42,953	153,876
Other short-term borrowings	—	1,202	—
Other liabilities	—	10,416	2,615
Long-term debt	1,998	3,070	815
Decrease in:			
Cash and due from banks	—	15,133	—
Interest bearing deposits with banks	—	7,900	—
Trading account securities	15,131	—	—
Federal funds sold and securities purchased under agreements to resell	130,332	—	—
Total Source of Funds	\$421,632	\$300,254	\$250,564
Application of Funds			
Increase in:			
Cash and due from banks	\$ 35,545	\$ —	\$ 34,190
Interest bearing deposits with banks	45,000	—	7,900
Investment securities	32,314	82,715	825
Trading account securities	—	28,431	402
Federal funds sold and securities purchased under agreements to resell	—	24,470	121,871
Loans and leases	23,815	135,748	57,990
Premises and equipment	5,784	13,348	8,159
Other assets	12,078	11,546	9,930
Decrease in:			
Federal funds purchased and securities sold under agreements to repurchase	209,808	—	—
Other short-term borrowings	33,536	—	5,485
Other liabilities	19,408	—	—
Treasury stock acquired	555	173	—
Cash dividends paid	3,789	3,823	3,812
Total Application of Funds	\$421,632	\$300,254	\$250,564

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Peoples Bancorporation and Subsidiaries

(In Thousands)	Common Stock	Surplus	Retained Earnings	Treasury Stock	Total
Balance at December 31, 1980	\$19,040	\$22,802	\$44,072	\$ —	\$ 85,914
Net income	—	—	15,613	—	15,613
Cash dividends declared (\$1.00 per share)	—	—	(3,816)	—	(3,816)
Conversion of convertible debentures to common stock	85	304	—	—	389
Reestablishment of excess of purchase price over net assets acquired—Note H	—	—	8,549	—	8,549
Balance at December 31, 1981	19,125	23,106	64,418	—	106,649
Net income	—	—	13,423	—	13,423
Cash dividends declared (\$1.00 per share)	—	—	(3,823)	—	(3,823)
Treasury stock acquired	—	—	—	(173)	(173)
Conversion of convertible debentures to common stock	10	42	—	—	52
Balance at December 31, 1982	19,135	23,148	74,018	(173)	116,128
Net income	—	—	6,032	—	6,032
Cash dividends declared (\$1.00 per share)	—	—	(3,780)	—	(3,780)
Treasury stock acquired	—	—	—	(555)	(555)
Conversion of convertible debentures to common stock	4	16	—	—	20
Balance at December 31, 1983	\$19,139	\$23,164	\$76,270	\$(728)	\$117,845

See notes to consolidated financial statements.

Note A—Summary of Significant Accounting Policies

The accounting and reporting policies of Peoples Bancorporation and its subsidiaries conform to generally accepted accounting principles and to predominant practice within the banking industry. A description of significant accounting policies follows:

Consolidation: The consolidated financial statements of Peoples Bancorporation include the accounts of the Corporation and its wholly-owned subsidiaries, including Peoples National Bank of Washington, the Corporation's principal subsidiary. Significant intercompany transactions and balances are eliminated. The financial statements of the Parent Company include its subsidiaries under the equity method of accounting.

Reclassifications: Certain amounts in the 1982 and 1981 financial statements have been reclassified to conform with the 1983 presentation. These reclassifications, which result primarily from recent SEC rule changes, principally affect the reporting of investment securities gains and losses and the presentation of loans and leases, and their associated allowances for losses. Securities gains and losses are now reported as a component of other income and applicable income taxes are included in the provision for income taxes. Previously, securities gains and losses were reported net of their tax effect as a separate item below the caption "income before securities transactions." Loans and leases are now presented in the balance sheet as one line item, with the allowance for possible credit losses including allowances for both loan losses and lease losses. Previously, direct lease financing had been shown as a separate line item net of the allowance for possible lease losses. On the income statement, lease income has been combined with interest and fees on loans and the provision for credit losses includes the provision for both loan and lease losses. Such reclassifications had no effect on net income.

Cash and Due From Banks: Peoples National Bank of Washington is required to maintain average reserve balances with the Federal Reserve Bank. The average amount of reserve balances for the years ended December 31, 1983 and 1982 was approximately \$25,307,000 and \$32,163,000, respectively.

Investment Securities: Investment securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Gains and losses on the sale of securities are computed principally on the specific identification method.

Loans and Lease Financing: Interest on commercial, real estate, mortgage and certain types of consumer loans is accrued and credited to income based upon the principal amount outstanding. Interest on other consumer loans is accrued and credited to income on the sum-of-the-month's-digits method. It is the policy of management to discontinue the accrual of interest when circumstances indicate that collection is questionable. Loan origination fees are recognized as income when the initial loan disbursement is made except certain construction loan fees are deferred and recognized as income based on the percentage of loan disbursements made. First mortgage loans held for resale are carried at the lower of cost or market value. The financing method of accounting is used for direct lease contract receivables. Under this method, income is recognized during the term of the lease in proportion to the unrecovered investment.

Allowance for Possible Credit Losses: The allowance for possible credit losses is increased by provisions charged to expenses and reduced by loans and leases charged off, net of recoveries. The allowance is based on management's evaluation of potential losses in the loan and lease portfolio after consideration of historical loss experience, current problem credits, economic conditions and other risks inherent in the portfolio.

Premises and Equipment: Premises and equipment are stated at cost less accumulated depreciation and amortization, which is computed on the straight-line and accelerated methods over the estimated useful lives of the assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is less. Gains or losses on dispositions are reflected in earnings.

Mortgage Commitments: Gains or losses on mortgage standby contracts and mortgage forward contracts are recognized when the transactions are consummated. Standby contract fees are recognized as an expense when loans are delivered, the standby period expires, or when a determination has been made that the standby contract will not be used.

Trust Income: Income from trust services has been recognized on the cash basis in accordance with predominant industry practice. The results of trust operations would not be materially different if reported on an accrual method.

Income Taxes: The provision for income taxes is based on income and expense reported for financial statement purposes after adjustment for tax-exempt income and tax credits. Deferred income taxes are provided on timing differences when income and expenses are recognized in different periods for financial and income tax reporting purposes. Investment tax credits related to assets acquired for use by the Corporation and subsidiaries are accounted for under the "flow through" method which recognizes the benefit in the year in which the asset is placed in service.

Investment tax credits relating to certain equipment leases are amortized over the terms of the respective leases.

Earnings Per Share: Primary earnings per share are computed based on the weighted average number of shares outstanding during the year (1983—3,784,694; 1982—3,822,554; and 1981—3,813,900). Per share amounts on a fully diluted basis assume conversion of all outstanding convertible debentures and elimination of related interest expense net of the applicable income tax effect.

Note B—Investment Securities

The following table reflects the book and market values of investment securities at December 31:

(In Thousands)	1983		1982	
	Book	Market	Book	Market
U.S. Treasury and other U.S. Government Agencies and corporations	\$233,546	\$234,324	\$186,942	\$190,117
State and political subdivisions	86,486	80,373	102,855	91,907
Other taxable securities	2,342	2,522	2,924	3,213
Total investment securities	\$322,374	\$317,219	\$292,721	\$285,237

Securities carried at approximately \$45,882,000 and \$58,447,000 at December 31, 1983 and 1982, respectively, were pledged to secure public deposits and trust funds as required by law.

Note C—Loans and Leases

Loans and leases at December 31 consisted of the following:

(In Thousands)	1983	1982
Commercial, financial and agricultural	\$ 511,115	\$ 504,889
Real estate construction	36,904	22,096
Real estate mortgage	302,238	309,482
Consumer	209,698	202,839
Lease financing	30,656	34,704
Less unearned income	(7,979)	(9,820)
Total loans and leases	\$1,082,632	\$1,064,190

Certain related parties of Peoples Bancorporation, principally directors of the Corporation and their associates were loan customers of the Corporation and its subsidiaries in the ordinary course of business during 1983 and 1982. Activity related to these loans during 1983 was as follows:

(In Thousands)	
Balance at December 31, 1982	\$ 19,229
New loans	155,311
Repayments	(160,666)
Balance at December 31, 1983	\$ 13,874

Note D—Allowance for Possible Credit Losses

Changes in the allowance for possible credit losses for the years ended December 31, 1983, 1982 and 1981 were as follows:

(In Thousands)	1983	1982	1981
Balance at beginning of year	\$10,432	\$ 9,682	\$ 8,655
Provision charged against earnings	6,099	5,684	3,880
Charge-offs	(8,396)	(6,467)	(4,428)
Recoveries	2,562	1,533	1,575
Net charge-offs	(5,834)	(4,934)	(2,853)
Balance at December 31	\$10,697	\$10,432	\$ 9,682

Note E—Premises and Equipment

The components of premises and equipment at December 31 are as follows:

(In Thousands)	Estimated Useful Life	1983	1982
Land		\$ 7,969	\$ 7,819
Buildings	15-45 Years	39,078	37,738
Leasehold improvements	Life of Lease	9,028	8,209
Furniture and fixtures	5-15 Years	29,777	28,406
		85,852	82,172
Less accumulated depreciation and amortization		(32,733)	(29,417)
Total premises and equipment		\$53,119	\$52,755

Depreciation expense on premises and equipment totaled \$5,420,000, \$4,924,000 and \$3,872,000 for the years ended December 31, 1983, 1982 and 1981, respectively. Occupancy expense has been reduced by rental income received. Such income amounted to \$2,122,000, \$2,013,000 and \$1,800,000 for the years ended December 31, 1983, 1982 and 1981, respectively.

Minimum net rental commitments under noncancellable leases having an original or remaining term of more than one year are as follows as of December 31, 1983:

(In Thousands)	
1984	\$ 4,056
1985	3,339
1986	2,346
1987	1,470
1988	1,052
1989 and subsequent	5,470
Total minimum payments required	\$17,733

Certain leases contain renewal options from 2 to 20 years and escalation clauses based upon increases in property taxes and other costs. These commitments have been reduced by rentals to be received from existing noncancellable subleases (the total amount of which is not significant).

Rental expense of leased premises and equipment was \$7,624,000 in 1983, \$7,580,000 in 1982 and \$5,734,000 in 1981.

Note F—Long-Term Debt

Long-term debt at December 31 consisted of the following:

(In Thousands)	1983	1982
8¾% Subordinated Capital Note, due 1983 through 1986	\$ 5,500	\$ 6,500
8½% Series A Subordinated Convertible Debentures, due December 15, 1984	7,531	7,531
8¾% Series B Subordinated Convertible Debentures, due December 15, 1989	1,185	1,205
13¼% Mortgage Note Payable, due July 1, 1992	2,700	3,000
Other long-term debt	5,575	2,277
Total long-term debt	\$22,491	\$20,513

Subordinated Capital Note: On December 30, 1976, Peoples National Bank issued a \$6,500,000 Capital Note payable to Security Pacific National Bank. The first principal payment of \$1,000,000 was made on December 31, 1983 and semi-annual payments of \$500,000 will be made for the succeeding two and one-half years. The remaining principal balance of \$3,000,000 is due on December 31, 1986. Interest on the note is payable quarterly. This note is unsecured and subordinated to the rights of depositors and other creditors, except the holders of Subordinated Convertible Debentures as discussed below.

Subordinated Convertible Debentures: In June 1977, Peoples National Bank issued \$10,000,000 of Subordinated Convertible Debentures in two series. Both series were sold in denominations of \$1,000 and multiples thereof, with interest payable semi-annually, subject to certain elections. The debentures are convertible prior to maturity into \$5 par value common stock. The conversion rate is the higher of \$13.375 per share, or 95% of the consolidated book value per share at the end of the most recent calendar quarter, net of the unamortized excess of purchase price over net assets acquired reestablished on the books of the Holding Company at the time of its formation. At December 31, 1983, the conversion rate was \$27.94 per share. During 1983, debentures with a face value of \$20,000 were converted into 749 shares of common stock. The convertible debentures are unsecured, subordinate and junior in right of payment to the rights of depositors and other creditors. In addition, the debentures rank on a parity with the Subordinated Capital Note presently outstanding, except as to the portion of the Subordinated Note which will be repaid before the maturity of the convertible debentures.

Mortgage Note Payable: This note is payable by Peoples Building Company, a subsidiary of Peoples Bancorporation, in ten equal annual payments of \$300,000, with the first payment made on July 1, 1983. Interest on the note is payable monthly. The note is secured by a mortgage on premises with a book value of \$6,540,000 at December 31, 1983.

Other Long-Term Debt: Other long-term debt consists primarily of mortgages and other contractual indebtedness at interest rates ranging from 6% to 14 1/2 %.

The aggregate maturities for long-term debt for the next five years are as follows:

(In Thousands)

1984	\$9,160
1985	1,589
1986	4,091
1987	514
1988	437

Note G—Common Stock and Employee Stock Plans

At their 1983 annual meeting, the shareholders adopted the Peoples Bancorporation Executive Incentive Program which consists of the Incentive Stock Option Plan and the Non-Qualified Stock Grant Plan. The plans provide for stock-based awards to key employees and were adopted retroactively to December 21, 1982. A maximum of 100,000 shares are authorized to be awarded under the program. These shares must be stock reacquired by the Corporation and held in the treasury.

The Incentive Stock Option Plan provides for the granting of incentive stock options which may be exercised during a ten year period beginning one year after the date of grant at a price not less than 100% of the fair market value of the stock at the time of grant. On December 21, 1982, options to purchase 20,000 shares were awarded at an option price of \$16.00. No additional options were awarded during 1983. As of December 31, 1983, options to purchase 20,000 shares were outstanding and exercisable.

The Non-Qualified Stock Grant Plan provides for the granting of rights to receive shares of the Corporation's common stock as consideration for the employees' continued employment with and efforts on behalf of the Corporation. The stock is to be presented in equal amounts on each of the sixth through tenth anniversaries of the date of award. Grants in the amount of 17,000 shares were awarded in 1982. No additional grants were awarded during 1983.

At December 31, 1983, 721,142 shares of common stock were reserved for the conversion of convertible debentures discussed in Note F. As a result of debenture conversions, the Corporation issued shares of common stock as follows: 749 in 1983, 2,109 in 1982 and 16,934 in 1981.

Note H—Acquisitions

Upon reorganization on July 1, 1981, Peoples Bancorporation reestablished the excess of purchase price over the fair value of net assets acquired in prior bank purchases as an asset and also increased retained earnings by a like amount as required by generally accepted accounting principles. This adjustment, totaling \$8,549,000, represents the balance which would have been reflected on the Corporation's books on the date of reorganization had these intangibles originally been recorded as assets and amortized over lives ranging from 2 to 40 years.

On December 10, 1981, Peoples National Bank acquired the assets and assumed the liabilities of Washington State Bank. Assets acquired included approximately \$12,100,000 of loans and liabilities assumed included approximately \$17,400,000 of deposits. This transaction was accounted for as a purchase with the excess of the purchase price of \$4,000,000 over the fair value of net assets acquired being allocated to deposit intangibles of \$329,000, safe deposit box intangibles of \$228,000 and goodwill of \$2,340,000. Deposit and safe deposit box intangibles represent the present value of the future earnings power of these items.

On June 24, 1982, the Bank acquired the assets and assumed the liabilities of Jefferson National Bank. Assets acquired included loans aggregating approximately \$12,000,000 and liabilities assumed included deposits aggregating approximately \$18,100,000. This transaction was also accounted for as a purchase with the excess of the purchase price of \$2,700,000 over the fair value of net assets acquired being assigned to deposit intangibles of \$1,386,000, safe deposit box intangibles of \$180,000 and goodwill of \$400,000.

Deposit intangibles recorded in purchase transactions are being amortized on a straight-line basis over lives ranging from 6 months to 4 years; safe deposit box intangibles are being amortized on a straight-line basis over 20 years; and goodwill is being amortized over periods ranging from 15 years to 40 years on a straight-line basis.

The effect of the change in the method of accounting for intangible assets associated with bank acquisitions was to increase amortization expense by \$1,469,000 in 1983, \$1,327,000 in 1982 and \$285,000 in 1981, and to decrease net income by \$1,058,000 or \$.28 per share in 1983, \$784,000 or \$.21 per share in 1982 and \$205,000 or \$.06 per share in 1981. Accumulated amortization on these intangibles was \$4,661,000, \$3,192,000 and \$1,865,000 at December 31, 1983, 1982 and 1981, respectively.

Note I—Restrictions on Subsidiary Dividends, Loans or Advances

Certain restrictions exist regarding the ability of the Bank to transfer funds to its affiliates, including the Parent Company. The provisions of the Bank's 8-3/4% Subordinated Note restrict the Bank's dividends declared or paid to not more than 50% of the annual net income of the prior three years, other than dividends payable in common stock of the Bank. In addition, the approval of the Comptroller of the Currency is required to pay dividends which exceed the Bank's net profits for that year plus its retained net profits for the preceding two years. Under the most restrictive of these conditions, the Bank could have paid additional dividends of \$16.4 million to the Parent Company as of December 31, 1983.

Section 23A of the Federal Reserve Act limits the extent to which the Bank may make loans or advances to, purchase assets from, or invest in the securities of its affiliates. Transactions with any single affiliate cannot

exceed 10% of the Bank's capital, surplus and retained earnings (net assets). The total of such transactions with all affiliates may not exceed 20% of the Bank's net assets.

As a result of these restrictions, approximately \$26.8 million of the \$99.2 million of net assets of the Bank which are included in consolidated net assets of the Corporation are available to be transferred to the Parent Company at December 31, 1983.

Note J—Employee Benefits

The Corporation has a non-contributory pension plan covering substantially all employees of Peoples Bancorporation and its subsidiaries. Total annual pension expense was \$1,800,000 in 1983 and \$1,865,000 in both 1982 and 1981. The Corporation makes annual contributions to the plan equal to the amount accrued for pension expense, including amortization of past service cost over 30 years. The actuarially determined value of benefits and pension fund assets as of the most recent valuation date of January 1, 1983 was as follows:

(In Thousands)

Actuarial present value of accumulated plan benefits:	
Vested	\$ 11,778
Non-vested	828
Total	\$ 12,606
<hr/>	
Net assets available for benefits	\$ 16,945

The actuarial assumption of investment earnings rate used in determining pension expense was 7% and the actuarial assumption of salary escalation was 6%.

The Corporation also offers its employees an Incentive Savings Plan. Eligible employees may elect to have from 2% to 6% of their base pay deferred and contributed to the plan. The amount deferred is not subject to federal income tax at the time of deferral. The Corporation matches 50% of the employees' contribution. The Corporation's Incentive Savings expense was \$494,000, \$336,000 and \$277,000 in 1983, 1982 and 1981, respectively.

Note K—Income Taxes

The components of income tax expense (benefit) for the years ended December 31 were as follows:

(In Thousands)	1983	1982	1981
Operating income (loss)	\$(2,790)	\$2,578	\$6,754
Securities transactions	(49)	13	3
Federal income tax expense (benefit)	(2,839)	2,591	6,757
Foreign income	112	—	—
Total income tax expense (benefit)	\$(2,727)	\$2,591	\$6,757
Currently payable (receivable)	\$(5,506)	\$1,446	\$5,431
Deferred expense	2,779	1,145	1,326
Total income tax expense (benefit)	\$(2,727)	\$2,591	\$6,757

The deferred income taxes reflected above result from the recognition of certain income and expense items and tax credits in the financial statements in periods different from those recognized for income tax purposes as follows:

(In Thousands)	1983	1982	1981
Accrual method for reporting purposes and cash method for tax purposes	\$1,929	\$ 667	\$ 233
Leasing income recognized on financing method for reporting purposes and on operating method for tax purposes	649	628	486
Provision for credit losses for reporting purposes in excess of that recognized for tax purposes	(139)	(299)	(141)
Differences in method of recognizing installment loan interest income for reporting purposes and for tax purposes	(440)	(338)	103
Pension plan costs recognized for tax purposes and deferred for reporting purposes	—	48	37
Depreciation recognized for tax purposes and deferred for reporting purposes	258	247	188
Amortization of intangibles recognized for reporting purposes and deferred for tax purposes	—	(94)	—
Investment tax credits recognized for tax purposes and deferred for reporting purposes	480	366	492
Other deferred items	42	(80)	(72)
Deferred federal income tax expense	\$2,779	\$1,145	\$1,326

A reconciliation between the statutory federal income tax rate and the effective income tax rate follows:

(In Thousands)	1983		1982		1981	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	\$ 1,520	46.0 %	\$7,366	46.0 %	\$10,290	46.0 %
Effect of tax-exempt income	(3,857)	(116.7)	(3,709)	(23.2)	(3,018)	(13.5)
Effect of non-deductible amortization	282	8.5	79	0.5	—	—
Investment tax credits	(711)	(21.5)	(1,018)	(6.3)	(537)	(2.4)
Other	(73)	(2.2)	(127)	(0.8)	22	0.1
Federal income tax expense (benefit)	\$(2,839)	(85.9)%	\$2,591	16.2 %	\$6,757	30.2 %

Note L—Commitments, Litigation and Contingent Liabilities

In the normal course of business there are various commitments outstanding and contingent liabilities such as guaranties and commitments to extend credit which are not reflected in the consolidated financial statements. No losses are anticipated as a result of these transactions. Included with the various commitments and contingent liabilities are standby letters of credit which at December 31, 1983 and 1982 amounted to \$21,508,000 and \$23,960,000, respectively.

Peoples Leasing Company, Inc. was named as a defendant in a class action lawsuit commenced November 15, 1978 in the Superior Court for King County, Washington. The Bank was subsequently joined as a defendant. During 1983, a settlement was reached between

plaintiffs and the defendants. In agreeing to the settlement, neither defendant acknowledged any liability to any member of the class. Claims, fees and costs associated with the settlement charged to 1983 consolidated earnings totaled approximately \$2.4 million. No further material fees or costs are expected to be incurred. The settlement constitutes a full settlement and compromise of the claims of all class members arising out of the litigation.

In addition to the foregoing, other claims have been asserted against the Corporation or various of its subsidiaries arising in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the consolidated financial position of the Corporation.

Note M—Peoples Bancorporation (Parent Company Only) Financial Information

Balance Sheets

(In Thousands)	December 31	
	1983	1982
Assets		
Cash	\$ 1,180	\$ 187
Equity in net assets of subsidiaries:		
Peoples National Bank of Washington	103,974	105,912
Other subsidiaries	8,158	7,363
Total	112,132	113,275
Loans	4,196	24,171
Other assets	10,608	9,476
Total Assets	\$128,116	\$147,109
Liabilities and Shareholders' Equity		
Short-term commercial paper	\$ 4,196	\$ 24,171
Note payable to Peoples National Bank of Washington	4,621	4,821
Other liabilities	1,454	1,989
Shareholders' equity	117,845	116,128
Total Liabilities and Shareholders' Equity	\$128,116	\$147,109

Statements of Income

	Twelve Months Ended December 31		Six Months Ended December 31
(In Thousands)	1983	1982	1981
Income			
Dividends from subsidiaries:			
Peoples National Bank of Washington	\$4,641	\$ 3,871	\$1,960
Other subsidiaries	1,100	721	—
Interest from subsidiaries	—	—	2,182
Interest on loans	1,905	4,085	—
Total Income	7,646	8,677	4,142
Expenses			
Interest (\$464, \$488, and \$250 paid to subsidiary in 1983, 1982 and 1981, respectively)	2,483	4,795	2,438
Amortization	1,132	853	287
Other expenses	80	41	5
Total Expenses	3,695	5,689	2,730
Income before income tax benefit and equity in undistributed net income of subsidiaries	3,951	2,988	1,412
Income tax benefit	542	659	199
Income before equity in undistributed net income of subsidiaries	4,493	3,647	1,611
Equity in undistributed net income of subsidiaries:			
Peoples National Bank of Washington	744	8,814	5,880
Other subsidiaries	795	962	892
Total	1,539	9,776	6,772
Net Income	\$6,032	\$13,423	\$8,383

Statements of Changes in Financial Position

	Twelve Months Ended December 31		Six Months Ended December 31
(In Thousands)	1983	1982	1981
Source of Funds			
Net income	\$ 6,032	\$13,423	\$ 8,383
Amortization	1,132	853	287
Undistributed net income of subsidiaries	(1,539)	(9,776)	(6,772)
Total from operations	5,625	4,500	1,898
Redemption of investment in subsidiaries	355	—	240
Borrowing of funds from affiliate	—	—	263
Issuance of commercial paper	—	—	33,615
Issuance of note payable	—	—	5,000
Incurance of other liabilities	—	—	1,837
Increase in other liabilities	—	152	—
Decrease in loans	19,975	—	—
Decrease in advances to subsidiary	—	33,615	—
Decrease in other assets	440	—	—
Total Source of Funds	\$26,395	\$38,267	\$42,853
Application of Funds			
Increase in cash	\$ 993	\$ 176	\$ 11
Repayment of affiliate loan	—	—	263
Advances to subsidiary	—	—	33,615
Acquisition of loans	—	24,171	—
Investment in subsidiaries	355	48	5,240
Acquisition of other assets	—	—	1,814
Cash dividends paid	3,789	3,823	1,910
Purchase of treasury stock	555	173	—
Increase in other assets	—	253	—
Decrease in commercial paper	19,975	9,444	—
Decrease in note payable	200	179	—
Decrease in other liabilities	528	—	—
Total Application of Funds	\$26,395	\$38,267	\$42,853

Comparative Financial Statements: Peoples Bancorporation was organized as of the close of business on June 30, 1981 and thus information for 1981 represents only six months of operation.

Guarantee of Debt of Subsidiaries: Peoples National Bank of Washington, a subsidiary of the Corporation, issued \$10,000,000 of Subordinated Convertible Debentures due in 1984 and 1989. The Corporation has also assumed the liability. Significant provisions of the debentures are disclosed in Note F.

Dividends from Subsidiaries: Cash dividends of \$5,741,000, \$4,592,000 and \$1,960,000 were declared payable from consolidated subsidiaries to Peoples Bancorporation for the years ended December 31, 1983 and 1982, and the six months ended December 31, 1981,

respectively. Approximately \$4,796,000, \$3,638,000 and \$1,004,000 of such dividends were received by Peoples Bancorporation as of December 31, 1983, 1982 and 1981, respectively, with the remainder recorded as an accrued receivable.

Note Payable to Peoples National Bank of Washington: This note bears interest at 10% per annum. Interest and principal payments totaling \$579,000 are due on February 1 of each year through the year 2000. Principal due over the next five years is as follows:

(In Thousands)	
1984	\$117
1985	129
1986	142
1987	156
1988	171

**Report of Ernst & Whinney,
Independent Auditors**
Peoples Bancorporation and Subsidiaries

Board of Directors
Peoples Bancorporation
Seattle, Washington

We have examined the consolidated balance sheets of Peoples Bancorporation and subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of income, changes in shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1983. 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.

In our report dated January 14, 1983, our opinion on the 1982 and 1981 financial statements was qualified as being subject to the effect of adjustments, if any, that might have been required had the outcome of a lawsuit involving certain of the Corporation's subsidiaries been

known. As explained in Note L, a settlement of the litigation was reached between the plaintiffs and the defendants during 1983. Costs associated with the settlement were charged to operations in the current year as required by generally accepted accounting principles. Accordingly, our present opinion on the 1982 and 1981 financial statements, as presented herein, is different from that expressed in our previous report.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Peoples Bancorporation and subsidiaries at December 31, 1983 and 1982, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Seattle, Washington
January 16, 1984



Board of Directors

(Seated, left to right)

Charles P. Burnett III
Investor

Isabelle S. Lamb
President
Enterprises International, Inc.

J. G. Cairns, Jr.
President

Joshua Green III
Chairman of the Board
and Chief Executive Officer

Joshua Green, Jr.
Honorary Chairman
of the Board

Thomas P. Youell
Chairman and Chief
Executive Officer,
Convoy Company

Chairman and Chief
Executive Officer,
Canadian Auto
Carriers, Ltd.

Robert G. Perry
Retired

(Standing, left to right)

Corydon Wagner, Jr.
President, R. D. Merrill
Company

E. C. Underhill
Retired

M. Lamont Bean
Chairman of the Board
and Chief Executive
Officer, Pay 'n Save
Corporation

Sidney D. Campbell
Retired Chairman of
the Board, Foss Launch
and Tug Company,
An Affiliate of
Dillingham Corporation

E. P. Garrett
President, Welco Lumber
Company
Chairman, Merrill and
Ring, Inc.

John M. Bloxom, Jr.
President and Chief
Executive Officer, Mt. Adams
Orchards Corporation

Garrett Eddy
Chairman and Chief
Executive Officer, The Port
Blakely Mill Company

James B. Scroggs
Retired

John E. Steiner
Retired Vice President/
Corporate Product
Development,
The Boeing Company

Ward L. Sax
Attorney at Law
Sax and MacIver

Thomas H. Macbride*
Attorney at Law

Harry H. Masto*
Retired

(Not Pictured)

John M. Fluke*
Chairman of the Board
and Chief Executive
Officer
John Fluke Mfg. Co., Inc.
William Golding
Private Investments

* Advisory Directors
to the Board

General Information

Peoples Bancorporation is a bank holding company organized in Washington State in 1981. Its principal subsidiary is Peoples National Bank of Washington which is engaged in a general banking business through its head office in Seattle and 87 other banking offices throughout the State of Washington. Other subsidiaries are engaged in mortgage banking, escrow services and credit life insurance.

Annual Meeting

The annual meeting of shareholders will be held in the Metropolitan Ballroom, the Sheraton Hotel, Sixth and Pike, Seattle, Washington, on March 27, 1984 at 3:00 p.m.

Transfer Agent

Corporate Trust Department
Peoples National Bank of Washington
1414 Fourth Avenue
Seattle, Washington 98111

Stock Listing

Peoples Bancorporation common stock is traded Over-the-Counter. NASDAQ symbol: PEOP

Form 10-K

Copies of Peoples Bancorporation's annual report to the Securities and Exchange Commission, Form 10-K, will be mailed to shareholders upon written request to:

Leo M. Riley

Executive Vice President and Secretary-Treasurer
Peoples Bancorporation
1414 Fourth Avenue
Seattle, Washington 98111

Peoples Bancorporation

1414 Fourth Avenue, Seattle, Washington 98111
Member FDIC