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Peoples Bancorporation **ORQFILE**  
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Annual Report 1982





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**Contents**

1	Consolidated Financial Highlights
2	Letter to Shareholders
5	A Year of Positioning
7	Markets
9	Financial Services
11	Delivering our Financial Services
12	Administrative Officers
13	Financial Reports
40	Board of Directors/Senior Management

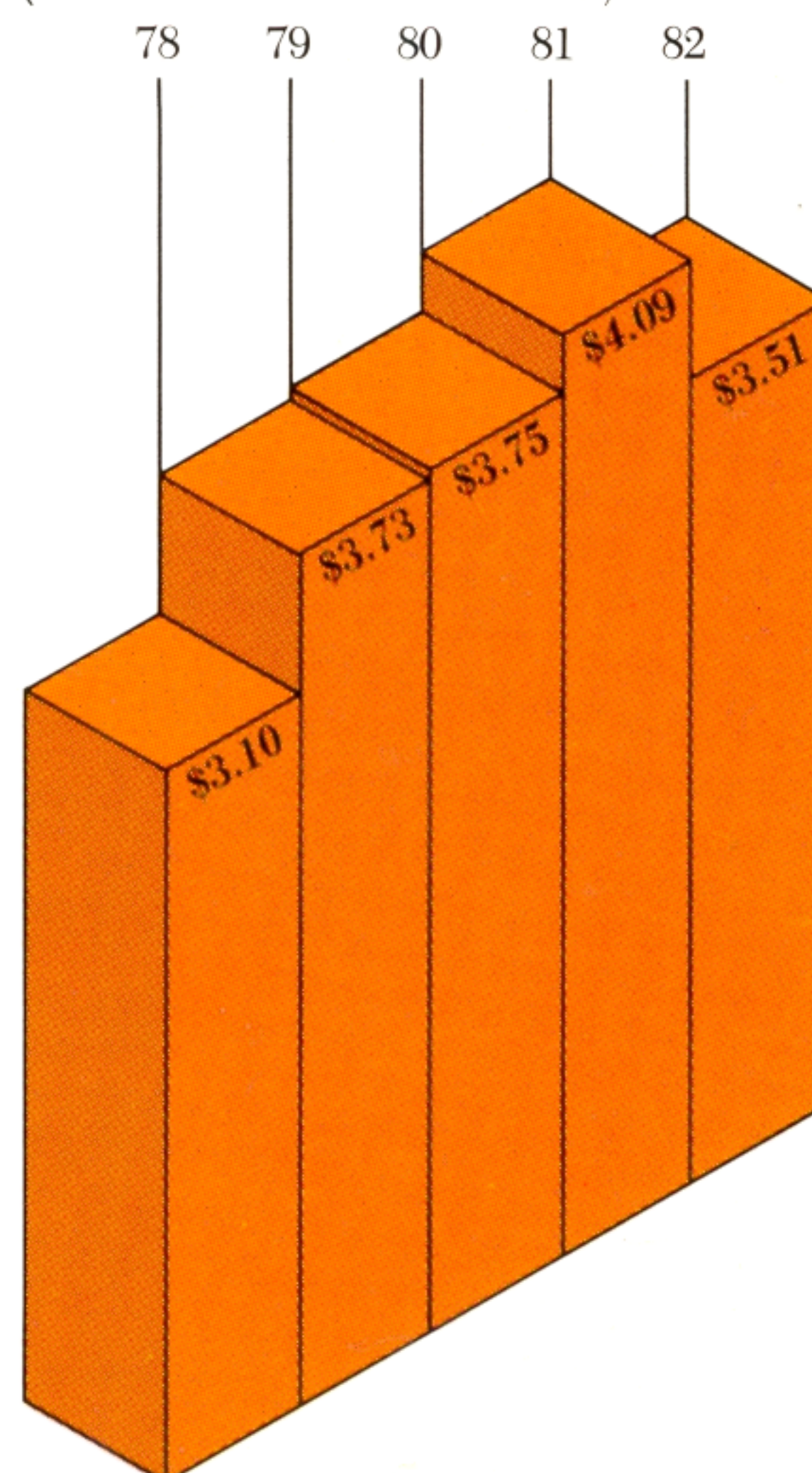


## Consolidated Financial Highlights

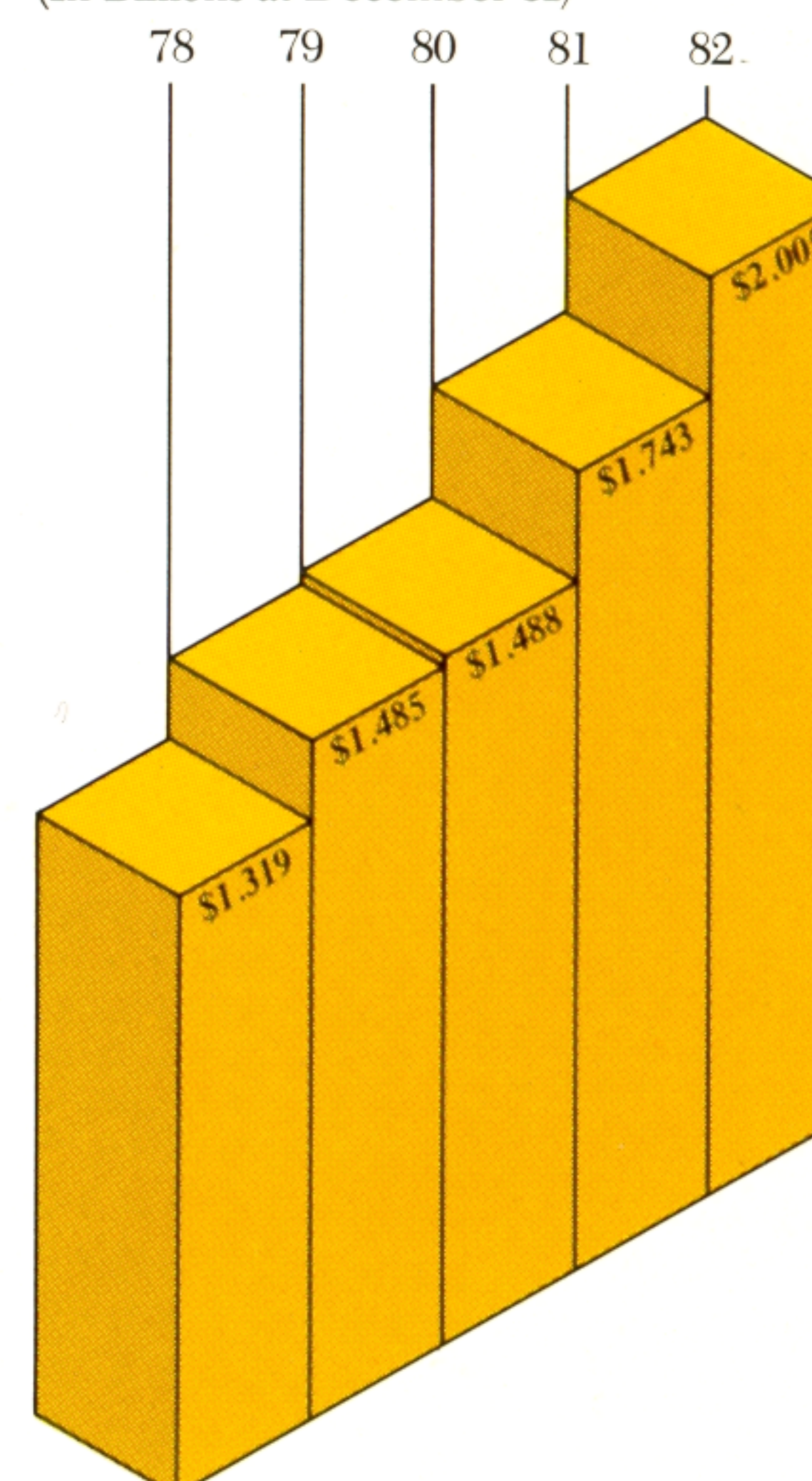
Peoples Bancorporation and Subsidiaries

(In Thousands, Except Per Share)	1982	1981	% Change
<b>For The Year</b>			
Income before securities transactions	\$ 13,408	\$ 15,610	(14.1)%
Net income	13,423	15,613	(14.0)
Cash dividends declared	3,823	3,816	0.2
Return on average assets	.73%	.99%	(26.3)%
Return on average equity	11.95	16.09	(25.7)
<b>Per Share</b>			
Income before securities transactions	\$ 3.51	\$ 4.09	(14.2)%
Net income	3.51	4.09	(14.2)
Cash dividends declared	1.00	1.00	—
Book value	30.44	27.88	9.2
<b>At Year-End</b>			
Total assets	\$2,005,262	\$1,742,867	15.1 %
Total deposits	1,494,163	1,302,458	14.7
Total loans	1,035,927	893,738	15.9
Total investment securities	292,721	211,116	38.7
Total shareholders' equity	116,128	106,649	8.9

**Earnings Per Share**  
(Before Securities Transactions)



**Total Assets**  
(In Billions at December 31)





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## etter To Shareholders



1982 net income was \$13,423,000, a decline of 14.0% from 1981 and earnings per share were \$3.51 compared to \$4.09 in the previous year. Loans grew 15.9% and deposits 14.7%. Total assets reached \$2.0 billion, an increase of 15.1%. Poor economic conditions, a continuing shift of consumer deposits to higher rate accounts, and increasing operating expenses lowered our return on assets from .99% to .73%.

Our major thrust over the past five years has been to enlarge the base of corporate customers doing business with Peoples Bancorporation. Since 1977, our commercial loans have had a compound growth rate of 12.1% and commercial deposits a rate of 8.0%.

Our philosophy has been to develop corporate business from within our traditional market area—Washington State and the Pacific Northwest. This has allowed us to measure our risks and avoid some of the losses



experienced by other commercial banks. As evidence, non-performing loans represented 1.6% of loans outstanding at the end of 1982, up from .7% at year-end 1981, but still better than average by both national and regional standards.

We have sought to attract quality corporate business by augmenting our traditional credit and deposit products with a wide range of sophisticated financial services. We recently expanded our cash management services to assist corporate treasurers utilize their cash assets. In 1982, we introduced a new export sales financing program in conjunction with Walter E. Heller and Company, which guarantees payment of offshore accounts receivables for Northwest firms. In addition, we are using micro-computers in Eastern Washington to help our agricultural customers analyze their farm budgets and cash flows and will introduce similar programs for small businesses statewide.

We continue to diversify our consumer products as well. In addition to introducing a range of market rate deposit accounts, we have joined a group of banks to test home banking terminals. We were also the first bank in our area to announce a discount brokerage service, to be introduced in early 1983.

The prospect for significant improvement in the Northwest's economy in 1983 is not favorable. Three of the region's leading industries—forest products, agriculture and aerospace—have been severely impacted by the national recession. Our rapidly growing high technology industry's international sales have been harmed by the relatively strong dollar. The unemployment level for the State was 12.4% near year-end 1982, compared to 10.4% for the nation. Even if the national economy should improve in 1983, Washington's economy should take much longer to recover.

There are, however, some positive signs. Consumer prices rose only 3.9% in 1982, the smallest increase in ten years. Housing starts nationwide, which fell 2.2% in 1982, are expected to jump 30% to 1.3 million in 1983. Despite a loss of 15,000 jobs since early 1981, the long-term outlook for the aerospace industry is quite good. The Boeing Company's newest airliners—the 757 and 767—are far more energy efficient than their predecessors and should generate strong sales throughout the 1980s. As the recovery gains momentum, Washington's ports are in an excellent position to participate in trade with the North Pacific Rim countries.

Your holding company faces many challenges in the year ahead. Nonetheless, we believe that we have positioned ourselves to attract new and profitable business when economic conditions improve. Thank you for your continued support.



Joshua Green III, Chairman of the Board and Chief Executive Officer  
Peoples Bancorporation  
January 28, 1983





**Peoples Bancorporation**

**Corporate Objectives**

**Peoples Bancorporation**

**Corporate Situation Analysis**

**Peoples Bancorporation**

**Consumer Situation Analysis**





## A Year of Positioning



J.G. Cairns, Jr.  
President  
Peoples Bancorporation

The commercial banking industry is in transition. New competition, as well as changes in technology and government regulations, dictate that we enter the financial marketplace in different ways.

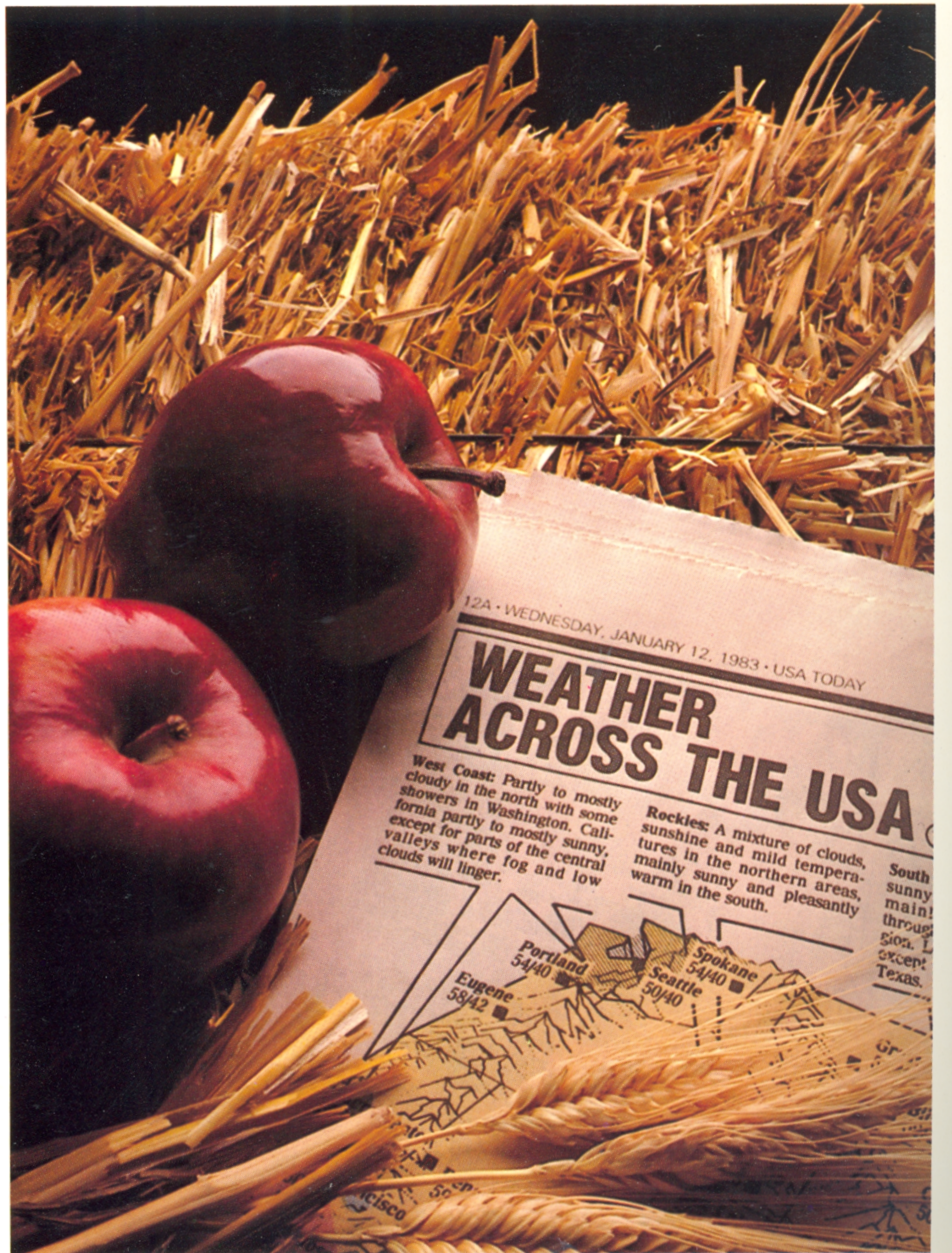
In 1982, we analyzed our corporate and consumer banking markets in light of this changing environment. We developed new products to complement traditional ones and improved the ways we deliver services. We did so not only to take advantage of today's opportunities, but to position ourselves for the challenges that lie ahead.

To meet these challenges, we will build on the traditional strengths of Peoples Bancorporation: our successful past efforts to attract quality commercial loans and retail deposits and our operational expertise which allows us to take advantage of technological change in data processing. We will also rely on the strengths of the market in which we operate:

the long-term economic outlook for the Pacific Northwest is promising; the Puget Sound area is emerging as a regional financial and trade center; and Washington's industrial base continues to diversify.

Our primary corporate objective has been constant: to provide the highest quality financial services to the residents of Washington and businesses operating in our market area. On the following pages, we discuss the markets we serve, the financial services we offer and the delivery systems we use, and how they are adapting to this changing environment.







## M<sub>arkets</sub>

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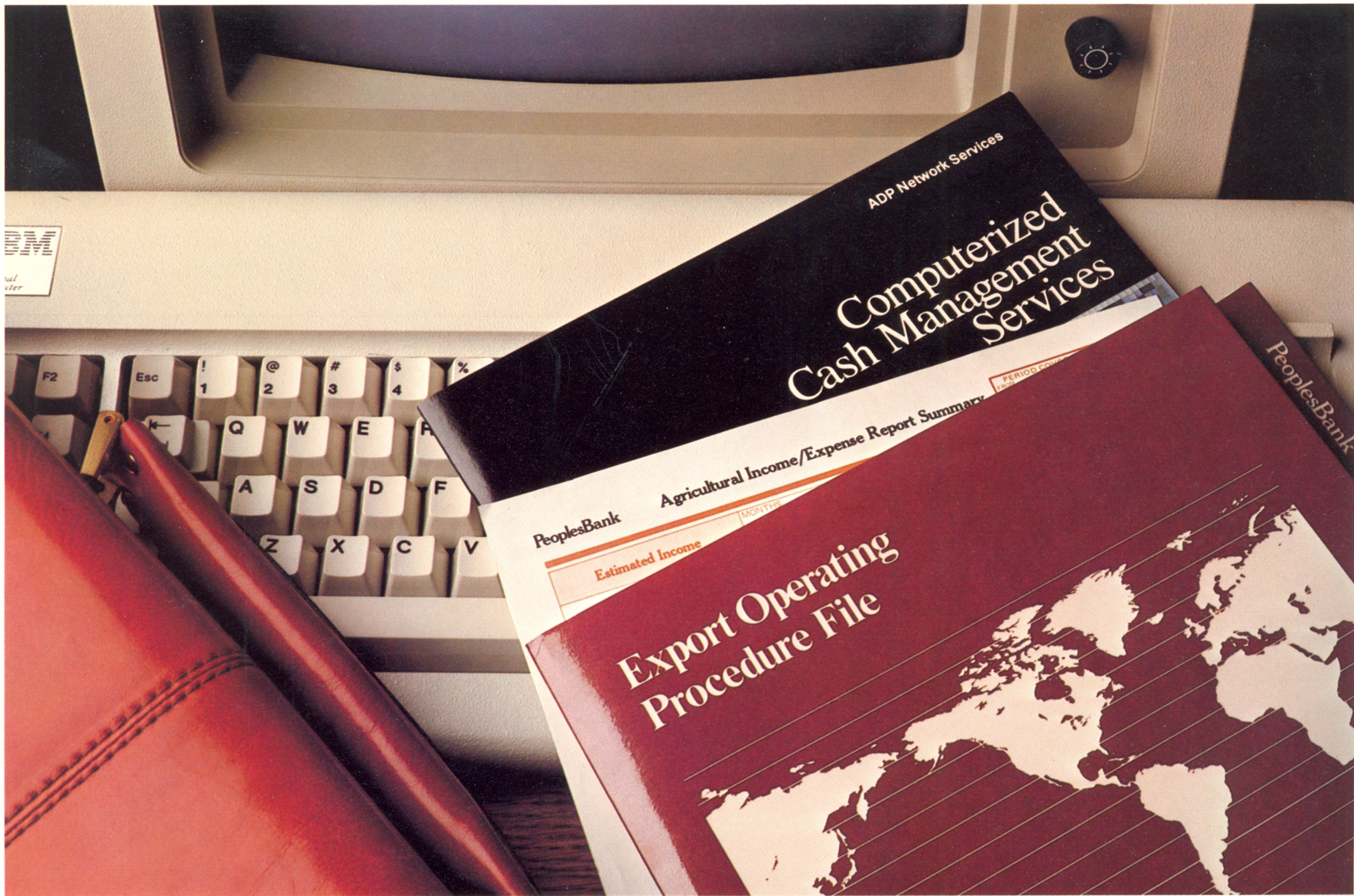
The corporate market in the Pacific Northwest has both grown and diversified in the past decade. Today, there are over 123,000 companies in Washington State. The number of middle-market companies—those with annual sales between \$5-\$115 million—in the Seattle/Tacoma area alone has grown by 39% since 1980. While our economy still relies on the aerospace, forest products and agricultural industries, an increasing percentage of the State's workforce is employed in such rapidly growing market segments as electronics and foreign trade.

Peoples Bancorporation recognizes that each segment of the corporate market has unique needs for financial services, depending on the type and size of the industry and other factors. To best serve these needs, we have assigned an account officer to each major corporate relationship. It is the responsibility of this officer to determine the customer's overall requirements and to coordinate the resources of our holding company to meet these needs. This approach allows us to deliver our expanding range of corporate services more flexibly and efficiently.

Washington State is a major source for the nation's agricultural products. Although this industry now suffers from low commodity prices and worldwide overproduction, the diversity of the State's agricultural output and growing potential for foreign trade create a favorable long-term outlook for the industry. Peoples, as one of the nation's leading agricultural lenders, remains committed to serving this market.

Meeting the changing needs of the consumer market continues to be an important priority for Peoples Bancorporation. By offering a wide range of services, we seek to establish total banking relationships with our consumer customers and, thus, provide the holding company with a cost-effective source of funds.







## F inancial Services

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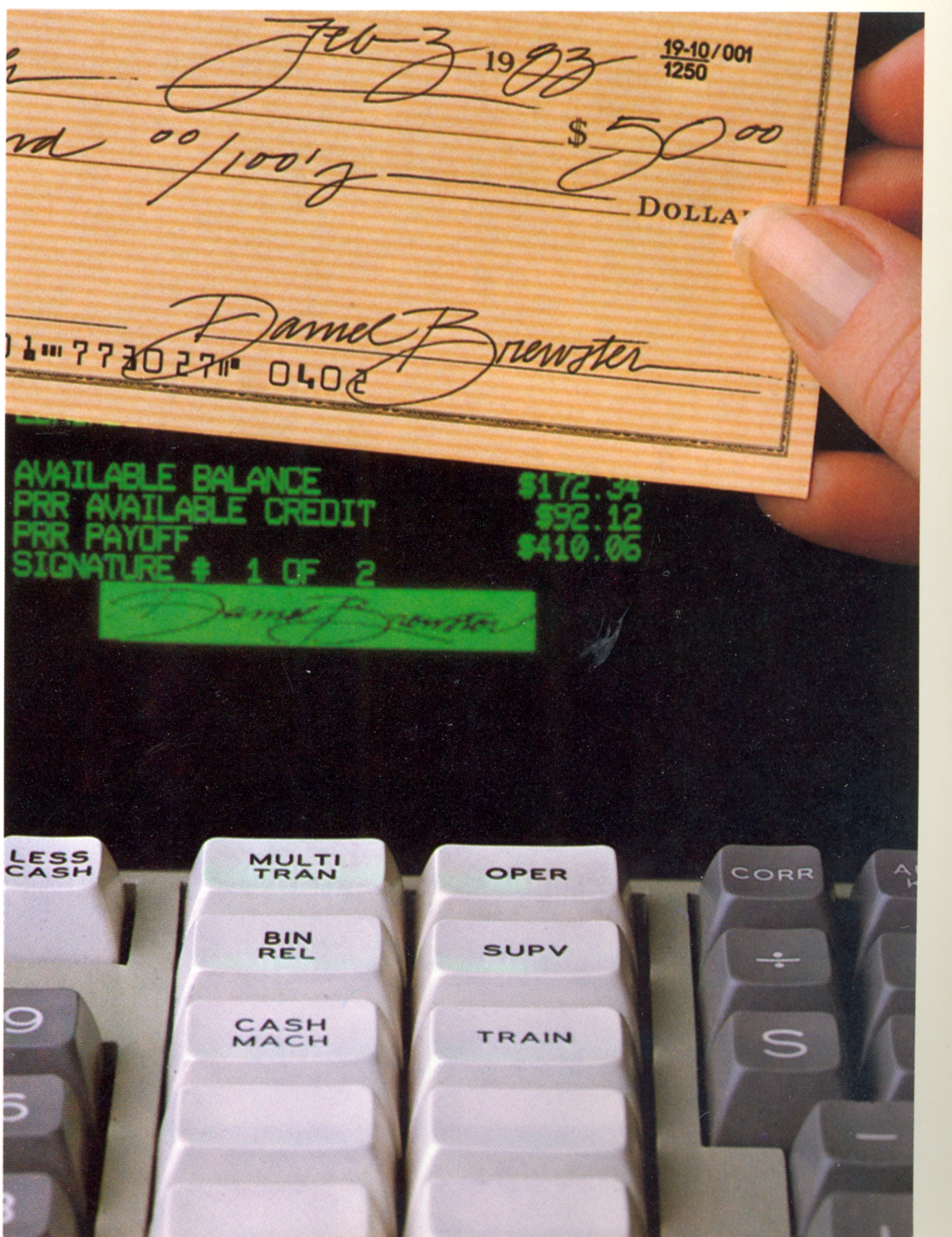
Prior to the advent of deregulation, commercial bankers had little to say about product design. This was the province of regulators. The result was that virtually every bank offered the same services at similar prices. This is no longer the case. Packaging, pricing and promoting financial services is a major new opportunity for commercial bankers. This fact is reflected in the number of new corporate and consumer products Peoples Bancorporation introduced in 1982.

Managing cash efficiently is of primary importance to all businesses. To meet this need, we offer a wide range of cash management services and, through ADP Network Services, recently expanded our offerings to include computerized balance and deposit reporting. To serve the growing number of Northwest firms operating overseas, particularly in the Pacific Rim, we also introduced in 1982 a new service which guarantees payment for goods exported by local businesses. We entered into an agreement with the Frank Russell Investment Company of Tacoma to provide new investment options for our customers with employee benefit plans. Finally, we developed innovative applications for micro-computers to assist our agricultural customers analyze their farm budgets and cash flows.

Consumer products have also undergone considerable change. One of the most significant changes has been the shift away from low-cost checking and savings accounts. In 1982, our deposits in higher rate accounts increased \$143.2 million. During the year, we introduced several unregulated deposit products, including the 3½ Year Account, Individual Retirement Account and Money Market Account, all of which pay competitive, market rates of interest. A discount brokerage service and check safekeeping are among several other new offerings.

These new products and others, when joined with our traditional banking services, position us to better serve existing customers and to attract new customers in the coming years.







## D<sup>e</sup>livering Our Financial Services

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Changing markets, new products and advancing technology have led us to develop more efficient ways to provide financial services.

Customers currently obtain services primarily through our extensive branch network. To streamline this network, we recently installed the most advanced on-line teller terminal system available. These terminals allow our tellers to access information on any PeoplesBank customer and display all signatures related to the customer's accounts. This enables our customers to conduct their business at any branch in our network quickly and efficiently.

The branch network is supplemented by The Exchange, which has over 175 cash machines in Washington, Oregon and eight other states and plans to expand throughout most of the nation and British Columbia by the end of 1983. As an added convenience for our customers, we are now testing the use of cash machines at branch teller stations.

Our new telephone bill paying service allows our customers to bank in their homes, as well as at our branches and cash machines. Peoples is also participating in a test of home banking terminals that will determine the feasibility of offering such a service to our full customer base by 1985.

While many of our services can be provided most efficiently using technology and our strong branch system, delivering commercial loans and other more sophisticated products requires the personal attention of our account officers in an environment with a different structure than our branch network. We plan to put such a system in place in 1983 by opening Financial Services Centers in King County. The specially trained personnel in these centers will be responsible for serving the customer's total banking needs in a professional, confidential manner.

Our qualified staff and our use of advanced technology position Peoples Bancorporation to provide a growing number of products to an expanding customer base.



# A Administrative Officers



**Joshua Green III**  
Chairman of the Board and  
Chief Executive Officer

**J.G. Cairns, Jr.**  
President

**Leo M. Riley**  
Executive Vice President and  
Secretary-Treasurer

**Charles E. Riley**  
Executive Vice President

**Donald Greenfield**  
Executive Vice President

**Elmer M. Anderson**  
Executive Vice President



# **F**inancial Reports



## **Contents**

14 Financial Review

27 Report of Independent Auditors

## **Audited Financial Statements**

28 Consolidated Balance Sheets

29 Consolidated Statements of Income

30 Consolidated Statements of Changes in Financial Position

31 Consolidated Statements of Changes in Shareholders' Equity

32 Notes to Consolidated Financial Statements



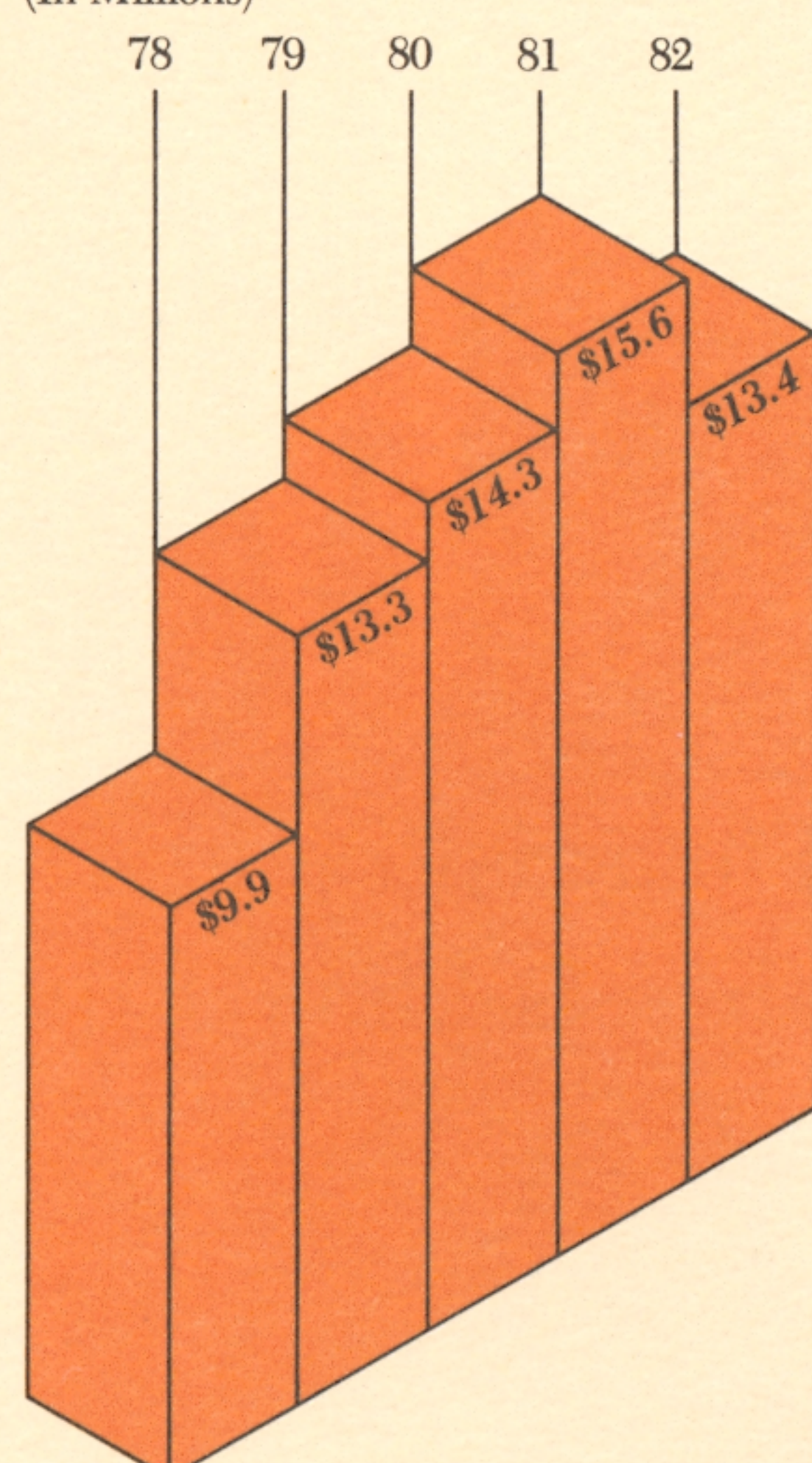
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## inancial Review

### Highlights

#### Net Income

(In Millions)

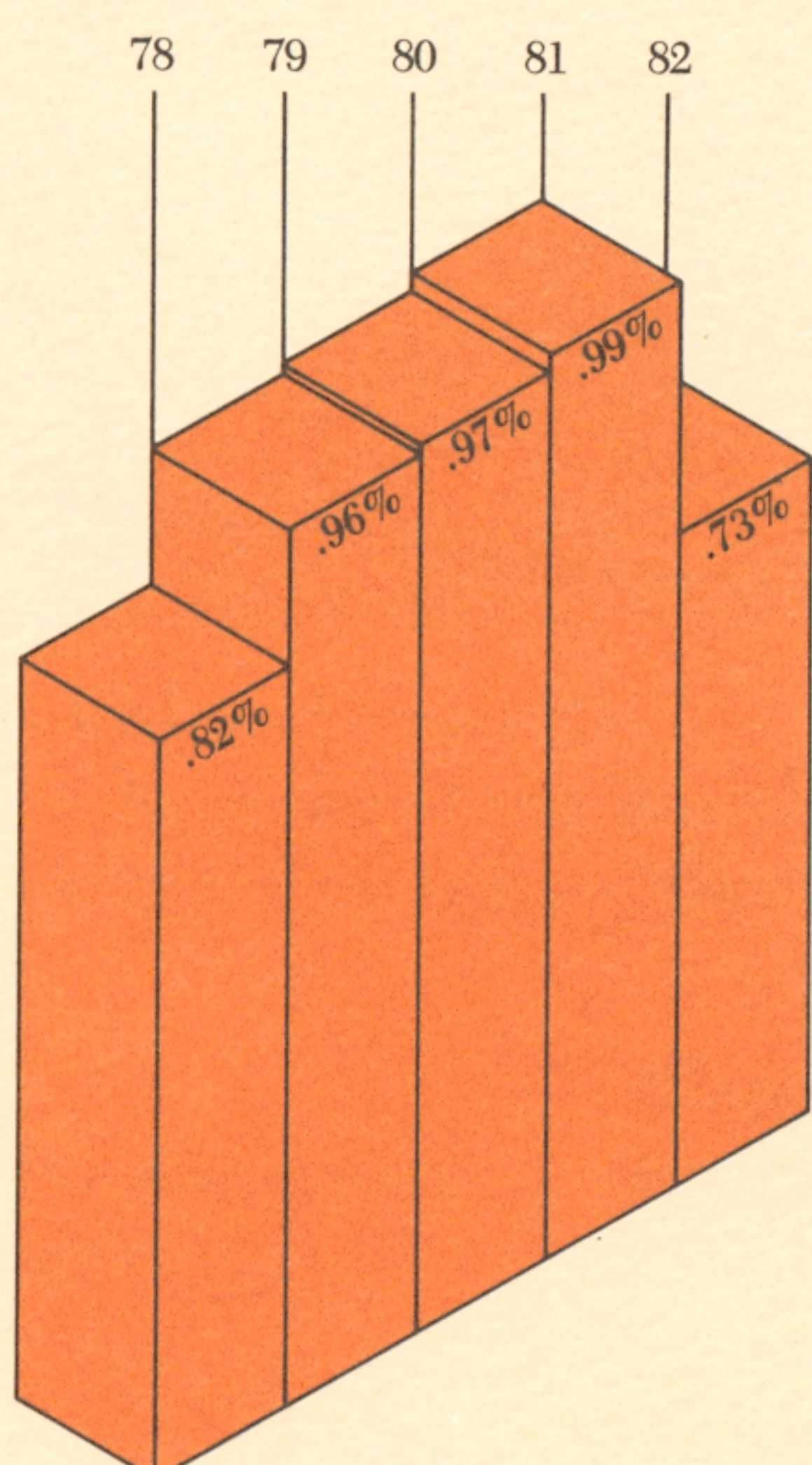


Consolidated net income for 1982 totaled \$13.4 million compared to \$15.6 million in 1981, a decrease of \$2.2 million or 14%. This follows an increase of 9.4% in 1981. The return on average assets declined from a high of .99% in 1981 to .73% in 1982.

Peoples Bancorporation's earnings performance in 1982 was due to a combination of factors, including adverse economic conditions, a changing deposit mix and increasing operating expenses.

While unemployment in the nation rose to 10.4% during 1982, unemployment in Washington State reached a high of 12.4%. These poor economic conditions resulted in a \$2.1 million increase in net loan losses.

#### Return on Average Assets



The deposit mix of Peoples Bancorporation continued to change in 1982 as a result of consumers' shift from interest-free demand and low-cost savings deposits to new higher rate instruments. This shift, coupled with the decrease in the prime lending rate, led to a 47 basis point decline in our net interest margin.

Non-interest expenses increased \$14.0 million or 17.7% compared to the prior year. Inflation, increased activity and the implementation of our new branch-on-line system all contributed to this increase.



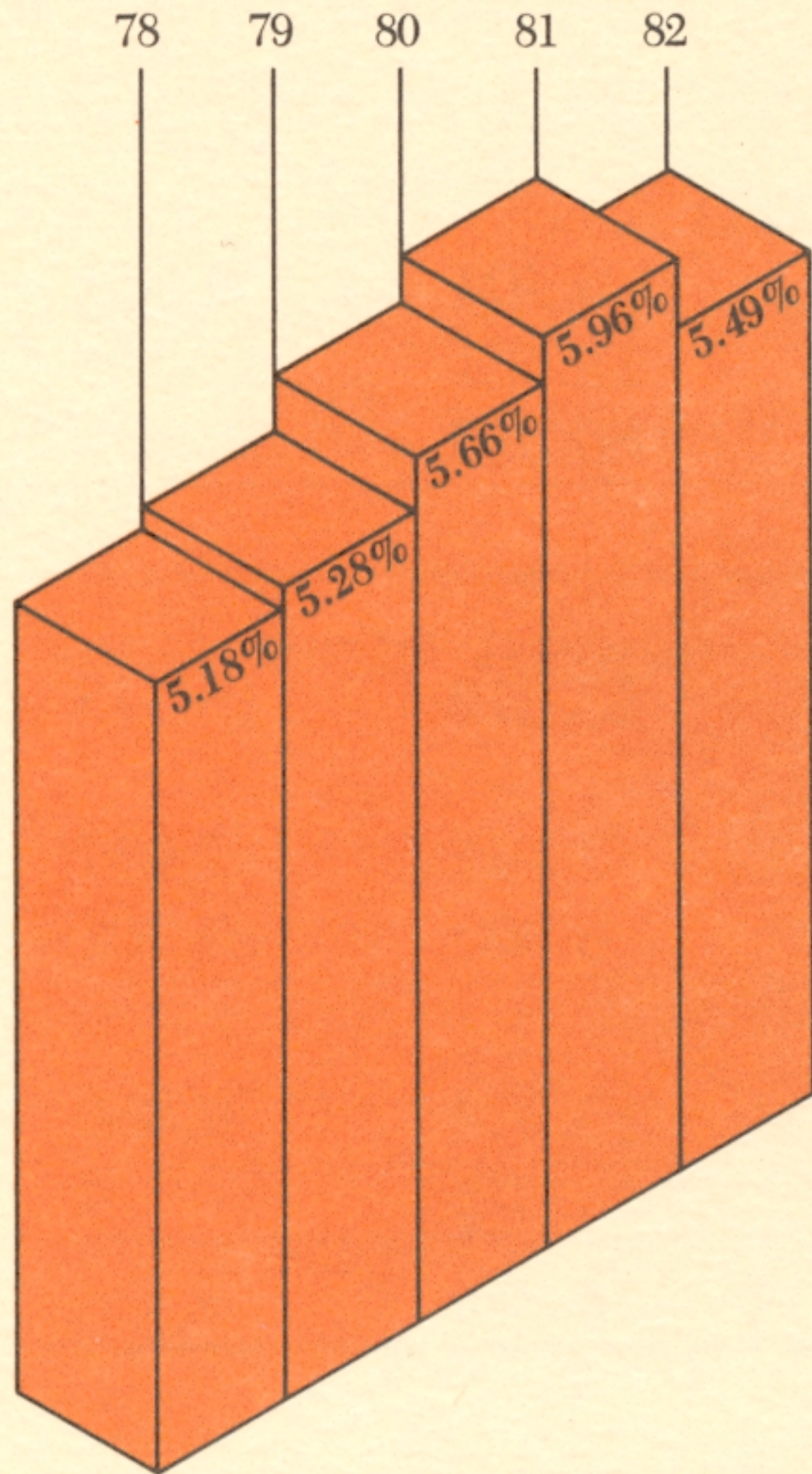
Net Interest  
Income

Net interest income increased \$5.8 million or 7.1% in 1982. This follows an 8.9% increase in 1981. Changes in net interest income result from changes in rates, volume and mix of funds. Whereas the change in 1981 was due to increased rates, growth in 1982 was attributable to the increased volume of earning assets, principally commercial loans. Average commercial loans rose \$77.6 million or 17.4% compared to 1981. Additionally, excess funds available due to the large amount of deposit growth were used to increase taxable investments, which were up \$36.0 million or 32.0%.

The net interest margin declined 47 basis points, from 5.96% in 1981 to 5.49% in 1982. Higher rates on investment securities and consumer credit loans were more than offset by lower rates on commercial loans. The yield

Net Interest Margin

(As a Percent of Average Earning Assets)



earned on commercial loans decreased from 16.77% in 1981 to 15.42% in 1982, reflecting the downward swing in interest rates during this past year. The Corporation's prime lending rate went from a high of 20.50% in the prior year to 11.50% at year-end 1982.

The continuing change in the mix of the Corporation's source of funds negatively impacted the growth of net interest income and contributed to the decline in the net interest margin. Total interest expense increased \$13.6 million or 13.4%, with interest on deposits up \$14.7 million or 21.3%. The volume of average deposits increased \$170.9 million compared to growth of only \$68.1 million in 1981. However, in both years, deposit growth was concentrated in high-cost consumer instruments, which are becoming an increasingly higher proportion of the Corporation's total deposit base.

Interest-free demand and low-cost savings deposits accounted for only 63% of the deposit base in 1982 compared to 67% in 1981 and 71% in 1980.



## Selected Financial Data

(In Thousands,  
Except Per Share)

	1982	1981	1980	1979	1978	% Change 82/81	Compound Growth Rate 82/77
<b>Balance Sheet Averages</b>							
Total assets	\$1,841,848	\$1,580,516	\$1,473,827	\$1,380,909	\$1,201,791	16.5%	11.8%
Deposits	1,372,593	1,201,687	1,133,594	1,094,371	989,011	14.2	9.7
Loans	948,873	852,220	797,064	794,887	716,254	11.3	9.4
Long-term debt	18,906	16,402	17,274	18,405	19,338	15.3	6.4
Shareholders' equity	112,286	97,045	82,659	69,695	53,482	15.7	18.3
<b>Earnings Summary</b>							
Interest and lease income	\$ 194,940	\$ 177,007	\$ 145,781	\$ 125,708	\$ 95,503	10.1%	20.0%
Tax equivalent adjustment— Note 1	6,865	5,430	3,803	3,195	2,937	26.4	21.0
Interest and lease income— adjusted	201,805	182,437	149,584	128,903	98,440	10.6	20.1
Interest expense	114,763	101,174	74,969	61,486	41,840	13.4	29.1
Net interest and lease income—adjusted	87,042	81,263	74,615	67,417	56,600	7.1	12.3
Provision for possible loan losses	5,083	3,211	3,289	3,404	2,851	58.3	20.9
Non-interest income	33,958	28,834	24,202	19,821	17,188	17.8	21.0
Non-interest expense	93,066	79,092	70,189	60,522	52,819	17.7	16.2
Income before taxes and securities transactions— adjusted	22,851	27,794	25,339	23,312	18,118	(17.8)	7.5
Tax equivalent adjustment— Note 1	6,865	5,430	3,803	3,195	2,937	26.4	21.0
Applicable income taxes	2,578	6,754	7,260	6,903	5,301	(61.8)	(11.8)
Income before securities transactions	13,408	15,610	14,276	13,214	9,880	(14.1)	9.6
Securities transactions	15	3	(5)	55	4	100.0+	100.0+
Net income	\$ 13,423	\$ 15,613	\$ 14,271	\$ 13,269	\$ 9,884	(14.0)%	9.9%
<b>Per Share Data—Note 2</b>							
Income before securities transactions	\$ 3.51	\$ 4.09	\$ 3.75	\$ 3.73	\$ 3.10	(14.2)%	5.7%
Net income	3.51	4.09	3.75	3.74	3.10	(14.2)	5.9
Cash dividends declared	1.00	1.00	.91	.88	.65	—	13.8
Book value	30.44	27.88	22.56	20.32	18.08	9.2	14.3
<b>Key Ratios</b>							
Return on average assets	.73%	.99%	.97%	.96%	.82%	(26.3)%	(1.8)%
Return on average equity	11.95	16.09	17.27	19.04	18.48	(25.7)	(7.2)
Average equity to average assets	6.10	6.14	5.61	5.05	4.45	(0.7)	5.9
Cash dividends declared/ net income per share	28.49	24.45	24.27	23.53	20.97	16.5	7.5

Note 1—Adjustment to convert non-taxable income to a fully taxable equivalent basis. The tax equivalent adjustment is based on a 46% income tax rate in the years 1982 through 1979 and 48% in 1978.

Note 2—Adjusted for all stock dividends and stock splits to date.



## Non-Interest Income

Total non-interest income increased \$5.1 million or 17.8% in 1982 due to a combination of increased activity and revised service charge and fee schedules. This follows an increase of 19.1% in 1981 and 22.1% in 1980. Non-interest income includes income from trust services, service charges on deposit accounts, trading account profits, service charges for computer processing, service charges for investment and international services, credit card fees, insurance commissions and loan servicing fees.

Service charges on deposit accounts increased \$1.8 million or 23.7% in 1982, reflecting the growth in our deposit base and the revision of our service charge rates to more accurately reflect the costs of our deposit services. Income from trust services increased \$569,000 or 16.2%. Total trust assets were \$728 million at December 31, 1982 compared to \$633 million at year-end 1981. Loan servicing fees for the year totaled \$5.4 million, increasing \$.8 million or 16.5%, largely due to the acquisition of Tellus Financial Services in the first quarter of 1982. Service charges for computer processing increased \$909,000 or 20.2%. As of year-end, we provided data processing services for over 78 correspondent banks. Foreign exchange gains and trading account profits increased \$123,000 and \$96,000, respectively, while insurance commissions increased \$282,000.

Non-Interest Income				Change 82/81	
Year Ended December 31 (In Thousands)	1982	1981	1980	\$	%
Trust income	\$ 4,077	\$ 3,508	\$ 3,025	\$ 569	16.2%
Service charges on deposit accounts	9,163	7,410	6,652	1,753	23.7
Loan servicing fees	5,436	4,668	3,628	768	16.5
Computer processing fees	5,408	4,499	3,867	909	20.2
Trading account profits	1,457	1,361	879	96	7.1
Other	8,417	7,388	6,151	1,029	13.9
<b>Total</b>	<b>\$33,958</b>	<b>\$28,834</b>	<b>\$24,202</b>	<b>\$5,124</b>	<b>17.8%</b>

## Non-Interest Expense

Total non-interest expense increased \$14.0 million or 17.7% during 1982. Non-interest expense increased 12.7% in 1981 and 16.0% in 1980. Salaries and benefits, which comprised 55% of non-interest expense, increased \$5.7 million or 12.4% over the prior year due to higher staff levels, salary increases, rising insurance expenses and higher payroll taxes.

Occupancy expense increased \$525,000 or 11.1% over 1981. Furniture and equipment expense totaled \$9.8 million, a gain of \$2.3 million or 30.9%. This increase was largely due to the installation of our new branch-on-line system, which we feel will enhance our long-term profitability by providing the technology necessary to compete efficiently in the marketplace in the future. As of year-end, all 92 branches of Peoples National Bank were on-line.



Other non-interest expenses increased \$5.5 million or 25.6%, from \$21.3 million in 1981 to \$26.8 million in 1982. Inflation and increased activities caused growth in almost all categories. Other specific changes were as follows:

- Telephone expense increased \$658,000 to \$2,211,000 due to increased rates and increased usage related to the branch-on-line system.
- Charges by the Federal Reserve Bank for services previously provided without charge totaled \$605,000.
- FDIC insurance expense increased \$567,000 to \$1,023,000.
- Amortization of intangibles arising from bank acquisitions added \$1,327,000 to 1982 expense.
- State and local taxes increased \$370,000 to \$2,621,000.

Non-Interest Expense				Change 82/81	
Year Ended December 31 (In Thousands)	1982	1981	1980	\$	%
Salaries	\$41,999	\$37,425	\$32,739	\$ 4,574	12.2%
Employee benefits	9,185	8,094	6,419	1,091	13.5
Occupancy	5,272	4,747	4,552	525	11.1
Furniture and equipment	9,835	7,515	6,555	2,320	30.9
Professional and other fees	3,885	2,832	2,406	1,053	37.2
Stationery and supplies	2,908	2,702	2,408	206	7.6
State and local taxes	2,621	2,251	1,994	370	16.4
Telephone	2,211	1,553	1,286	658	42.4
Other	15,150	11,973	11,830	3,177	26.5
<b>Total</b>	<b>\$93,066</b>	<b>\$79,092</b>	<b>\$70,189</b>	<b>\$13,974</b>	<b>17.7%</b>

#### Income Taxes

The provision for income taxes decreased from \$6.8 million in 1981 to \$2.6 million in 1982 due both to a decrease in earnings and a decrease in the effective tax rate. The effective tax rate declined from 30.2% in 1981 to 16.2% in 1982 as a result of growth in tax-exempt income and increased tax credits. Interest income from tax-free securities and loans grew \$1.5 million or 22.9%. See Note K in the Notes to the Financial Statements for further discussion of federal income taxes.

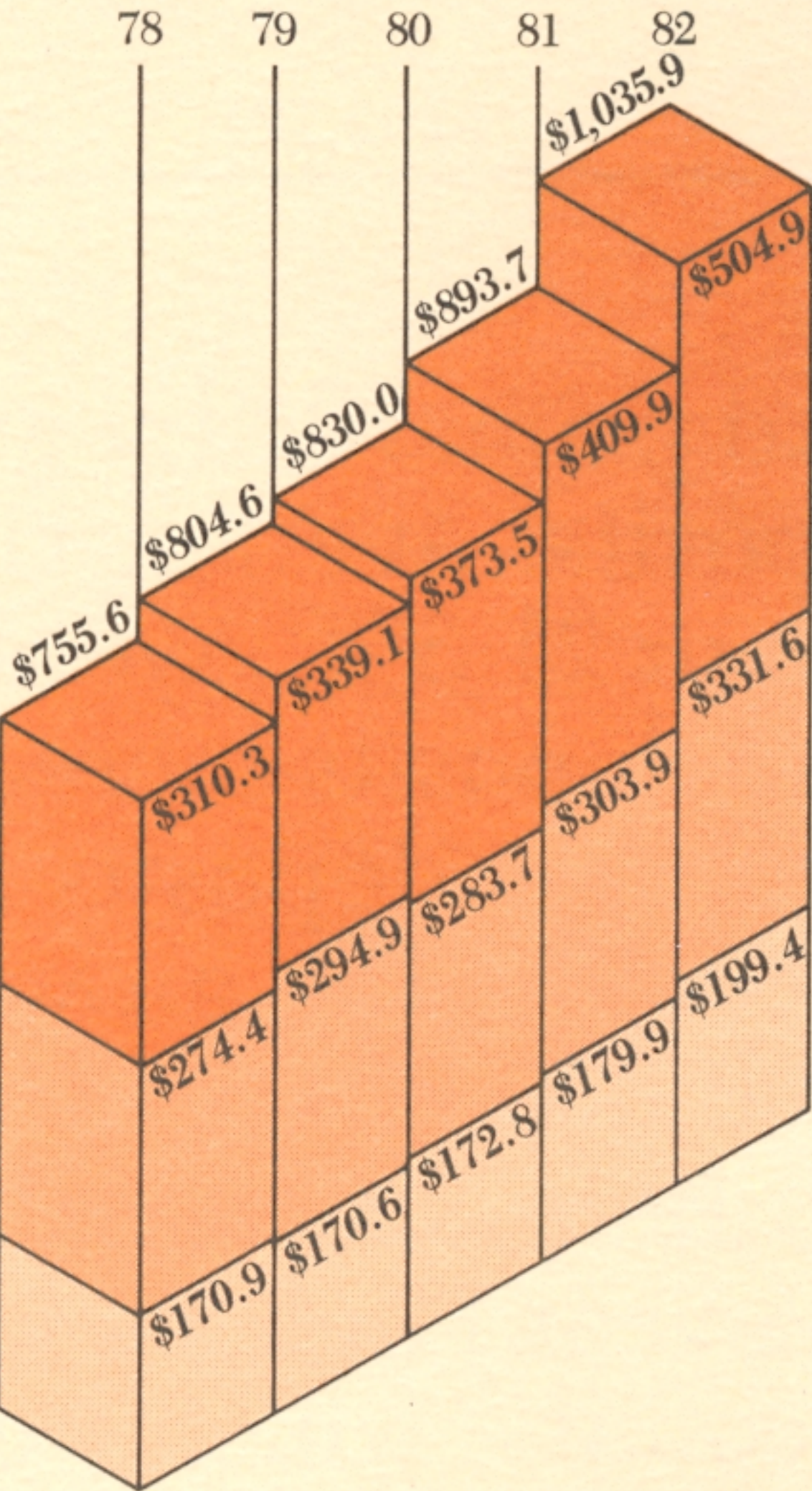


1982 was a year of growth for Peoples Bancorporation. Total assets exceeded the \$2 billion mark, with loans totaling over \$1 billion and deposits reaching \$1.5 billion. Total average assets increased 16.5% following growth of only 7.2% in 1981.

Average earning assets increased \$208 million in 1982, including approximately \$30 million from the acquisition of Washington State Bank in late 1981 and Jefferson National Bank in mid-1982. This 16.6% gain far exceeded the 5.6% gain recorded in 1981. However, as was the case in 1981, the mix of earning assets continued to shift towards rate sensitive loans and short-term investment securities.

Loans by Type

(In Millions at December 31)



- Commercial, Financial and Agricultural
- Real Estate
- Installment

Loans

Commercial loans, which form the largest component of our loan portfolio, increased \$95.0 million or 23.2% to \$504.9 million at December 31, 1982. Real estate construction loans decreased from a total of \$29.3 million at year-end 1981 to \$22.1 million at the end of 1982, reflecting the depressed construction market. Real estate construction loans have declined \$17 million over the past four years. Real estate mortgage loans increased \$34.9 million, following growth of \$21.2 million in 1981. The volume of installment loans increased \$19.5 million after remaining relatively unchanged in the prior four years. The raising of the 12% usury ceiling in late 1981 has allowed the Corporation to make more credit available than in prior years.

Loan Portfolio

(In Thousands)

	1982	1981	1980	1979	1978
Commercial, financial and agricultural	\$ 504,889	\$409,878	\$373,457	\$339,127	\$310,298
Real estate construction	22,096	29,326	30,312	39,098	29,232
Real estate mortgage	309,482	274,620	253,396	255,775	245,124
Installment	202,839	185,409	179,478	180,060	185,736
Less unearned income	(3,379)	(5,495)	(6,645)	(9,478)	(14,784)
Total	\$1,035,927	\$893,738	\$829,998	\$804,582	\$755,606



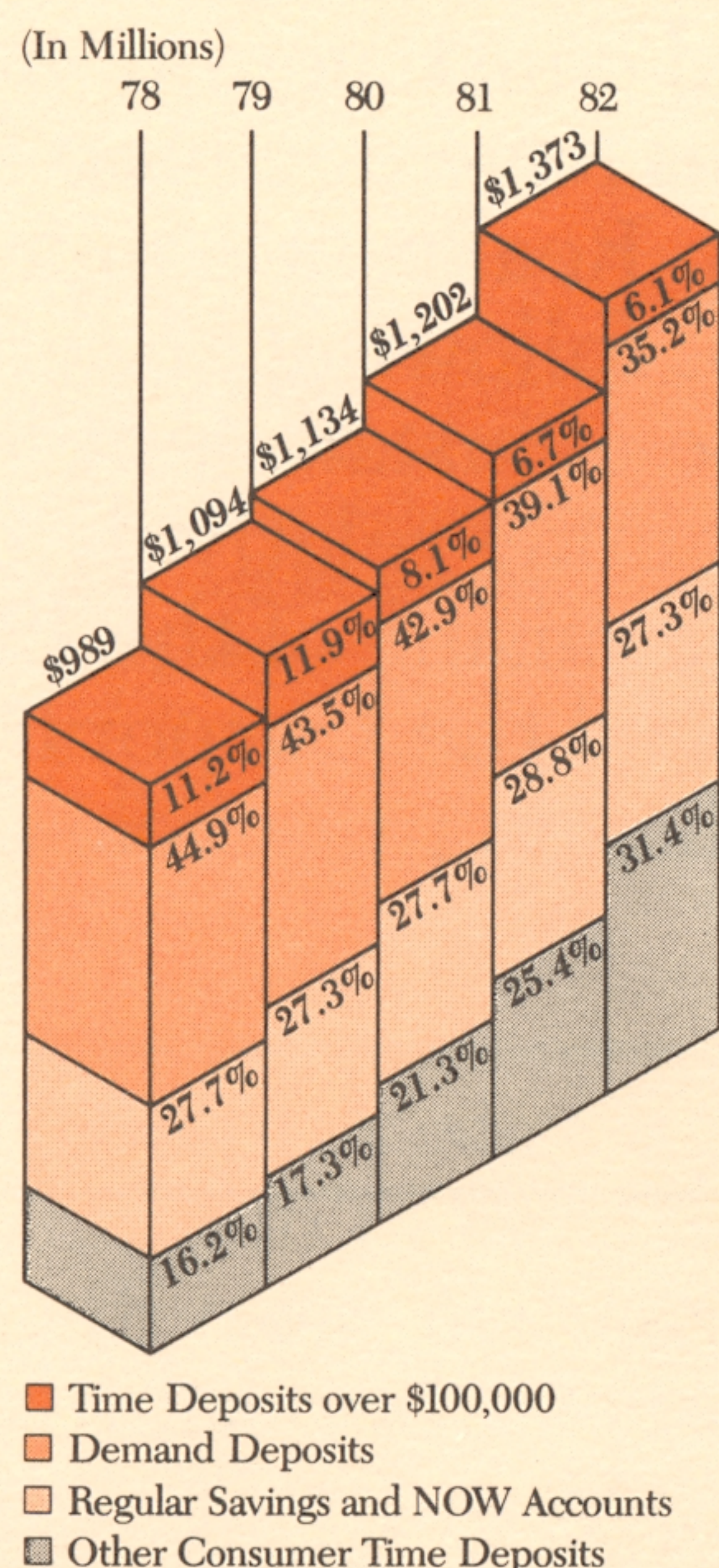
### Investments

Investment securities totaled \$292.7 million at year-end, increasing \$81.6 million or 38.7% over 1981. The volume of tax-exempt securities was unchanged compared to the prior year. In contrast, U.S. Treasury and U.S. Agency investments increased \$82.3 million. This increase was primarily in short-term securities which provided liquidity and an acceptable return on excess funds which were available because deposit growth exceeded loan demand.

### Investment Portfolio

Book value at December 31 (In Thousands)	1982	1981	1980
U.S. Treasury and other U.S. Government Agencies and corporations	\$186,942	\$104,594	\$119,162
State and political subdivisions	102,855	104,811	89,884
Other taxable securities	2,924	1,711	1,730
<b>Total</b>	<b>\$292,721</b>	<b>\$211,116</b>	<b>\$210,776</b>

### Average Deposits by Type Deposits



Asset growth was funded primarily by growth in high-cost consumer time deposits. Average time deposits increased \$157.1 million or 21.5%. Average savings and interest bearing demand deposits increased \$31.8 million or 9.2%, while other time deposits under \$100,000 grew \$123.5 million or 40.5%. The growth in other time deposits under \$100,000 was contributed by IRA Accounts, Tax Free Accounts, six-month Money Market Certificates, and 2½ year High Yield Bonds. The new Money Market Accounts, which were introduced in December 1982, totaled \$89 million or 20% of savings and interest-bearing demand deposits by year-end.

### Capital Adequacy

Shareholders' equity totaled \$116.1 million at December 31, 1982, increasing \$9.5 million or 8.9% over year-end 1981. This follows an increase of \$20.7 million or 24.1% in the prior year. Whereas equity growth in 1982 was derived from net income less dividends declared, growth in 1981 included \$8.5 million arising from the capitalization of intangibles previously charged against retained earnings.

The equity to asset ratio in 1982 was 6.10%, a ratio considered adequate by industry standards. The capital (equity plus long-term debt) to asset ratio was 7.12%. Management considers its capital position to be sufficient to support future growth, meet customers' needs and provide for future dividend payments. Dividends paid were \$1.00 per share both in 1982 and 1981. The dividend payout ratio increased from 24.5% to 28.5% due to the decline in earnings. Book value per share increased from \$27.88 a year ago to \$30.44 at December 31, 1982.



## Liquidity

Peoples Bancorporation places great importance on the management of its liquidity, which is defined as the ability to provide sufficient cash to meet the loan demand and deposit withdrawal requirements of its customers.

The Corporation's primary source of liquidity is its investment portfolio, particularly securities with short-term maturities. At December 31, 1982, total investments were \$292.7 million, compared to \$211.1 million at year-end 1981 and \$210.8 million at year-end 1980. Securities maturing within one year totaled \$113.8 million and represented 38.9% of the total portfolio compared to 33.5% in 1981.

### Investment Portfolio

Remaining maturities and average yields at December 31, 1982

(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	\$ 81,114	13.73%	\$ 31,847	14.72%	\$ 804	8.84%	\$113,765	13.97%
After 1 year								
but within 5	93,374	11.72	38,980	8.89	160	14.00	132,514	10.89
After 5 years								
but within 10			29,305	10.19	20	14.00	29,325	10.19
After 10 years	12,454	7.86	2,723	11.57	1,940	4.43	17,117	8.06
<b>Total</b>	<b>\$186,942</b>	<b>12.33%</b>	<b>\$102,855</b>	<b>11.14%</b>	<b>\$2,924</b>	<b>6.22%</b>	<b>\$292,721</b>	<b>11.85%</b>

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

Other sources of liquidity are fed funds sold, interest bearing deposits with banks and maturing loans. Approximately 70.6% of the year-end loan portfolio (excluding installment and 1-4 family residential loans) had a remaining maturity of less than one year, with 17.4% maturing after 1 year but within 5 years.

Peoples Bancorporation's liquidity position is enhanced by its strong base of core deposits. Average core deposits totaled \$1.3 billion, increasing 15.1% from the prior year. Time certificates over \$100,000 averaged only \$83.1 million or 6.1% of total deposits.

### Remaining Maturity and Interest Rate Sensitivity of Selected Loans

December 31, 1982 (In Thousands)	Maturing			Total
	Within 1 Year	1 - 5 Years	Over 5 Years	
Commercial, financial and agricultural	\$407,333	\$ 84,722	\$ 12,834	\$504,889
Real estate construction	21,874	222		22,096
Other loans secured by real estate*	22,292	26,187	64,248	112,727
<b>Total</b>	<b>\$451,499</b>	<b>\$111,131</b>	<b>\$ 77,082</b>	<b>\$639,712</b>
Loans with predetermined rates	\$176,629	\$ 70,475	\$ 68,176	\$315,280
Loans with floating rates	274,870	40,656	8,906	324,432
<b>Total</b>	<b>\$451,499</b>	<b>\$111,131</b>	<b>\$ 77,082</b>	<b>\$639,712</b>

\*Does not include 1-4 family residential loans.



## Interest Rate Sensitivity

The purpose of interest sensitivity management is to maintain a stable net interest margin during periods of changing rates. Management of interest sensitivity has become increasingly important in recent years due to the volatility of interest rates and the increasing interest sensitivity of deposits. The matching of rate sensitive assets and liabilities by maturities limits the impact of interest rate volatility. The difference between the amount of rate sensitive assets and liabilities within various time periods is known as "Interest Rate Sensitivity Gap." The table below illustrates the gaps for Peoples Bancorporation at December 31, 1982.

### Interest Rate Sensitivity Gap

December 31, 1982 (In Millions)

0-30 Days	31-90 Days	91-365 Days	Over 1 Year
\$270	\$(49)	\$28	\$(249)

While management attempts to minimize this gap, other considerations such as market demand, the future interest rate outlook and long-term goals affect the desired structure of the balance sheet.

## Credit Risk Management

The provision for loan losses is a function of several factors, including the size and risk characteristics of the Corporation's portfolio, historical loan loss experience, the current economic environment and the outlook for future economic conditions. The provision for loan losses totaled \$5.1 million in 1982 compared to \$3.2 million in 1981. Net loan charge-offs increased \$2.1 million, from .26% of average loans in 1981 to .45% in the current year. This increase is a reflection of the poor economic conditions currently prevailing in our region, as well as nationally, and management's conservative approach in evaluating the soundness of credits under these economic conditions. Net commercial loan charge-offs increased \$1.7 million, from .21% of average loans in 1981 to .50% in 1982. Net consumer loan charge-offs increased from .74% to .84% of average consumer loans. Net real estate loan charge-offs increased \$93,000 to .13% of average loans.

The reserve for possible loan losses is increased by the amount of provision charged against earnings and reduced by net loan charge-offs. Peoples Bancorporation maintains its reserve at a level which management considers to be adequate to cover future loan losses on the portfolio. The reserve for possible loan losses was \$9.9 million at December 31, 1982, compared to \$9.1 million at year-end 1981. The reserve to loan ratio at year-end 1982 was .96%. However, the loan portfolio at December 31 included approximately \$40 million of high quality participation loans with maturities of less than 30 days. The reserve to loan ratio excluding these loans was .99%.



## Summary of Loan Loss Experience

(In Thousands)	1982	1981	1980	1979	1978
Loans outstanding at December 31 (net of unearned income)	\$1,035,927	\$893,738	\$829,998	\$804,582	\$755,606
Average loans outstanding (net of unearned income)	\$ 948,873	\$852,220	\$797,064	\$794,887	\$716,254
Reserve for possible loan losses:					
Balance at beginning of year	\$ 9,064	\$ 8,055	\$ 7,105	\$ 6,119	\$ 5,099
Loans charged-off:					
Commercial, financial and agricultural	3,272	1,885	1,608	1,956	1,714
Real estate construction					12
Real estate mortgage	371	287	212	85	104
Installment	1,903	1,449	1,369	966	694
Total	5,546	3,621	3,189	3,007	2,524
Recoveries:					
Commercial, financial and agricultural	628	930	551	333	494
Real estate construction					2
Real estate mortgage	26	35	6	20	46
Installment	634	454	293	236	151
Total	1,288	1,419	850	589	693
Net loan charge-offs	4,258	2,202	2,339	2,418	1,831
Provision charged against earnings	5,083	3,211	3,289	3,404	2,851
Balance at end of year	\$ 9,889	\$ 9,064	\$ 8,055	\$ 7,105	\$ 6,119
Ratio of net charge-offs to average loans	.45%	.26%	.29%	.30%	.26%
Ratio of reserve for possible loan losses to loans outstanding at December 31	.96%	1.01%	.97%	.88%	.81%

## Non-Performing Loans

Non-performing loans include loans placed on non-accrual status, loans in the process of foreclosure and renegotiated loans. Total non-performing loans were \$16.9 million or 1.6% of outstanding loans at December 31, 1982. This compares to a total of \$6.4 million or .7% of outstanding loans a year ago.

Although this category of loans has increased, management considers Peoples Bancorporation's loan quality to be excellent by both national and regional standards. These loans are generally well-secured and do not represent significant future losses.

## Non-Performing Loans

December 31 (In Thousands)	1982	1981	1980	1979	1978
Loans accounted for on a non-accrual basis	\$ 7,015	\$ 6,401	\$ 2,724	\$ 1,723	\$ 1,014
Real estate in process of foreclosure	4,724				
Renegotiated loans	5,125				
Total	\$16,864	\$ 6,401	\$ 2,724	\$ 1,723	\$ 1,014
Past-due loans*	\$10,679*	\$11,551*	\$41,962	\$33,212	\$30,567

\*Past-due loans are here defined as loans contractually past-due 90 days or more for 1982 and 1981 and 30 days or more for prior years, for which 90 day past-due information is unavailable. Loans past due 30 days or more amounted to \$53,300,000 and \$53,492,000 as of December 31, 1982 and 1981, respectively.

## Inflation and Financial Reporting

Financial Accounting Standards Board (FASB) Statement No. 33 requires the presentation of supplemental information concerning the effects of changing prices on a company's financial statements. See Note M in the Notes to the Financial Statements for the presentation of this information.



Average Balances/Interest Income and Expense/Rates									
(In Thousands)									
	1982			1981			1980		
	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
<b>Assets</b>									
Investment securities:									
Taxable investments	\$ 148,303	\$ 18,842	12.70%	\$ 112,340	\$ 13,354	11.89%	\$ 85,631	\$ 8,704	10.16%
Non-taxable investments	104,471	12,410	11.88	102,087	11,804	11.56	87,144	8,268	9.49
Total investment securities	252,774	31,252	12.36	214,427	25,158	11.73	172,775	16,972	9.82
Interest bearing deposits with banks	8,585	1,275	14.85	1,323	140	10.55			
Trading account securities	7,055	792	11.23	2,453	390	15.91	1,439	176	12.24
Federal funds sold and securities purchased under agreements to resell	214,290	25,886	12.08	144,266	23,491	16.28	158,769	21,029	13.25
Loans:									
Commercial loans	524,607	80,871	15.42	446,974	74,949	16.77	410,848	55,971	13.62
Consumer loans	150,981	20,814	13.79	134,728	16,582	12.31	131,238	14,499	11.05
Real estate loans	273,285	29,625	10.84	270,518	29,849	11.03	254,978	25,902	10.16
Total loans — net of unearned income	948,873	131,310	13.84	852,220	121,380	14.24	797,064	96,372	12.09
Direct lease financing	30,491	4,541	14.89	39,326	5,368	13.65	57,417	7,648	13.32
Total earning assets	1,462,068	\$195,056	13.34%	1,254,015	\$175,927	14.03%	1,187,464	\$142,197	11.97%
Less reserve for possible loan losses	(9,329)			(8,630)			(7,827)		
Cash and due from banks	238,259			221,540			205,869		
Other non-earning assets	150,850			113,591			88,321		
<b>Total Assets</b>	<b>\$1,841,848</b>			<b>\$1,580,516</b>			<b>\$1,473,827</b>		
<b>Liabilities and Shareholders' Equity</b>									
Deposits:									
Savings and interest bearing demand deposits	\$ 377,651	\$ 19,851	5.26%	\$ 345,847	\$ 18,134	5.24%	\$ 314,340	\$ 16,587	5.28%
Time deposits over \$100,000	83,051	10,368	12.48	81,187	12,615	15.54	92,054	10,700	11.62
Other time deposits	428,531	53,364	12.45	305,079	38,145	12.50	241,309	23,613	9.79
Total time deposits	889,233	83,583	9.40	732,113	68,894	9.41	647,703	50,900	7.86
Federal funds purchased and securities sold under agreements to repurchase	207,324	22,520	10.86	154,547	22,589	14.62	145,636	16,914	11.61
Other short-term borrowings	54,229	6,939	12.80	52,020	8,324	16.00	46,633	5,723	12.27
Long-term debt	18,906	1,721	9.10	16,402	1,367	8.33	17,274	1,432	8.29
Total interest bearing liabilities	1,169,692	\$114,763	9.81%	955,082	\$101,174	10.59%	857,246	\$ 74,969	8.75%
Demand deposits	483,360			469,574			485,891		
Other liabilities	76,510			58,815			48,031		
Shareholders' equity	112,286			97,045			82,659		
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$1,841,848</b>			<b>\$1,580,516</b>			<b>\$1,473,827</b>		
Average rate earned on earning assets		\$195,056	13.34%		\$175,927	14.03%		\$142,197	11.97%
Average interest cost related to earning assets		114,763	7.85		101,174	8.07		74,969	6.31
<b>Net Interest Margin</b>		<b>\$ 80,293</b>	<b>5.49%</b>		<b>\$ 74,753</b>	<b>5.96%</b>		<b>\$ 67,228</b>	<b>5.66%</b>

The above table is presented on a fully taxable equivalent basis assuming a 46% income tax rate, and excludes fees on loans. Non-accrual loans are included in average loan balances. 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 1982 over 1981			Year Ended 1981 over 1980		
Volume	Rate	Total	Volume	Rate	Total
\$ 4,275	\$ 1,213	\$ 5,488	\$ 2,710	\$ 1,940	\$ 4,650
276	330	606	1,421	2,115	3,536
4,551	1,543	6,094	4,131	4,055	8,186
768	367	1,135	140		140
732	(330)	402	124	90	214
11,402	(9,007)	2,395	(1,921)	4,383	2,462
13,018	(7,096)	5,922	4,907	14,071	18,978
2,000	2,232	4,232	407	1,676	2,083
305	(529)	(224)	1,587	2,360	3,947
15,323	(5,393)	9,930	6,901	18,107	25,008
(1,206)	379	(827)	(2,410)	130	(2,280)
\$31,570	\$(12,441)	\$19,129	\$ 6,965	\$26,765	\$33,730
\$ 1,668	\$ 49	\$ 1,717	\$ 1,675	\$ (128)	\$ 1,547
290	(2,537)	(2,247)	(1,265)	3,180	1,915
15,436	(217)	15,219	6,244	8,288	14,532
17,394	(2,705)	14,689	6,654	11,340	17,994
7,714	(7,783)	(69)	1,029	4,646	5,675
353	(1,738)	(1,385)	710	1,891	2,601
209	145	354	(72)	7	(65)
\$25,670	\$(12,081)	\$13,589	\$ 8,321	\$17,884	\$26,205
\$ 5,900	\$ (360)	\$ 5,540	\$(1,356)	\$ 8,881	\$ 7,525



## Quarterly Financial Information

(In Thousands, Except Per Share)

	1982			
	1st	2nd	3rd	4th
Interest and lease income	\$46,308	\$50,239	\$50,930	\$47,463
Interest expense	27,510	29,925	29,792	27,536
Net interest and lease income	18,798	20,314	21,138	19,927
Provision for possible loan losses	694	939	1,849	1,601
Non-interest income	7,923	8,064	8,964	9,007
Non-interest expense	22,404	23,786	23,176	23,700
Income before taxes and securities transactions	3,623	3,653	5,077	3,633
Applicable income taxes	619	575	1,151	233
Income before securities transactions	3,004	3,078	3,926	3,400
Net income	\$ 2,962	\$ 3,079	\$ 3,928	\$ 3,454
Earnings per share:				
Primary:				
Income before securities transactions	\$.79	\$.80	\$1.03	\$.89
Net income	.77	.81	1.03	.90
Fully diluted:				
Income before securities transactions	.74	.76	.97	.85
Net income	.73	.76	.97	.86

	1981			
	1st	2nd	3rd	4th
Interest and lease income	\$40,718	\$43,649	\$46,113	\$46,527
Interest expense	22,567	24,932	27,239	26,436
Net interest and lease income	18,151	18,717	18,874	20,091
Provision for possible loan losses	837	942	648	784
Non-interest income	6,565	6,788	7,426	8,055
Non-interest expense	18,724	19,060	20,129	21,179
Income before taxes and securities transactions	5,155	5,503	5,523	6,183
Applicable income taxes	1,676	1,753	1,698	1,627
Income before securities transactions	3,479	3,750	3,825	4,556
Net income	\$ 3,480	\$ 3,750	\$ 3,826	\$ 4,557
Earnings per share:				
Primary:				
Income before securities transactions	\$.91	\$.99	\$1.00	\$1.19
Net income	.91	.99	1.00	1.19
Fully diluted:				
Income before securities transactions	.85	.92	.94	1.11
Net income	.85	.92	.94	1.11

## Quarterly Common Stock Data

	1982			
	1st	2nd	3rd	4th
Market bid price:				
High	\$19½	\$16½	\$15	\$18¾
Low	15¼	12¼	12½	14¾
Dividends declared per share	.25	.25	.25	.25
	1981			
	1st	2nd	3rd	4th
Market bid price:				
High	\$18½	\$20½	\$19½	\$19¾
Low	16½	16½	15¼	17¼
Dividends declared per share	.25	.25	.25	.25

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 1990 shareholders of record as of December 31, 1982. 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.



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**Report of Ernst & Whinney, Independent Auditors**

*Peoples Bancorporation and Subsidiaries*

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Board of Directors  
Peoples Bancorporation  
Seattle, Washington

We have examined the consolidated balance sheets of Peoples Bancorporation and subsidiaries as of December 31, 1982 and 1981, 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, 1982. 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.

As described in Note L to the consolidated financial statements, certain of the Corporation's subsidiaries are defendants in a lawsuit. The ultimate outcome of the lawsuit cannot presently be determined, and no provision for any liability that may result has been made in the consolidated financial statements.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Peoples Bancorporation and subsidiaries at December 31, 1982 and 1981, 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, 1982, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for intangible assets as described in Note I to the financial statements, have been applied on a consistent basis.

Seattle, Washington  
January 14, 1983

*Ernst & Whinney*





**Consolidated Balance Sheets**  
*Peoples Bancorporation and Subsidiaries*

December 31 (In Thousands)	1982	1981
<b>Assets</b>		
Cash and due from banks	\$ 249,061	\$ 264,194
Interest bearing deposits with banks		7,900
Investment securities (market value — \$285,237 - 1982; \$185,331 - 1981) — Note B	292,721	211,116
Trading account securities	32,632	4,201
Federal funds sold and securities purchased under agreements to resell	235,906	211,436
Loans — net of unearned income — Note C	1,035,927	893,738
Less reserve for possible loan losses — Note D	(9,889)	(9,064)
Total loans less reserve	1,026,038	884,674
Direct lease financing	27,720	39,015
Premises and equipment — Note E	52,755	44,300
Customers' acceptance liability	35,227	32,750
Other assets	53,202	43,281
<b>Total Assets</b>	<b>\$2,005,262</b>	<b>\$1,742,867</b>
<b>Liabilities and Shareholders' Equity</b>		
Deposits:		
Demand deposits	\$ 520,365	\$ 517,807
Savings and interest bearing demand deposits	466,955	358,088
Other time deposits — Note F	506,843	426,563
Total deposits	1,494,163	1,302,458
Federal funds purchased and securities sold under agreements to repurchase — Note G	245,529	202,576
Other short-term borrowings — Note G	54,636	53,434
Acceptances outstanding	35,227	32,750
Accounts payable and accrued liabilities	39,066	27,505
Long-term debt — Note H	20,513	17,495
<b>Total Liabilities</b>	<b>1,889,134</b>	<b>1,636,218</b>
<b>Shareholders' Equity — Note I</b>		
Common stock, par value \$5.00 a share — authorized 10,000,000 shares, outstanding 3,827,069 shares in 1982 and 3,824,960 shares in 1981	19,135	19,125
Surplus	23,148	23,106
Retained earnings	74,018	64,418
	116,301	106,649
Less 12,500 shares of common stock in treasury, at cost	(173)	
<b>Total Shareholders' Equity</b>	<b>116,128</b>	<b>106,649</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$2,005,262</b>	<b>\$1,742,867</b>

See notes to consolidated financial statements.



**Consolidated Statements of Income**  
*Peoples Bancorporation and Subsidiaries*

Year Ended December 31 (In Thousands, Except Per Share)	1982	1981	1980
<b>Interest and Lease Income</b>			
Interest and fees on loans	\$136,903	\$127,890	\$103,759
Interest on deposits with banks	1,275	140	
Interest on federal funds sold	25,886	23,491	21,029
Interest on investment securities:			
Taxable	18,842	13,354	8,704
Exempt from federal income taxes	6,701	6,374	4,465
Interest on trading account securities	792	390	176
Income from direct lease financing	4,541	5,368	7,648
<b>Total Interest and Lease Income</b>	<b>194,940</b>	<b>177,007</b>	<b>145,781</b>
<b>Interest Expense</b>			
Interest on deposits—Note F	83,583	68,894	50,900
Interest on federal funds purchased	22,520	22,589	16,914
Interest on short-term borrowings	6,939	8,324	5,723
Interest on long-term debt	1,721	1,367	1,432
<b>Total Interest Expense</b>	<b>114,763</b>	<b>101,174</b>	<b>74,969</b>
<b>Net Interest and Lease Income</b>	<b>80,177</b>	<b>75,833</b>	<b>70,812</b>
Provision for possible loan losses—Note D	5,083	3,211	3,289
<b>Net Interest and Lease Income After Provision for Possible Loan Losses</b>	<b>75,094</b>	<b>72,622</b>	<b>67,523</b>
<b>Non-Interest Income</b>			
Trust income	4,077	3,508	3,025
Service charges on deposit accounts	9,163	7,410	6,652
Other service charges and fees	15,978	14,147	11,018
Other	4,740	3,769	3,507
<b>Total Non-Interest Income</b>	<b>33,958</b>	<b>28,834</b>	<b>24,202</b>
	<b>109,052</b>	<b>101,456</b>	<b>91,725</b>
<b>Non-Interest Expense</b>			
Salaries	41,999	37,425	32,739
Employee benefits—Note J	9,185	8,094	6,419
Occupancy expense—Note E	5,272	4,747	4,552
Furniture and equipment expense—Note E	9,835	7,515	6,555
Other	26,775	21,311	19,924
<b>Total Non-Interest Expense</b>	<b>93,066</b>	<b>79,092</b>	<b>70,189</b>
Income before income taxes and securities transactions	15,986	22,364	21,536
Applicable income taxes—Note K	2,578	6,754	7,260
Income before securities transactions	13,408	15,610	14,276
Securities transactions net of applicable income taxes (benefits) of \$13 in 1982, \$3 in 1981 and \$(3) in 1980	15	3	(5)
<b>Net Income</b>	<b>\$ 13,423</b>	<b>\$ 15,613</b>	<b>\$ 14,271</b>
<b>Earnings Per Share:</b>			
Primary:			
Income before securities transactions	\$3.51	\$4.09	\$3.75
Net income	\$3.51	\$4.09	\$3.75
Fully Diluted:			
Income before securities transactions	\$3.33	\$3.83	\$3.47
Net income	\$3.33	\$3.83	\$3.47

See notes to consolidated financial statements.



**Consolidated Statements of Changes in Financial Position**  
*Peoples Bancorporation and Subsidiaries*

Year Ended December 31 (In Thousands)	1982	1981	1980
<b>Source of Funds</b>			
Net income	\$ 13,423	\$ 15,613	\$ 14,271
Charges to income not requiring funds:			
Depreciation and amortization	6,513	4,236	3,444
Provision for possible loan losses	5,083	3,211	3,289
Deferred tax expense (benefit)	1,145	1,326	(358)
Total from operations	26,164	24,386	20,646
Increase in:			
Deposits	191,705	67,718	30,307
Federal funds purchased and securities sold under agreements to repurchase	42,953	153,876	
Other short-term borrowings	1,202		3,229
Accounts payable and accrued liabilities	10,416	2,615	
Long-term debt	3,070	815	
Decrease in:			
Cash and due from banks	15,133		56,405
Interest bearing deposits with banks	7,900		
Direct lease financing	11,295	8,561	19,951
<b>Total Sources of Funds</b>	<b>\$309,838</b>	<b>\$257,971</b>	<b>\$130,538</b>
<b>Application of Funds</b>			
Increase in:			
Cash and due from banks	\$	\$ 34,190	\$
Interest bearing deposits with banks		7,900	
Investment securities	81,605	340	48,901
Trading account securities	28,431	402	2,981
Federal funds sold and securities purchased under agreements to resell	24,470	121,871	1,615
Loans	146,442	65,882	27,754
Premises and equipment	13,348	8,159	7,011
Other assets	11,546	9,930	2,981
Decrease in:			
Federal funds purchased and securities sold under agreements to repurchase			32,355
Other short-term borrowings		5,485	
Accounts payable and accrued liabilities			625
Long-term debt			696
Excess of purchase price over net assets acquired—Note I			2,271
Treasury stock acquired	173		
Cash dividends paid	3,823	3,812	3,348
<b>Total Applications of Funds</b>	<b>\$309,838</b>	<b>\$257,971</b>	<b>\$130,538</b>

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
<b>Balance at December 31, 1979</b>	\$18,964	\$22,582	\$35,537	\$	\$ 77,083
Net income			14,271		14,271
Cash dividends declared (\$.91 per share)			(3,465)		(3,465)
Conversion of convertible debentures to common stock	76	220			296
Excess of purchase price over net assets acquired—Note I			(2,271)		(2,271)
<b>Balance at December 31, 1980</b>	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 I			8,549		8,549
<b>Balance at December 31, 1981</b>	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
<b>Balance at December 31, 1982</b>	<b>\$19,135</b>	<b>\$23,148</b>	<b>\$74,018</b>	<b>\$(173)</b>	<b>\$116,128</b>

See notes to consolidated financial statements.



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## Notes to Consolidated Financial Statements

*Peoples Bancorporation and Subsidiaries*

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### 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: Peoples Mortgage Company; Peoples Escrow Company; Peoples Insurance, Inc.; Peoples Computer Services, Inc.; Peoples Building Company; and Peoples National Bank of Washington and its subsidiaries: Western States Mortgage Company; Western States Leasing Company, Inc., doing business as Peoples Leasing Company; and Peoples Small Business Investment Corporation. Significant intercompany transactions and balances have been eliminated in consolidation.

**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. Trading account securities are carried at the lower of cost or market value. At year-end 1982 and 1981, the book value of trading account securities approximated market value.

**Loans:** Interest on commercial, real estate, mortgage and certain types of installment loans is accrued and credited to income based upon the principal amount outstanding. Interest on other installment 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 disbursement made. First mortgage loans held for resale are carried at the lower of cost or market value.

**Reserve for Possible Loan Losses:** The reserve for possible loan losses is increased by provisions charged to expenses and reduced by loans charged off, net of recoveries. The level of the reserve is based on management's evaluation of potential losses in the loan portfolio after consideration of historical loan loss experience, current problem loans, economic conditions, and other risks inherent in the loan portfolio.

**Direct Lease Financing:** 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.

**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. 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 lease.

**Earnings per Share:** Primary earnings per share are computed based on the weighted average number of shares outstanding during the year (1982—3,822,554; 1981—3,813,900; and 1980—3,805,926) adjusted for stock dividends and stock splits. 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)

	1982		1981	
	Book	Market	Book	Market
U.S. Treasury and other U.S. Government				
Agencies and corporations	\$186,942	\$190,117	\$104,594	\$ 99,668
State and political subdivisions	102,855	91,907	104,811	84,123
Other taxable securities	2,924	3,213	1,711	1,540
<b>Total investment securities</b>	<b>\$292,721</b>	<b>\$285,237</b>	<b>\$211,116</b>	<b>\$185,331</b>

Securities carried at approximately \$58,447,000 and \$61,983,000 at December 31, 1982 and 1981, respectively, were pledged to secure public deposits and trust funds as required by law.

**Note C  
Loans**

Loans at December 31 consisted of the following:  
(In Thousands)

	1982	1981
Commercial, financial and agricultural	\$ 493,889	\$403,378
Real estate construction	22,096	29,326
Real estate mortgage	309,482	274,620
Installment	202,839	185,409
Foreign	11,000	6,500
Less unearned income	(3,379)	(5,495)
<b>Total loans</b>	<b>\$1,035,927</b>	<b>\$893,738</b>

Certain related parties of Peoples Bancorporation, principally directors of the Corporation, their immediate families and other enterprises in which they are principal owners, were loan customers of the Corporation and its subsidiaries in the ordinary course of business during 1982 and 1981. Such loans amounted to \$20,378,000 and \$39,242,000 at December 31, 1982 and 1981, respectively. The aggregate maximum amounts of obligations outstanding to related parties during 1982 and 1981 were approximately \$30,392,000 and \$61,911,000, respectively.

**Note D  
Reserve for Possible  
Loan Losses**

Changes in the reserve for possible loan losses for the years ended December 31, 1982, 1981 and 1980 were as follows:

(In Thousands)	1982	1981	1980
Balance at beginning of year	\$9,064	\$8,055	\$7,105
Provision charged against earnings	5,083	3,211	3,289
Deduct:			
Loans charged off	5,546	3,621	3,189
Less recoveries	(1,288)	(1,419)	(850)
Net loan charge-offs	4,258	2,202	2,339
<b>Balance at December 31</b>	<b>\$9,889</b>	<b>\$9,064</b>	<b>\$8,055</b>



**Note E**  
**Premises and**  
**Equipment**

The components of premises and equipment at December 31 are as follows:			
(In Thousands)	Estimated Useful Life	1982	1981
Land		\$ 7,819	\$ 6,069
Buildings	15-45 Years	37,738	33,246
Leasehold improvements	Life of Lease	8,209	7,880
Furniture and fixtures	5-15 Years	28,406	22,642
		82,172	69,837
Less accumulated depreciation and amortization		(29,417)	(25,537)
<b>Total premises and equipment</b>		<b>\$52,755</b>	<b>\$44,300</b>

Depreciation expense on premises and equipment totaled \$4,924,000, \$3,872,000 and \$3,228,000 for the years ended December 31, 1982, 1981 and 1980, respectively. Occupancy expense has been reduced by rental income received. Such income amounted to \$2,013,000, \$1,800,000 and \$1,975,000 for the years ended December 31, 1982, 1981 and 1980, 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, 1982:

(In Thousands)	
1983	\$ 3,463
1984	3,277
1985	2,921
1986	1,631
1987	883
1988 and subsequent	4,015
<b>Total minimum payments required</b>	<b>\$16,190</b>

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 \$7,580,000 in 1982, \$5,734,000 in 1981 and \$5,010,000 in 1980.

**Note F**  
**Time Deposits**

Time certificates of deposit of \$100,000 or more totaled \$44,549,000, \$75,059,000 and \$70,257,000 at December 31, 1982, 1981 and 1980, respectively.

The components of interest expense on deposits for the years ended December 31, 1982, 1981 and 1980 were as follows:

(In Thousands)	1982	1981	1980
Interest on savings and interest bearing demand deposits	\$19,851	\$18,134	\$16,587
Interest on time certificates of deposit of \$100,000 or more	10,368	12,615	10,700
Interest on other time deposits	53,364	38,145	23,613
<b>Total</b>	<b>\$83,583</b>	<b>\$68,894</b>	<b>\$50,900</b>

Maturities of time certificates of deposit of \$100,000 or more as of December 31, 1982 were as follows:

(In Thousands)	
Maturities within 3 months	\$38,500
After 3 months but within 6 months	4,341
After 6 months but within 12 months	1,708
After 12 months	—
<b>Total</b>	<b>\$44,549</b>



**Note G**  
**Short-Term**  
**Borrowings**

Short-term borrowings are summarized as follows:

	U.S. Treasury Demand Notes		Commercial Paper		Total	
(In Thousands)	1982	1981	1982	1981	1982	1981
Balance at December 31	\$30,432	\$18,915	\$24,204	\$34,519	\$54,636	\$53,434
Average interest rate at December 31	8.54%	12.29%	9.35%	13.21%	8.90%	12.88%
Maximum outstanding at any month-end	\$32,194	\$32,367	\$38,575	\$40,814	\$70,769	\$73,181
Average daily balance	20,617	17,043	33,612	34,977	54,229	52,020
Weighted average interest rate	12.67%	17.17%	12.87%	15.43%	12.80%	16.00%

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 is computed by dividing the respective interest expense by the average daily balance.

**Note H**  
**Long-Term**  
**Debt**

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

(In Thousands)	1982	1981
7% Subordinated Purchase Notes, due March 25, 1982	\$	\$ 696
8¾% Subordinated Capital Note, due 1983 through 1986	6,500	6,500
8½% Series A Subordinated Convertible Debentures, due December 15, 1984	7,531	7,541
8¾% Series B Subordinated Convertible Debentures, due December 15, 1989	1,205	1,247
13¼% Mortgage Note Payable, due July 1, 1992	3,000	
Other long-term debt	2,277	1,511
<b>Total long-term debt</b>	<b>\$20,513</b>	<b>\$17,495</b>

**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 is due 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 the consolidated book value per share at the end of the most recent calendar quarter, net of the excess of purchase price over the fair value of net assets acquired, recorded as an asset on the books of the holding company, less 5%. At December 31, 1982, the conversion rate was \$27.07 per share. During 1982, debentures with a face value of \$52,000 were converted into 2,109 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 \$6,500,000 Subordinated Note presently outstanding, except as to the portion of the \$6,500,000 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 commencing July 1, 1983. Interest on the note is payable monthly. The note is secured by a mortgage on premises with a book value of \$7,162,000 at December 31, 1982.

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

(In Thousands)	
1983	\$ 1,557
1984	9,090
1985	1,561
1986	4,063
1987	486



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**Note I**  
**Shareholders'**  
**Equity**

**Acquisitions:** On August 7, 1980, the Bank acquired the assets and assumed the liabilities of Columbia Bank, N.A. This acquisition was accounted for as a purchase. In accordance with the regulations of the Comptroller of the Currency, retained earnings were reduced by \$2.3 million, representing the excess of the cash purchase price of \$5.3 million over the fair value of the net assets acquired.

On December 10, 1981, the Bank acquired the assets and assumed the liabilities of Washington State Bank. Assets acquired included approximately \$12.1 million of loans and liabilities assumed included approximately \$17.4 million of deposits. On June 24, 1982, the Bank acquired the assets and assumed the liabilities of Jefferson National Bank. Assets acquired included loans aggregating approximately \$12.0 million and liabilities assumed included deposits aggregating approximately \$18.1 million. Both of these transactions were accounted for as purchases. The Bank is currently in the process of allocating the excess of the cash purchase price of \$4.0 million for Washington State Bank and \$2.7 million for Jefferson National Bank to the fair market value of specific assets acquired.

Pro forma results of operations for the current and prior years for the above acquisitions are not presented due to their insignificance.

**Reestablishment of Excess Purchase Price:** Upon reorganization on July 1, 1981, Peoples Bancorporation reestablished the excess of purchase price over the fair value of net assets (intangibles) acquired in bank purchases as an asset and also increased retained earnings by a like amount as required by generally accepted accounting principles. This amount 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. The effect of this change was to increase amortization expense by \$1,327,000 in 1982 and \$285,000 in 1981 and to decrease net income for 1982 by \$784,000 or \$.21 per share and for 1981 by \$205,000 or \$.06 per share. Prior periods have not been restated due to the immaterial nature of the annual amortization. Accumulated amortization on these intangibles was \$3,192,000 and \$1,865,000 at December 31, 1982 and 1981, respectively.

**Conversion of Debentures:** At December 31, 1982, 721,891 shares of common stock were reserved for the conversion of convertible debentures discussed in Note H. As a result of conversion of convertible debentures, the Corporation issued shares of common stock as follows: 2,109 in 1982, 16,934 in 1981 and 15,194 in 1980.

**Restrictions on Dividends, Loans or Advances:** Certain restrictions exist regarding the ability of the Bank to transfer funds to its affiliates, including the parent holding company. The provisions of the Bank's 8¾% Subordinated Note restrict the Bank's dividends declared or paid to not more than 50% of the annual net income of the current year plus the prior two 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 these restrictions, consolidated retained earnings of approximately \$11 million or \$2.86 per share are available for the payment of dividends to shareholders of Peoples Bancorporation at December 31, 1982.

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 \$19.9 million of the \$99.7 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 at December 31, 1982.

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**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 \$1,865,000 both in 1982 and 1981, and \$1,760,000 in 1980. 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, 1981 was as follows:

(In Thousands)

Actuarial present value of accumulated plan benefits:

Vested	\$ 9,011
Non-vested	684

<b>Total</b>	<b>\$ 9,695</b>
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Net assets available for benefits	\$10,095
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In determining the 1982 and 1981 pension expense, the actuarial assumption of investment earnings rate was 7% compared to 5% in 1980 and the actuarial assumption of salary escalation was 6% compared to 3% in 1980. These changes reduced pension expense by approximately \$84,000 both in 1982 and 1981 and reduced the January 1, 1981 actuarial present value of accumulated plan benefits by \$3,710,000.

The Corporation also offers its employees an Incentive Savings Plan. Each payroll period, participating employees may contribute from 2% to 6% of their salary and the Corporation matches 50% of the employees' contribution. The Corporation's Incentive Savings expense was \$336,000, \$277,000 and \$69,000 in 1982, 1981 and 1980, respectively.

**Note K  
Income  
Taxes**

The provision for federal income taxes consisted of the following at December 31:

(In Thousands)	1982	1981	1980
Operating income	\$2,578	\$6,754	\$7,260
Securities transactions	13	3	(3)
<b>Total</b>	<b>\$2,591</b>	<b>\$6,757</b>	<b>\$7,257</b>
Currently payable	\$1,446	\$5,431	\$7,615
Deferred expense (benefit)	1,145	1,326	(358)
<b>Total</b>	<b>\$2,591</b>	<b>\$6,757</b>	<b>\$7,257</b>

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)	1982	1981	1980
Accrual method for financial reporting purposes and cash method for income tax purposes	\$ 667	\$ 233	\$ 50
Leasing income recognized on financing method for financial reporting purposes and on operating method for income tax purposes	628	486	13
Provision for loan losses recognized for reporting purposes and deferred for tax purposes	(299)	(141)	(358)
Long-term gain recognized for reporting purposes and deferred for tax purposes			59
Installment loan interest income recognized for reporting purposes and deferred for tax purposes	(338)	103	(207)
Pension plan costs recognized for tax purposes and deferred for reporting purposes	48	37	30
Depreciation recognized for tax purposes and deferred for reporting purposes	247	188	32
Amortization of intangibles recognized for reporting purposes and deferred for tax purposes	(94)		
Investment tax credits deferred for reporting purposes	366	492	
Other deferred items	(80)	(72)	23
<b>Deferred federal income tax expense (benefit)</b>	<b>\$1,145</b>	<b>\$1,326</b>	<b>\$(358)</b>



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

(In Thousands)	1982		1981		1980	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	\$7,366	46.0%	\$10,290	46.0%	\$9,903	46.0%
Effect of tax-exempt income	(3,709)	(23.2)	(3,018)	(13.5)	(2,144)	(10.0)
Effect of non-deductible amortization	79	0.5				
Investment tax credits	(1,018)	(6.3)	(537)	(2.4)	(393)	(1.8)
Foreign tax credits	(101)	(0.6)				
Other	(26)	(0.2)	22	0.1	(109)	(0.5)
<b>Federal income tax expense</b>	<b>\$2,591</b>	<b>16.2%</b>	<b>\$ 6,757</b>	<b>30.2%</b>	<b>\$7,257</b>	<b>33.7%</b>

**Note L  
Commitments,  
Litigation and  
Contingent  
Liabilities**

In the normal course of business there are various commitments outstanding and contingent liabilities such as guarantees 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, 1982 and 1981 amounted to \$23,960,000 and \$28,957,000, respectively.

Peoples Leasing Company, Inc., a wholly-owned subsidiary of Peoples National Bank of Washington, was named as a defendant in a lawsuit commenced November 15, 1978, in the Superior Court for King County, Washington. On April 13, 1979, the Bank was also joined as a defendant in this lawsuit. The plaintiffs, residents of King County, are, or were, lessees of automobiles from Peoples Leasing Company, Inc., which in 1981 changed its name to Western States Leasing Company, Inc. (doing business as Peoples Leasing Company). The case purported to be a class action on behalf of the lessees of automobiles from Peoples Leasing Company, Inc. Damages were claimed in an unspecified amount and injunctive relief was requested. A prayer to treble the damages and for attorneys' fees and costs under the Consumer Protection Act was included.

The Complaint claims that portions of the revenues received by Peoples Leasing Company, Inc. were subject to the state usury statutes and laws and that the lawful rates were exceeded. The Complaint also asks that the corporate separateness of defendants be disregarded and that the Bank be held liable.

On June 11, 1980, the court granted a summary judgment dismissing all claims against Peoples Leasing Company, Inc. and the Bank. The court also entered an order decertifying the case as a class action.

On July 9, 1980, the plaintiffs filed a notice of appeal of the summary judgment and decertification order. The appeal was filed with the Washington Supreme Court. On January 14, 1982, the Supreme Court rendered a decision reversing the trial court, holding that the open-end leases between the plaintiffs and Peoples Leasing Company were loans as a matter of law. The Supreme Court ordered the case remanded to the Superior Court to determine issues respecting application of the state usury statute to the transactions and for reconsideration of the trial court's order decertifying the case as a class action. A motion for reconsideration was denied by the Supreme Court on April 28, 1982, and accordingly the case was remanded to the trial court. On August 26, 1982, the trial court granted plaintiffs' motion for an order recertifying the case as a class action. Defendants filed a motion for reconsideration of this ruling, and the motion was denied on September 27, 1982.

Given the scope of the Supreme Court's decision and the uncertainties with respect to the transactions involved and legal issues which are yet to be resolved, it is not possible for management or legal counsel to determine the likelihood of an unfavorable outcome of the case or the amount or range of potential loss. While the ultimate outcome of this litigation cannot be predicted, management intends to vigorously defend its position.

There are also other claims pending against the Corporation and its subsidiaries. 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**  
**Supplemental**  
**Information on**  
**the Effects of**  
**Changing Prices**  
**(Unaudited)**

**Basis of Preparation of 1982 Supplemental Information**

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the Corporation must provide supplemental information concerning the effects of changing prices on its financial statements. In accordance with the FASB's decision to focus on those items most affected by changing prices, the information presents (1) the effect of general inflation on premises and equipment and related depreciation expense, and (2) the effect of general inflation on monetary assets and liabilities.

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.

In periods of general inflation, non-monetary assets such as premises and equipment purchased in prior years have a constant dollar value higher than their nominal dollar value. Depreciation expense based on these constant dollar values would accordingly be higher. For 1982, the effect of restating non-monetary assets on a constant dollar basis using the average Consumer Price Index (CPI) for 1982 would have been an increase to depreciation expense of \$1,791,000.

Inflation will also impact the purchasing power of net monetary assets. In 1982, the Corporation experienced a loss in the purchasing power of its net monetary assets of \$1,711,000. This was computed by determining the difference between net monetary assets at the beginning and end of 1982, after conversion into average dollars using the average Consumer Price Index (CPI) for 1982.

The effects of specific price changes (current cost disclosure) on net income and the Corporation's net assets are not materially different from the disclosed general price level impact and therefore are not segregated on the following schedules. No adjustments to or allocation of the amount of income tax expense in the primary financial statements were made or required in the computation of this supplemental information.

**Statement of Income Adjusted for Changing Prices**

	Year Ended December 31, 1982
(In Thousands)	
Net income, as reported in the consolidated statement of income	\$13,423
Less:	
Increase in depreciation expense to reflect the effect of general inflation (constant dollars)	(1,791)
Net income, adjusted for general inflation	\$11,632

**Five-Year Comparison of Selected Supplemental Financial Data**  
**Adjusted for Effects of Changing Prices—Note 1**

	Year Ended December 31				
(In Thousands, Except per Share)	1982	1981	1980	1979	1978
<b>Historical Cost Information Adjusted for General Inflation</b>					
Net interest and lease income	\$ 80,177	\$ 80,480	\$ 82,977	\$ 85,432	\$ 79,423
Income before securities transactions	11,617	14,785	12,282	14,312	
Net income	11,632	14,788	12,276	14,387	
Net assets at year-end	146,737	144,299	120,536	118,878	
Purchasing power loss from holding net monetary assets during the year	1,711	4,581	5,844	5,163	
Per common share—Note 2:					
Income before securities transactions	3.04	3.87	3.22	4.03	
Net income	3.04	3.87	3.22	4.05	
Cash dividends declared	1.00	1.06	1.07	1.17	.96
Market bid price (at year-end)	\$ 15.75	\$ 20.43	\$ 19.33	\$ 21.62	\$ 20.72
Average consumer price index for all urban consumers	289.2	272.5	246.8	217.4	195.4

Note 1—Comparative historical information has been adjusted for the effect of general inflation by applying the average CPI for 1982 to the amounts as originally reported.

Note 2—Adjusted for all stock dividends and stock splits to date.



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**Board of  
Directors**

**Joshua Green, Jr.**  
Honorary Chairman of the Board

**Joshua Green III**  
Chairman of the Board  
and Chief Executive Officer

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

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

**Charles P. Burnett III**  
Investor

**J.G. Cairns, Jr.**  
President

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

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

**John M. Fluke\***  
Chairman of the Board and  
Chief Executive Officer  
John Fluke Mfg. Co., Inc.

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

**William Golding**  
Private Investments

**Isabelle S. Lamb**  
Corporate Secretary,  
Enterprises International, Inc.

**Thomas H. Macbride\***  
Attorney at Law

**Harry H. Masto\***  
President, Harry Masto  
Produce Company, Inc.  
President, Harry Masto Farms

**Robert G. Perry**  
Retired

**Ward L. Sax**  
Attorney at Law,  
Sax and MacIver

**James B. Scroggs**  
Retired

**John H. Sellen**  
Chairman of the Board,  
Sellen Construction  
Company, Inc. Partner,  
John H. Sellen Construction  
Company

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

**E.C. Underhill**  
Retired

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

**Thomas P. Youell**  
Chairman and Chief Executive  
Officer, Convoy Company  
Chairman and Chief Executive  
Officer, Canadian Auto  
Carriers, Ltd.

\*Advisory Directors to the Board

**Senior  
Management**

**Joshua Green, Jr.**  
Honorary Chairman of the Board

**Joshua Green III\***  
Chairman of the Board and  
Chief Executive Officer

**J.G. Cairns, Jr.\***  
President

**Elmer M. Anderson\***  
Executive Vice President

**Donald Greenfield\***  
Executive Vice President

**Charles E. Riley\***  
Executive Vice President

**Leo M. Riley\***  
Executive Vice President and  
Secretary-Treasurer

**James L. Austin**  
Senior Vice President

**Walter T. Bagnall**  
Senior Vice President

**David O. Beck**  
Senior Vice President

**Daniel J. Doyle**  
Senior Vice President

**H. Ronald Masnik**  
Senior Vice President

**Frank McArthur**  
Senior Vice President

**John H. Mitten**  
Senior Vice President

**Robert W. Weaver**  
Senior Vice President

\*Administrative Committee Members



**Subsidiaries**

<b>Peoples National Bank of Washington</b>	<ul style="list-style-type: none"><li>• Western States Leasing Company, Inc. dba Peoples Leasing Company</li><li>• Western States Mortgage Company</li></ul>	<b>Peoples Building Company</b>
<ul style="list-style-type: none"><li>• Peoples Small Business Investment Corporation</li></ul>		<b>Peoples Computer Services, Inc.</b>
		<b>Peoples Escrow Company</b>
		<b>Peoples Insurance, Inc.</b>
		<b>Peoples Mortgage Company</b>

**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 92 other banking offices throughout the State of Washington. Other subsidiaries are engaged in mortgage banking, equipment leasing, escrow services and credit life insurance.

**Annual Meeting**

The annual meeting of shareholders will be held at the Sheraton Hotel, Sixth and Pike, Seattle, Washington, on Tuesday, March 29, 1983 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 nationally.  
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