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Peoples Bancorporation

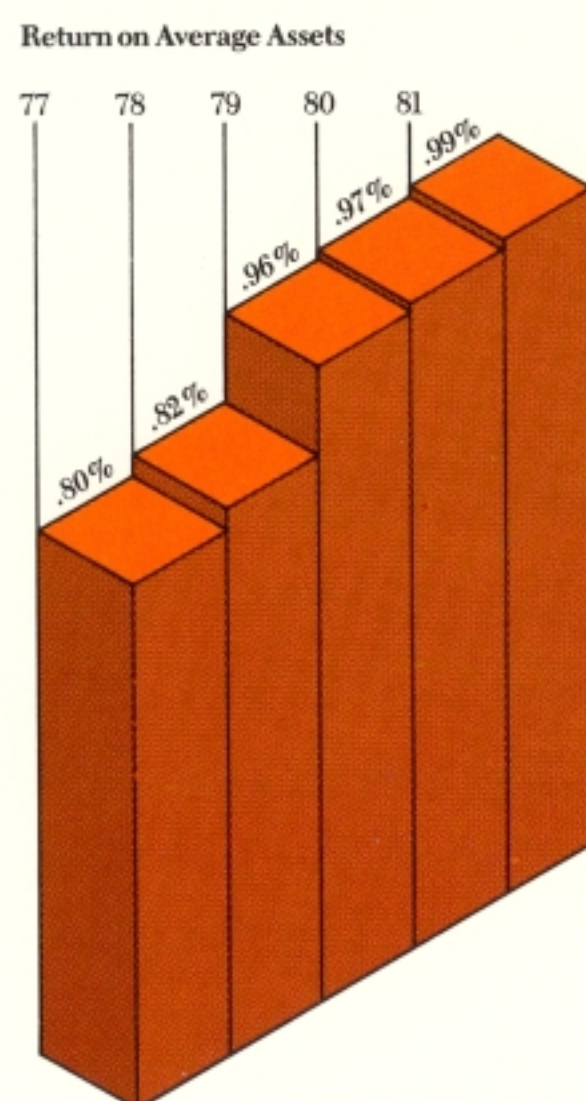
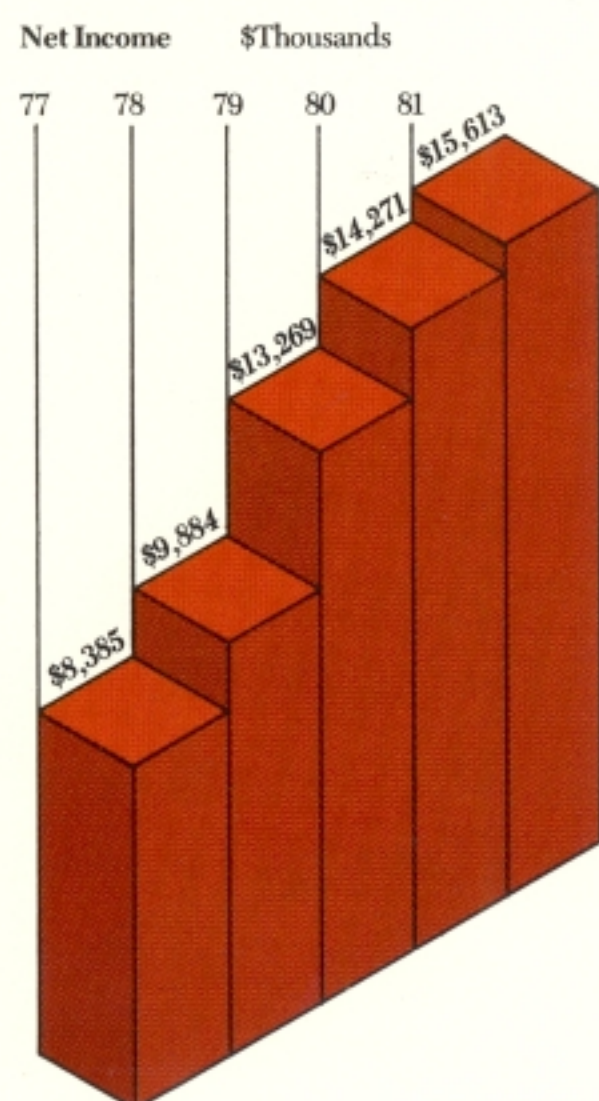


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Consolidated Financial Highlights
Peoples Bancorporation and Subsidiaries

(In Thousands, Except Per Share)	1981	1980	% Change
For the Year			
Income Before Securities Transactions	\$ 15,610	\$ 14,276	9.3%
Net Income	15,613	14,271	9.4
Cash Dividends Declared	3,816	3,465	10.1
Per Share			
Income Before Securities Transactions	\$ 4.09	\$ 3.75	9.1%
Net Income	4.09	3.75	9.1
Cash Dividends Declared	1.00	.91	9.9
Book Value	27.88	22.56	23.6
At Year End			
Total Assets	\$1,742,867	\$1,488,316	17.1%
Total Deposits	1,302,458	1,234,740	5.5
Total Loans (Net)	884,674	821,943	7.6
Total Investment Securities	211,116	210,776	.2
Total Shareholders' Equity	106,649	85,914	24.1
Performance Ratios			
Return on Average Assets	.99%	.97%	2.1%
Return on Average Equity	16.09	17.27	(6.8)

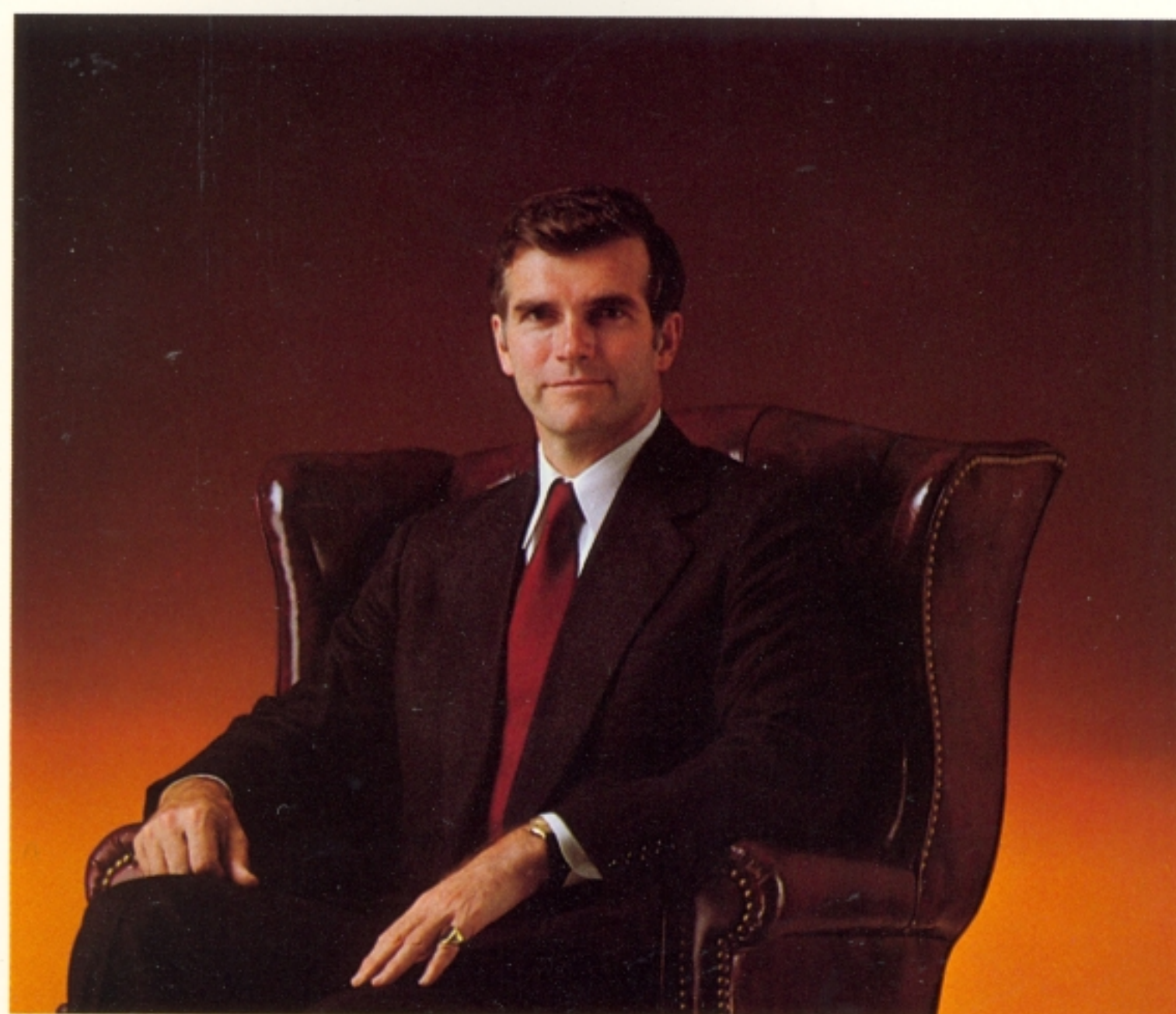


Letter To Shareholders

Net income for 1981 was \$15,613,000, up 9.4% over the prior year. Deposit growth for the year was 5.5%, and loans increased 7.6%. Large certificates of deposit totaling \$75 million, quite low by industry standards, should provide the bank with a readily available source of additional funds if loan demand increases in the second half of 1982 as expected.

The national recession will have an effect on the northwest economy in 1982; particularly on the aerospace and forest products industries.

The Boeing Company has projected a loss of some 5,000 jobs in the Seattle area in 1982, but with total Seattle-Everett area employ-



ment of 772,000, the cutback should not have a significant impact on the overall economy.

The forest products industry, however, is of major concern. This industry has always been cyclical, but is now experiencing the most severe recession in many years. At year end, 44 of the state's 170 mills were operating on curtailed schedules and another 57 were closed

either temporarily or permanently. Three major factors have contributed to this situation. First, the dramatic slowdown in the housing industry has had a significant impact on the demand for timber products. Second, log exports from Washington State to Japan decreased 50% between 1980 and 1981 due to a substantial drop in housing starts in that country. Finally, Canada's share of U.S. timber sales increased from 18.7% in 1975 to 31.6% in 1981 because the Canadian government subsidizes its forest product companies and these companies enjoy lower water and rail rates to Eastern U.S. markets.

Even though these two industries and others will feel the impact of the national recession, we believe that Washington's diversified manufacturing base and rapidly growing trade with the Orient should result in a reasonably profitable growth year for Peoples Bancorporation.

As reported to you earlier, your new holding company now includes, in addition to PeoplesBank, the following subsidiaries: PeoplesMortgage, Peoples Escrow, PeoplesInsurance, Peoples Computer Services, PeoplesSBIC, Western States Leasing Company and Western States Mortgage Company.

The acquisition of the Washington State Bank in Washougal was completed in December, adding three new offices to the Peoples system. We now have 89 branches throughout the state. To supplement the services delivered through our branches, the bank is a member of The Exchange, which is now the largest cash machine network in the area. By the end of 1982, The Exchange should have 180 machines in Washington and Oregon for use by our customers. In addition to The Exchange machines, the bank has 12 wholly-owned machines in our own branches and we plan to install several additional machines in our branches in 1982.

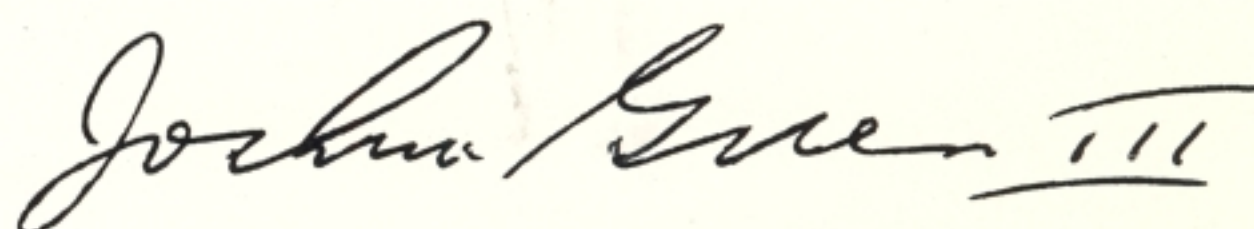
All of our branches should be converted to new on-line teller machines by the end of 1982. These machines will provide tellers with on-line access to customer signatures and to balances for all Peoples-Bank accounts. This should eliminate much of the calling which takes place now between branches, improve customer service and give us a competitive advantage for deposit solicitation in the future.

Three favorable changes were made to Washington State's banking laws in 1981. The 12% usury ceiling was raised; a multi-bank holding company law allowing major Washington banks to expand regionally was passed; and a branching law which will permit banks to establish branches anywhere in the state in 1985 was enacted.

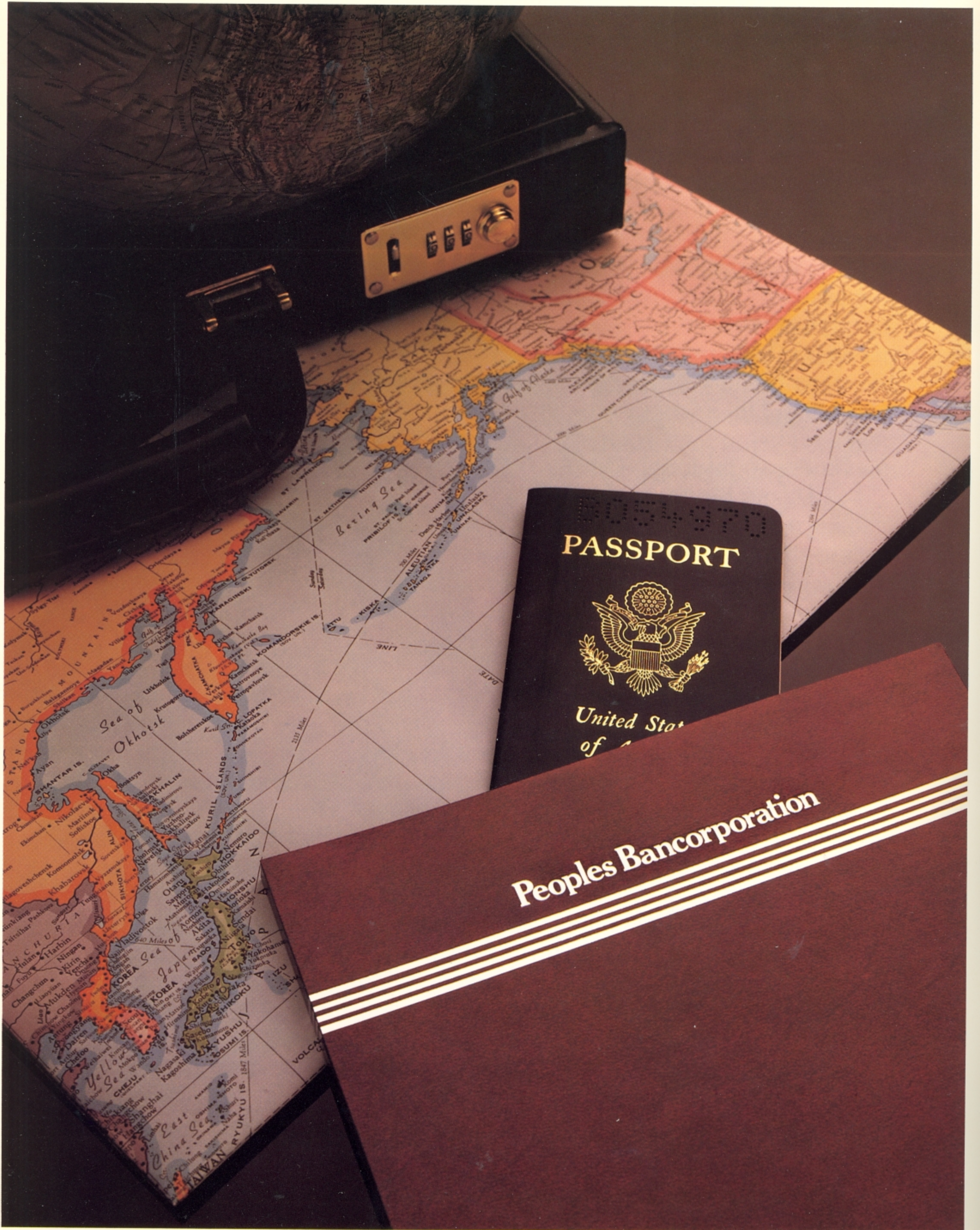
We regret to announce that Mr. A. Dean Worthington, retired senior vice president and an active member of our Board of Directors, passed away on January 9, 1982. His support and guidance will be missed.

1982 will be a challenging year for Peoples Bancorporation. Interest margins may decline during the first part of the year and salary and other costs are rising rapidly. However, if the economy rebounds in late 1982 as anticipated, there should be a substantial increase in loan demand and a commensurate increase in our earnings.

We very much appreciate our stockholders' loyalty and support during 1981 and hope you will continue to direct new business opportunities to us.

A handwritten signature in dark ink, reading "Joshua Green III". The signature is fluid and cursive, with the "III" at the end being clearly legible.

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



Meeting The Needs Of Our Markets

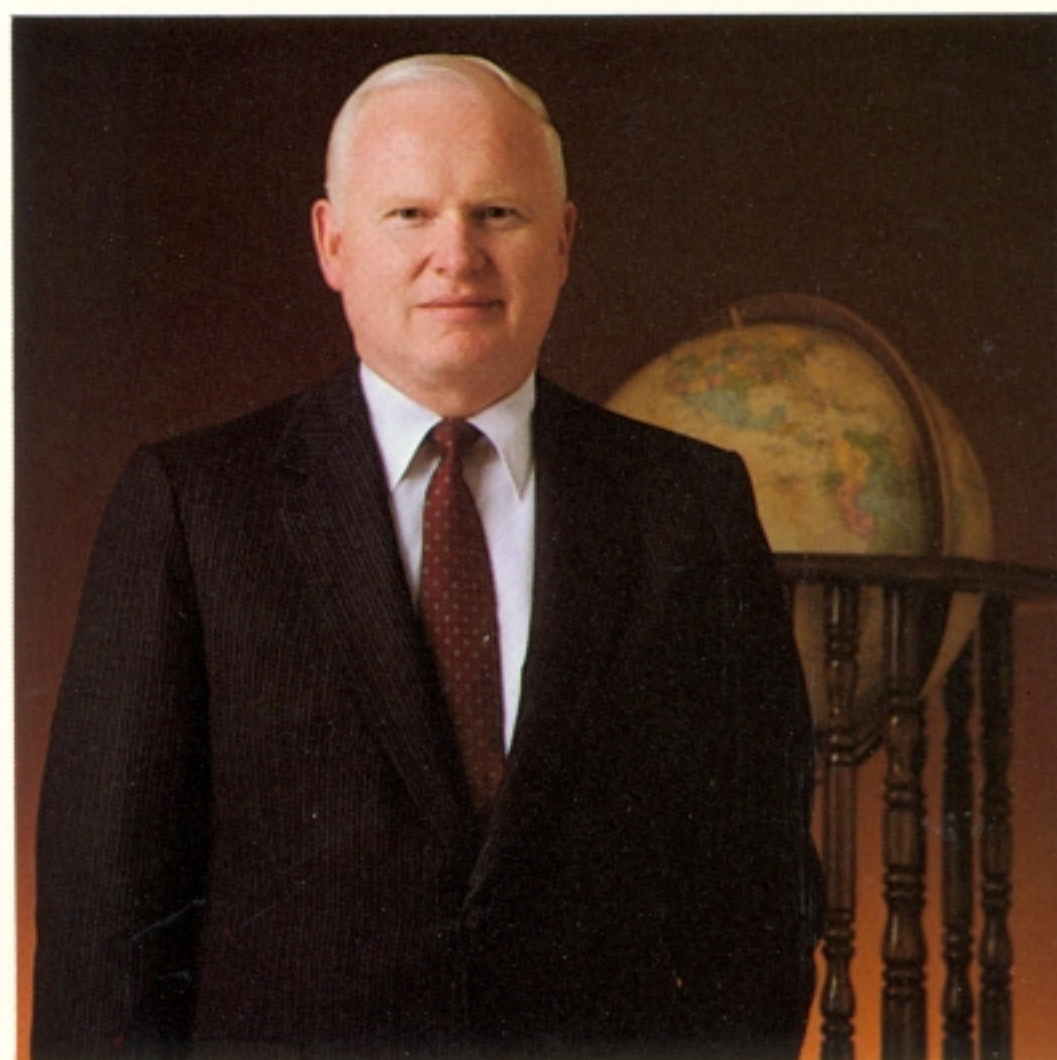
Our major emphasis since 1889 has been to provide quality financial services to the residents of Washington and businesses operating in our market area. This will continue to be our top priority.

Management views our location in Washington State as one of our primary strengths. Despite a softening in the state's economy in 1981, reflecting the national downturn, Washington, with its diversified economy, strategic location in relationship to the Pacific Rim, Canada and Alaska, and its key role as the hub of Pacific Northwest trade, is poised for significant growth in the years ahead.

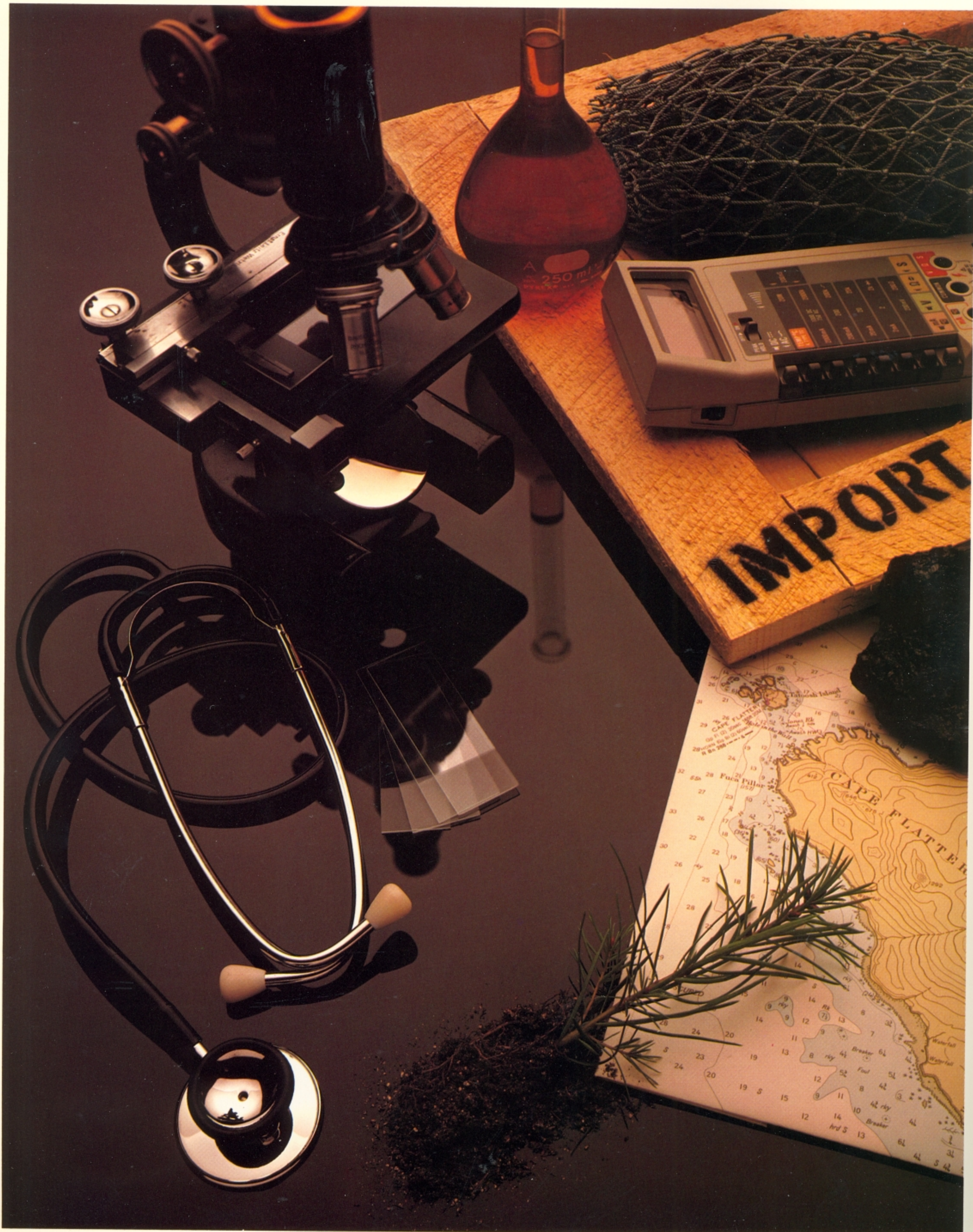
The needs of our customers increasingly require that we be structured to provide financial services on a regional, national and international scale. To accomplish this, we have established a network of correspondent banking relationships in the region which is without parallel and have cultivated contacts with banks in money centers throughout the world.

Our new holding company structure will enable us to open bank offices throughout the region if interstate banking is permitted. Our subsidiaries have already expanded into adjoining states and will open offices in the eleven contiguous Western States, Alaska and Hawaii whenever profitable opportunities are presented.

On the following pages, we review the changing needs of our corporate, agricultural and consumer customers and outline the steps we have taken and are planning to take to meet their requirements.



J. G. Cairns, Jr.,
President,
Peoples Bancorporation



Corporate Banking Market

Peoples Bancorporation offers a wide range of sophisticated financial services to corporations headquartered in Washington State, and to companies with home offices elsewhere but branch offices in the Pacific Northwest.

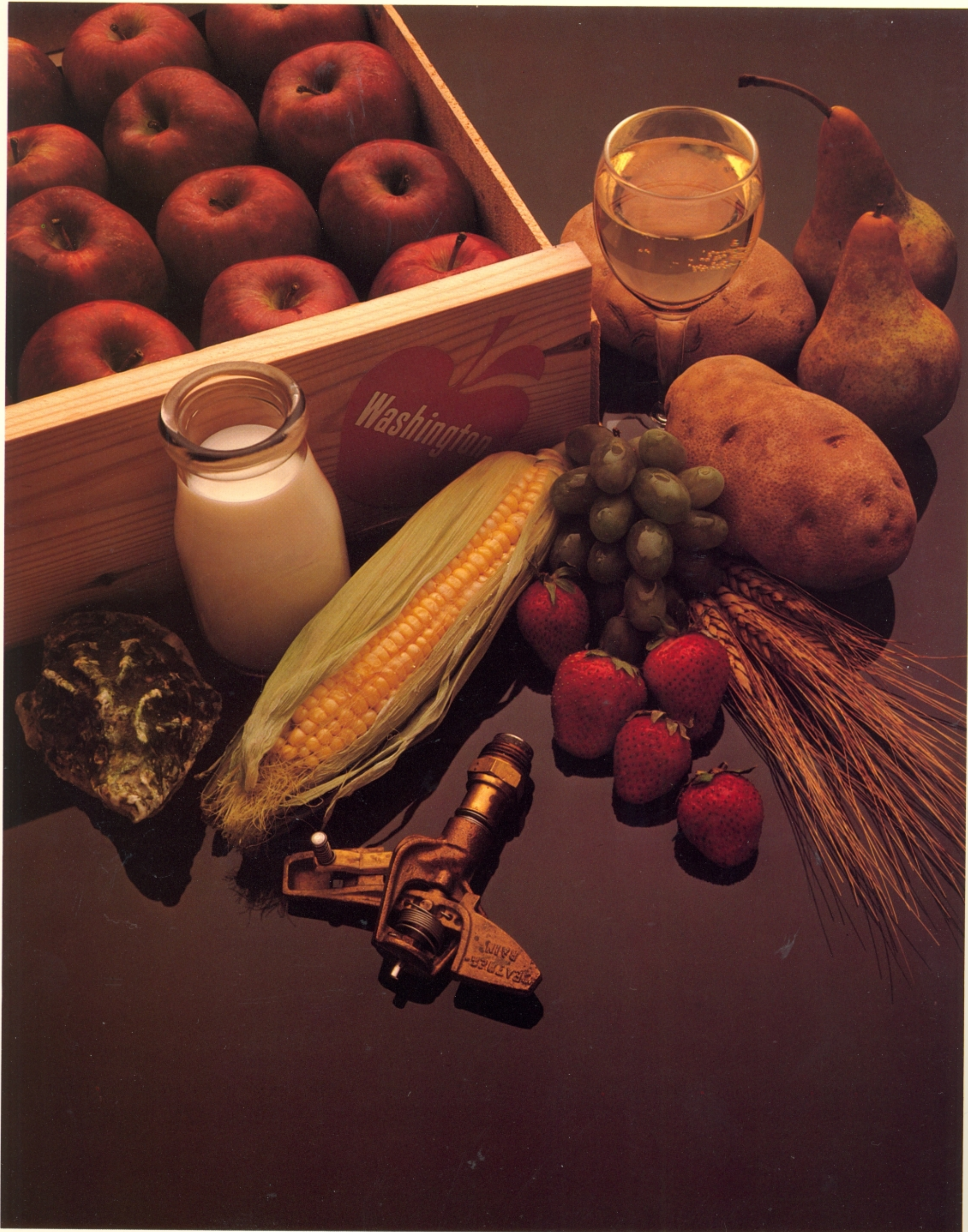
The state's industrial base has considerably diversified over the past decade and we have structured our corporate banking efforts accordingly. Our commercial account officers have an understanding of the unique requirements of the industries we serve and a record of flexibly responding to these needs with personalized and tailored financial services.

One of our major goals has been to increase our commercial loans and deposits. This objective has met with considerable success in the past five years. During this period, commercial loans have had a compound growth of 15.9% and commercial deposits a compound growth of 8.5%.

To insure that these favorable trends continue, we have developed business plans for each of the profit centers in the bank, and for each of our subsidiaries, which assess the changing needs of corporate treasurers and insure that we have the personnel, products and services to meet the challenges of the future.

We recognize that all corporations—large and small—wish to collect their receivables quickly and to invest their money rapidly in order to maintain desired profit levels. We feel that it is our role to assist them in this regard by providing sophisticated cash management services and we are committed to doing so.

Deregulation has significantly heightened competition for corporate business. Nonetheless, management believes that by building on the foundation which we have laid, we can meet or exceed the favorable financial results of the past in the years ahead.



Agricultural Banking Market

Washington has one of the most varied agricultural outputs in the nation and Peoples Bancorporation has long been a leading supporter of the professional men and women who have dedicated their lives to making agribusiness such an important element of our state's economy.

Nationwide, Washington is the leading producer of apples, hops, sweet cherries, spearmint oil and dry edible peas. In addition, the state is among the top five producers of wheat, potatoes, pears, grapes, strawberries, asparagus, prune plums, apricots and processed sweet corn.

Although the majority of the state's population and industries are located in the western half of the state, most agricultural production comes from the eastern half: the Yakima Valley, the Columbia Basin and the Tri-Cities in particular.

Peoples pioneered banking in the Columbia Basin, and we have a strong presence in Yakima and the Tri-Cities due to the acquisitions of the Bank of Yakima (1977) and the Columbia Bank, N.A. (1980).

Twenty-eight of our branches are now located in Eastern Washington.

Due to this strong presence in the key agricultural areas of the state, Peoples now ranks as the 18th largest agricultural lender in the country. The total value of the state's agricultural production has steadily increased from \$1.8 billion in 1977 to an estimated \$3.0 billion in 1981; and we anticipate that agriculture will continue to play a key role in our state's economy in the decade ahead.

Perhaps, more than in any other type of financing, consistency in agricultural financing is a must. There have always been and will always be good years and bad years for agriculture. At Peoples, we believe in training officers who specialize in this type of financing and who can work in partnership with our farming customers to provide the financial services they require.



Consumer Banking Market

No area of banking is changing more rapidly than the consumer banking market. New products, new delivery systems and new vendors of financial services abound.

There are numerous reasons for all this activity. First, deregulation has blurred the traditional distinctions between commercial banks and other financial institutions. Secondly, non-bank companies such as brokerage houses, retail chains and insurance companies have actively competed for consumer business by marketing products which regulations prohibit commercial banks from offering. Finally, consumers have become increasingly sophisticated in managing their money.

Tired of having their savings eroded by inflation, consumers now demand market rates for their deposits. Although paying higher rates has increased our cost of funds, we see no inherent conflict between our customers' desire for a fair rate of return on their savings and our shareholders' desire for an adequate return on their investment. An analysis of recent financial results supports this assertion.

Statistics indicate that consumers have shifted in significant numbers from non-interest bearing checking and low interest savings accounts to deposit categories paying higher interest. Some 73% of our consumer deposits were in non-interest checking and regular savings accounts in 1978, versus only 55% in 1981. Nonetheless, we have offset the higher cost of funds by carefully managing our assets, controlling expenses, increasing productivity and aggressively seeking new sources of deposits. The result has been that both our earnings and our earnings per share have increased during this same period.

Despite these favorable results, more deregulation is required if a truly level playing field is to be created. Inequities still exist between commercial banks, other financial institutions and non-bank providers of financial services. If open competition is allowed, we feel that we have the products, the delivery systems and the proven ability to increase our share of business from the consumer market.

Administrative Officers



Leo M. Riley
Senior Vice President and
Secretary-Treasurer

Elmer M. Anderson
Executive Vice President

J. G. Cairns, Jr.
President

Joshua Green III
Chairman of the Board and
Chief Executive Officer

Donald Greenfield
Senior Vice President

Charles E. Riley
Executive Vice President

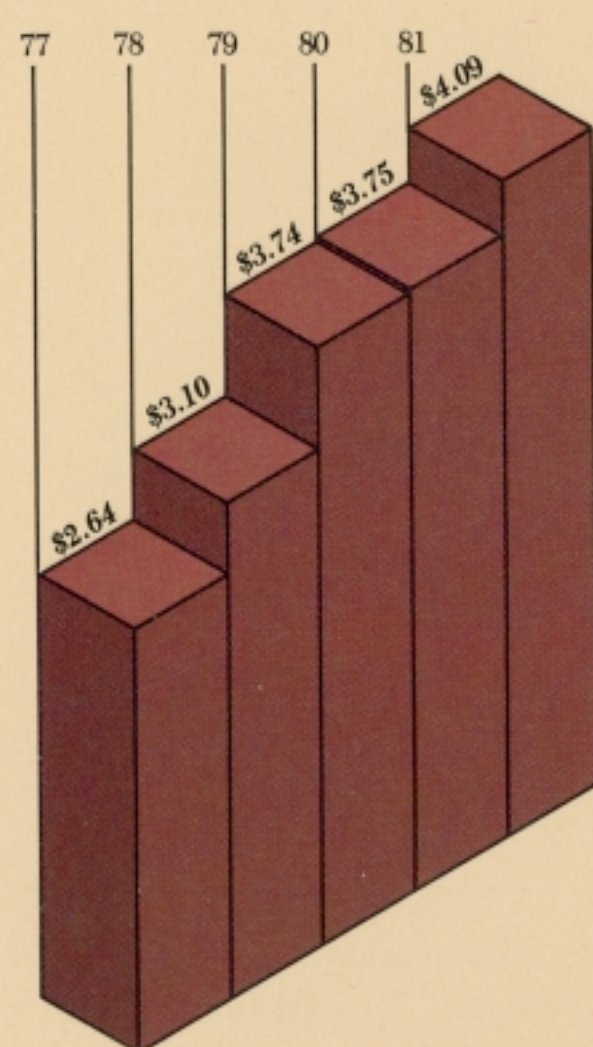
Highlights

Peoples Bancorporation's consolidated net income before securities transactions increased 9.3% in 1981 to \$15.6 million. Over the past five years, net income has increased at an annual compound rate of 25.1%. Net income per share was \$4.09 in 1981 as compared to \$3.75 in 1980 and \$3.74 in 1979. Per share earnings growth between 1980 and 1979 was affected by the sale of 580,000 shares of common stock in May 1979.

The Corporation's return on average assets was .99% in 1981, .97% in 1980 and .96% in 1979. The return on average shareholders' equity for the same years amounted to 16.09%, 17.27% and 19.04%. The decline in return on average equity between 1979 and 1980 was due to the \$8.9 million common stock issue in 1979 and the decline between 1980 and 1981 was due to the Corporation reestablishing goodwill of \$8.5 million. (See Note J in notes to consolidated financial statements.)

Figure 1

Net Income Per Share



Selected Financial Data Schedule 1

(In Thousands, Except Per Share)	1981	1980	1979	1978	1977	% Change 80/81	5 Year Compound Growth Rate 76/81
Balance Sheet Averages							
Total assets	\$1,580,516	\$1,473,827	\$1,380,909	\$1,201,791	\$1,055,104	7.2%	12.5%
Deposits	1,201,687	1,133,594	1,094,371	989,011	863,550	6.0	11.2
Loans	852,220	797,064	794,887	716,254	604,421	6.9	12.6
Long-term debt	16,402	17,274	18,405	19,338	13,849	(5.1)	100.0+
Shareholders' equity	97,045	82,659	69,695	53,482	48,381	17.4	16.1
Earnings Summary							
Interest and lease income — Note 1	\$ 177,007	\$ 145,781	\$ 125,708	\$ 95,503	\$ 78,231	21.4%	23.7%
Tax equivalent adjustment — Note 1	5,430	3,803	3,195	2,937	2,642	42.8	22.5
Interest and lease income — Note 1	182,437	149,584	128,903	98,440	80,873	22.0	23.7
Interest expense	101,174	74,969	61,486	41,840	32,055	35.0	30.5
Net interest and lease income — Note 1	81,263	74,615	67,417	56,600	48,818	8.9	17.4
Provision for possible loan losses	3,211	3,289	3,404	2,851	1,971	(2.4)	39.4
Non-interest income	28,834	24,202	19,821	17,188	13,114	19.1	20.5
Non-interest expense	79,092	70,189	60,522	52,819	44,013	12.7	16.0
Income before taxes and securities transactions	27,794	25,339	23,312	18,118	15,948	9.7	24.0
Tax equivalent adjustment — Note 1	5,430	3,803	3,195	2,937	2,642	42.8	22.5
Applicable income taxes	6,754	7,260	6,903	5,301	4,839	(7.0)	22.9
Income before securities transactions	15,610	14,276	13,214	9,880	8,467	9.3	25.1
Securities transactions	3	(5)	55	4	(82)	100.0+	100.0+
Net income	\$ 15,613	\$ 14,271	\$ 13,269	\$ 9,884	\$ 8,385	9.4%	25.1%
Per Share Data — Note 2							
Income before securities transactions	\$ 4.09	\$ 3.75	\$ 3.73	\$ 3.10	\$ 2.66	9.1%	20.7%
Net income	4.09	3.75	3.74	3.10	2.64	9.1	20.7
Cash dividends declared	1.00	.91	.88	.65	.525	9.9	22.3
Book value	27.88	22.56	20.32	18.08	15.63	23.6	13.0
Key Ratios							
Return on average assets	.99%	.97%	.96%	.82%	.80%	2.1%	11.3%
Return on average equity	16.09	17.27	19.04	18.48	17.33	(6.8)	7.7
Average equity to average assets	6.14	5.61	5.05	4.45	4.59	9.4	3.3
Cash dividends declared/ Net income per share	24.45	24.27	23.53	20.97	19.89	.7	1.4

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 1981 through 1979 and 48% in 1978 and 1977.

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

Net Interest Income

Net interest and lease income is the most significant component of the Corporation's earnings statement. Net interest and lease income, adjusted to a fully taxable equivalent basis, increased 8.9% to \$81.3 million in 1981. Over the past five years, net interest and lease income has grown at a compound annual rate of 17.4%.

Total interest income for 1981, adjusted to a fully taxable equivalent basis, increased 22.0%. This increase was the result of a 5.6% increase in average earning assets, a slight shift in mix of earning assets to more rate sensitive commercial loans and the higher interest rate environment experienced during most of 1981. The tax equivalent weighted average yield on average earning assets was 14.03% in 1981, up from 11.97% in 1980.

The interest cost of deposits increased in 1981 to 9.41% from 7.86% in 1980. This increase was due to a shift in consumer deposits from regular savings and checking accounts to higher interest bearing deposit instruments such as NOW accounts, money market certificates and the 2½ year High Yield bonds.

Figure 2

Net Interest Margin
(As a Percent of Average Earning Assets)

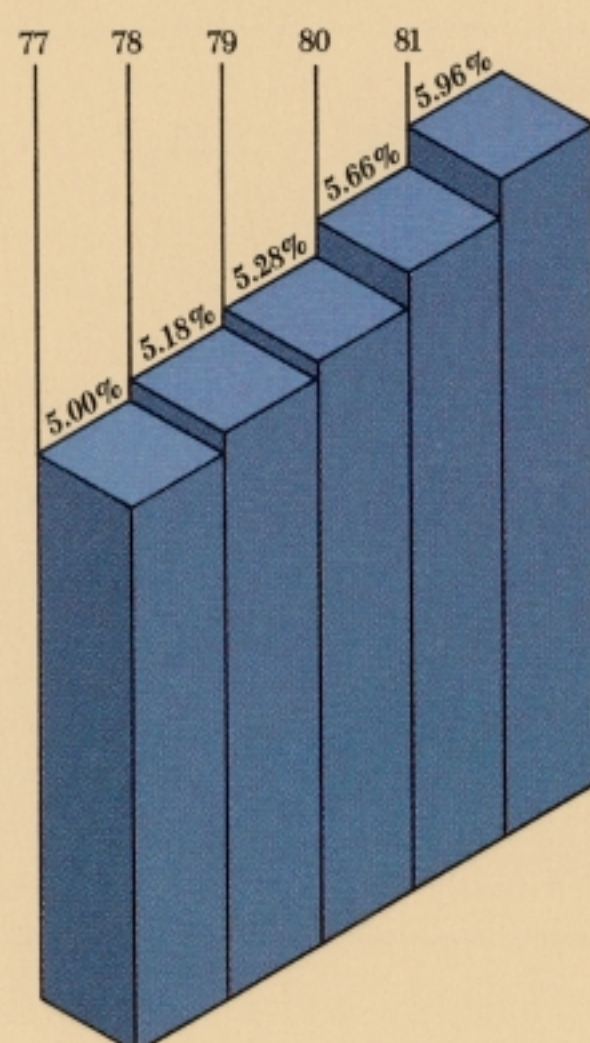


Figure 3

Net Interest Income
(Fully Taxable Equivalent) \$ Millions



Non-Interest Income

Total non-interest income increased \$4.6 million or 19.1% during 1981 to \$28.8 million. Non-interest income increased 22.1% in 1980 and 15.3% in 1979. Over the last five years, non-interest income has grown at a compound annual rate of 20.5%. The major categories of non-interest income are shown in Schedule 2.

Trust income increased 16% in 1981 following an increase of 23.1% in 1980. Most of the increase in 1981 was due to an increase in the market value of managed assets as well as increased hourly billings for servicing new customer relationships.

Service charges on deposit accounts increased 11.4% in 1981 to \$7.4 million following increases of 19.2% for each of the prior two years. The increase in deposit service charges in 1981 is attributable to adding new NOW accounts in addition to periodically updating all service charge fee schedules for increased costs of offering these services.

Other service charges and fees increased 28.4% to \$14.1 million in 1981. The increase in 1981 is the result of increased mortgage loan administration fees, a new credit card membership fee program and an increase in general business activity in international and financial services.

Non-Interest Income Schedule 2

(In Millions)	1981	Percent Change	1980	Percent Change	1979	Percent Change	1978	Percent Change	1977
Trust income	\$ 3.5	16.0%	\$ 3.0	23.1%	\$ 2.4	(2.6)%	\$ 2.5	20.8%	\$ 2.1
Service charges on deposit accounts	7.4	11.4	6.7	19.2	5.6	19.2	4.7	23.7	3.8
Other service charges and fees	14.1	28.4	11.0	19.7	9.2	28.3	7.2	17.1	6.1
Other income	3.8	7.5	3.5	35.8	2.6	(8.2)	2.8	133.1	1.1
Total	\$28.8	19.1%	\$24.2	22.1%	\$19.8	15.3%	\$17.2	31.1%	\$13.1

Non-Interest Expense

Total non-interest expense increased 12.7% to \$79.1 million in 1981 following increases of 16.0% in 1980 and 14.6% in 1979. Non-interest expense as a percent of average earning assets has increased from 5.9% in 1980 to 6.3% in 1981. As indicated in Schedule 3, the non-interest expense categories reflecting the largest percentage increases were salaries, employee benefits, and furniture and equipment expense.

Employee salaries increased 14.3% in 1981, 13.1% in 1980 and 10.9% in 1979. Approximately 23% of the increase in salary expense was due to higher staffing levels. Full time equivalent employees increased from 2,139 at the end of 1980 to 2,209 at year-end 1981. The remaining change, 77%, was due to increased compensation of existing employees. The increase in employee benefits was due to the increase in salary expense as well as contributions made to the employees' incentive savings program, increased medical and dental health insurance premiums and an increase in pension expense.

Furniture and equipment expense increased 14.6% to \$7.5 million following increases of 31.9% in 1980 and 4.0% in 1979. Increases in this category for the last two years reflect higher costs required to maintain Bank facilities. In addition, the Corporation is currently implementing a branch-on-line teller network to better service the Bank's customers.

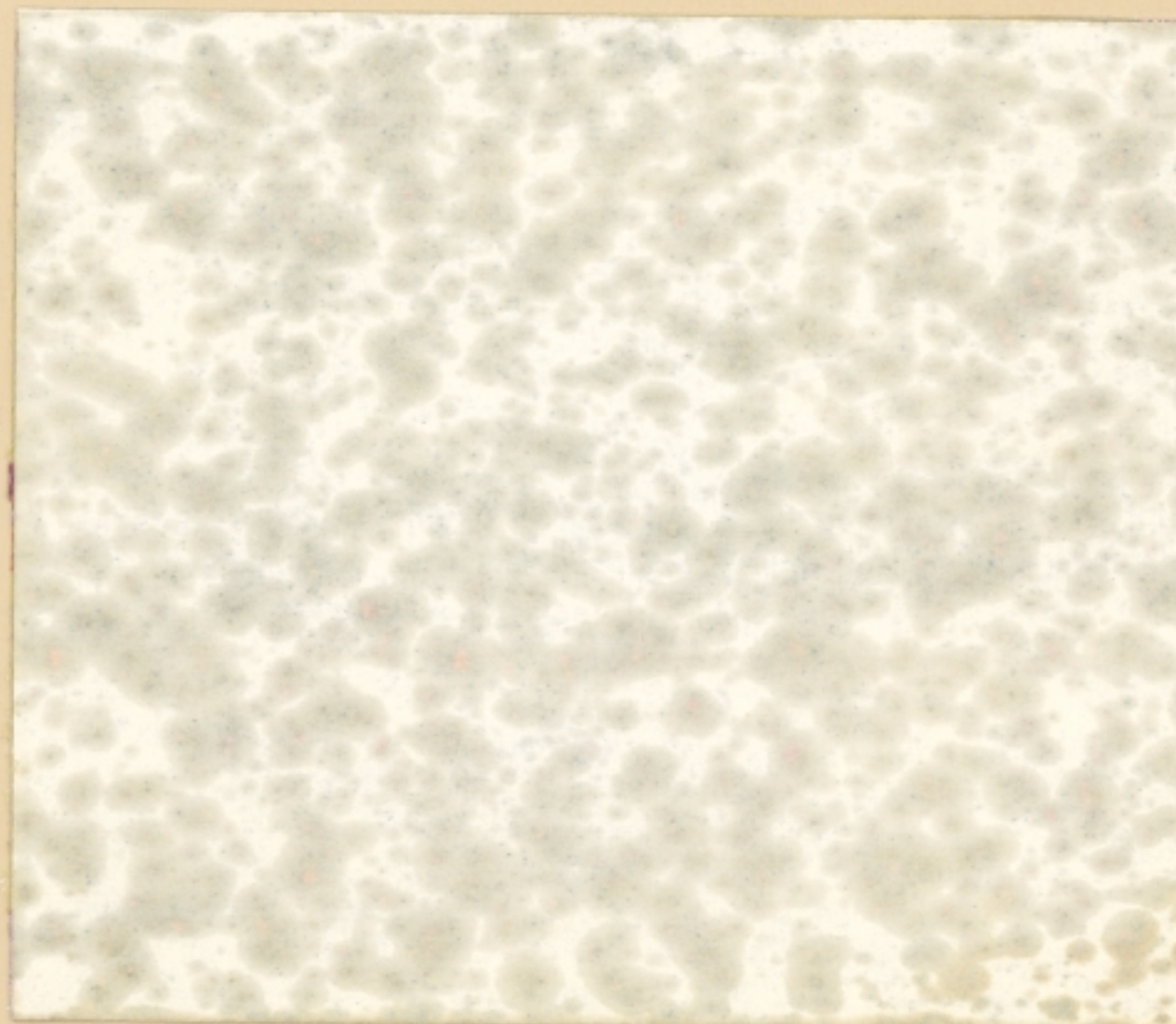
Non-Interest Expense Schedule 3

(In Millions)	1981	Percent Change	1980	Percent Change	1979	Percent Change	1978	Percent Change	1977
Salaries	\$37.4	14.3%	\$32.7	13.1%	\$28.9	10.9%	\$26.1	18.7%	\$22.0
Employee benefits	8.1	26.1	6.4	11.7	5.7	15.3	5.0	19.7	4.2
Occupancy expense	4.8	4.3	4.6	18.2	3.9	13.1	3.4	11.8	3.0
Furniture and equipment expense	7.5	14.6	6.6	31.9	5.0	4.0	4.8	25.6	3.8
Stationery and printing	2.7	12.6	2.4	0.3	2.4	19.5	2.0	15.8	1.7
Other	18.6	6.3	17.5	19.9	14.6	26.9	11.5	23.7	9.3
Total	\$79.1	12.7%	\$70.2	16.0%	\$60.5	14.6%	\$52.8	20.0%	\$44.0

Reserve For Possible Loan Losses

Loan charge-offs have increased each of the last three years. Increased loan loss recoveries in 1981 and 1980 resulted in declines in net charge-offs for both years. Net loan losses, as a percent of average loans, were .26% in 1981, .29% in 1980 and .30% in 1979. The provision for loan losses declined 2.4% in 1981 and 3.4% in 1980. As presented in Schedule 4, the loan loss provision has exceeded net loan charge-offs for each year presented in order to increase the reserve for possible loan losses.

The reserve for possible loan losses is periodically reviewed by management and adjusted to reflect current loan volume, credit quality and economic trends. The ratio of reserve to total year-end loans for 1981 was 1.01%, up from .97% in 1980 and .88% in 1979.



Summary of Loan Loss Experience Schedule 4

(In Thousands)	1981	1980	1979	1978	1977
Loans outstanding at December 31 (net of unearned income)	\$893,738	\$829,998	\$804,582	\$755,606	\$682,411
Average loans outstanding (net of unearned income)	\$852,220	\$797,064	\$794,887	\$716,254	\$604,421
Reserve for possible loan losses:					
Balance at beginning of year	\$ 8,055	\$ 7,105	\$ 6,119	\$ 5,099	\$ 3,961
Loans charged-off:					
Commercial, financial, and agricultural	1,885	1,608	1,956	1,714	877
Real estate construction				12	43
Real estate mortgage	287	212	85	104	254
Installment	1,449	1,369	966	694	211
Total	3,621	3,189	3,007	2,524	1,385
Recoveries:					
Commercial, financial, and agricultural	930	551	333	494	407
Real estate construction				2	20
Real estate mortgage	35	6	20	46	4
Installment	454	293	236	151	121
Total	1,419	850	589	693	552
Net loan charge-offs	2,202	2,339	2,418	1,831	833
Provision charged against earnings	3,211	3,289	3,404	2,851	1,971
Balance at end of year	\$ 9,064	\$ 8,055	\$ 7,105	\$ 6,119	\$ 5,099
Ratio of net charge-offs to average loans	.26%	.29%	.30%	.26%	.14%
Ratio of reserve for possible loan losses to loans outstanding at December 31	1.01%	.97%	.88%	.81%	.75%

Non-accrual loans at year-end 1981 amounted to \$6.4 million (.72% of total loans) and \$2.7 million at the end of 1980 (.33% of total loans). This increase reflects management's intention of providing continuous review of the loan portfolio for areas of unusual risk. High interest rates and economic uncertainties have also added to the increase in non-accrual loans. Loans classified as "non-accrual" are generally well secured and in the opinion of management do not represent significant future loan losses.

Non-Performing Loans Schedule 5

December 31 (In Thousands)	1981	1980	1979	1978	1977
Non-accrual loans	\$ 6,401	\$ 2,724	\$ 1,723	\$ 1,014	\$ 1,053
Past-due loans*	11,551*	41,962	33,212	30,567	28,266
Total	\$17,952	\$44,686	\$34,935	\$31,581	\$29,319

The Corporation has no renegotiated loans which are not past-due or on non-accrual status.

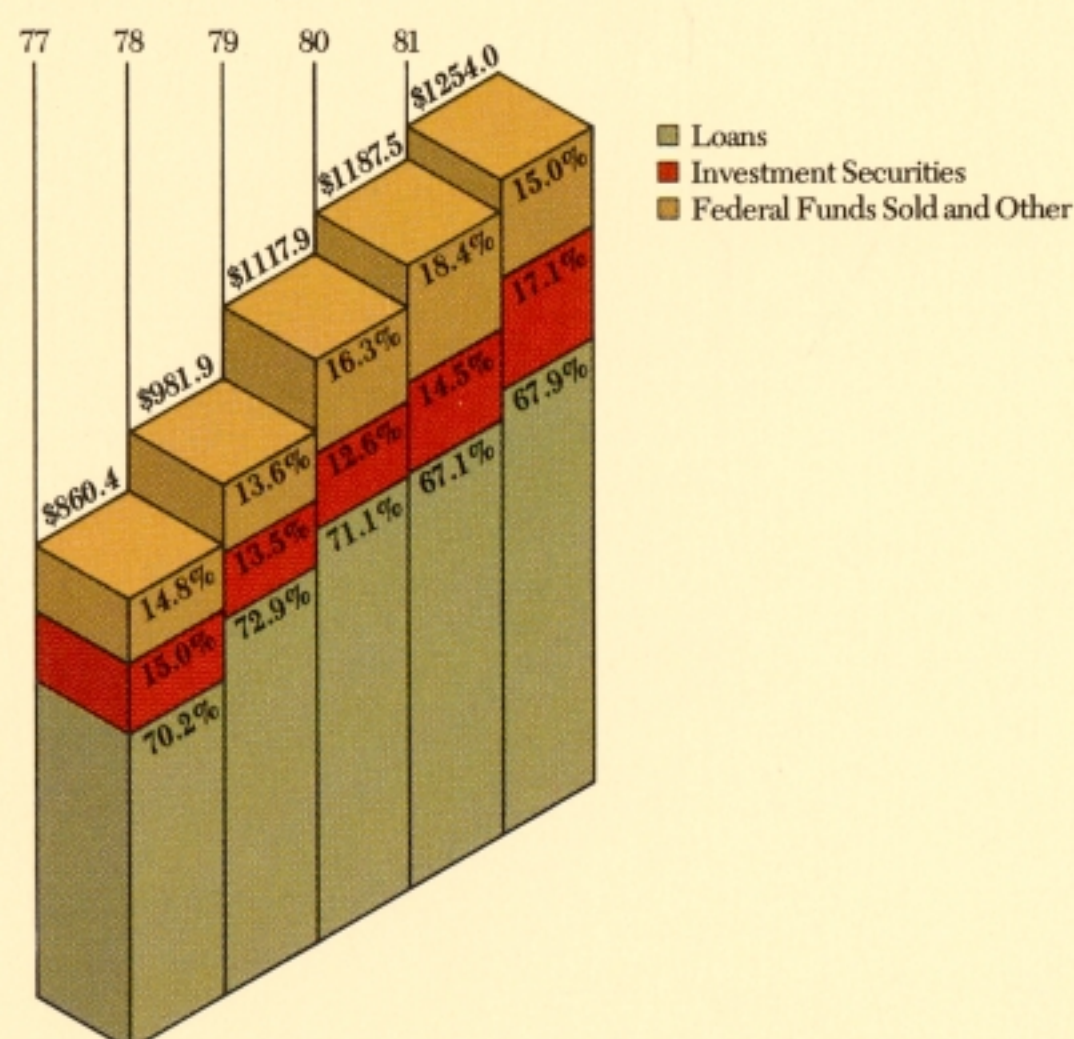
*Past-due loans are here defined as loans contractually past-due 90 days for 1981 and 30 days for prior years, during which 90 day past-due information was unavailable. Loans past due 30 days as of December 31, 1981 amounted to \$53,492,000.

Average Earning Assets

Average earning assets increased 5.6% to \$1,254 million in 1981 following an increase of 6.2% in 1980. Over the last five years, average earning assets have grown at a compound rate of 12.0%. The mix of average earning assets reflects a shift of funds to short maturity investment securities and rate sensitive loans. Average investment securities amounted to 17.1% of total average earning assets in 1981 compared to 14.5% in 1980. Average loans increased to 67.9% of average earning assets in 1981 from 67.1% in 1980.

Figure 4

Average Earning Assets by Category \$ Millions



Loans

Average loans increased 6.9% to \$852.2 million in 1981. Five year compound growth for total average loans was 12.6%. As indicated on Figure 5, the loan mix has shifted from consumer loans (27.2% of total loans in 1977 and 20.7% in 1981) to an increased concentration of commercial and industrial loans (24.5% in 1977 and 29.8% in 1981). This shift has occurred as a result of management's emphasis on developing commercial middle markets and reduced consumer credit demand in 1981.

Loan Portfolio Schedule 6

December 31 (In Thousands)	1981	1980	1979	1978	1977
Commercial, financial and agricultural	\$409,878	\$373,457	\$339,127	\$310,298	\$276,455
Real estate construction	29,326	30,312	39,098	29,232	17,809
Real estate mortgage	274,620	253,396	255,775	245,124	221,263
Installment	185,409	179,478	180,060	185,736	196,593
Total	\$899,233	\$836,643	\$814,060	\$770,390	\$712,120

Remaining Maturity and Interest Rate Sensitivity of Selected Loans

December 31, 1981	Maturing			Total
	Within 1 Year	1-5 Years	Over 5 Years	
Commercial, financial and agricultural	\$315,119	\$74,774	\$ 19,985	\$409,878
Real estate construction	28,633	693		29,326
Other loans secured by real estate*	11,957	19,095	82,840	113,892
Total	\$355,709	\$94,562	\$102,825	\$553,096
Loans with predetermined rates	\$172,342	\$64,717	\$ 97,469	\$334,528
Loans with floating rates	183,367	29,845	5,356	218,568
Total	\$355,709	\$94,562	\$102,825	\$553,096

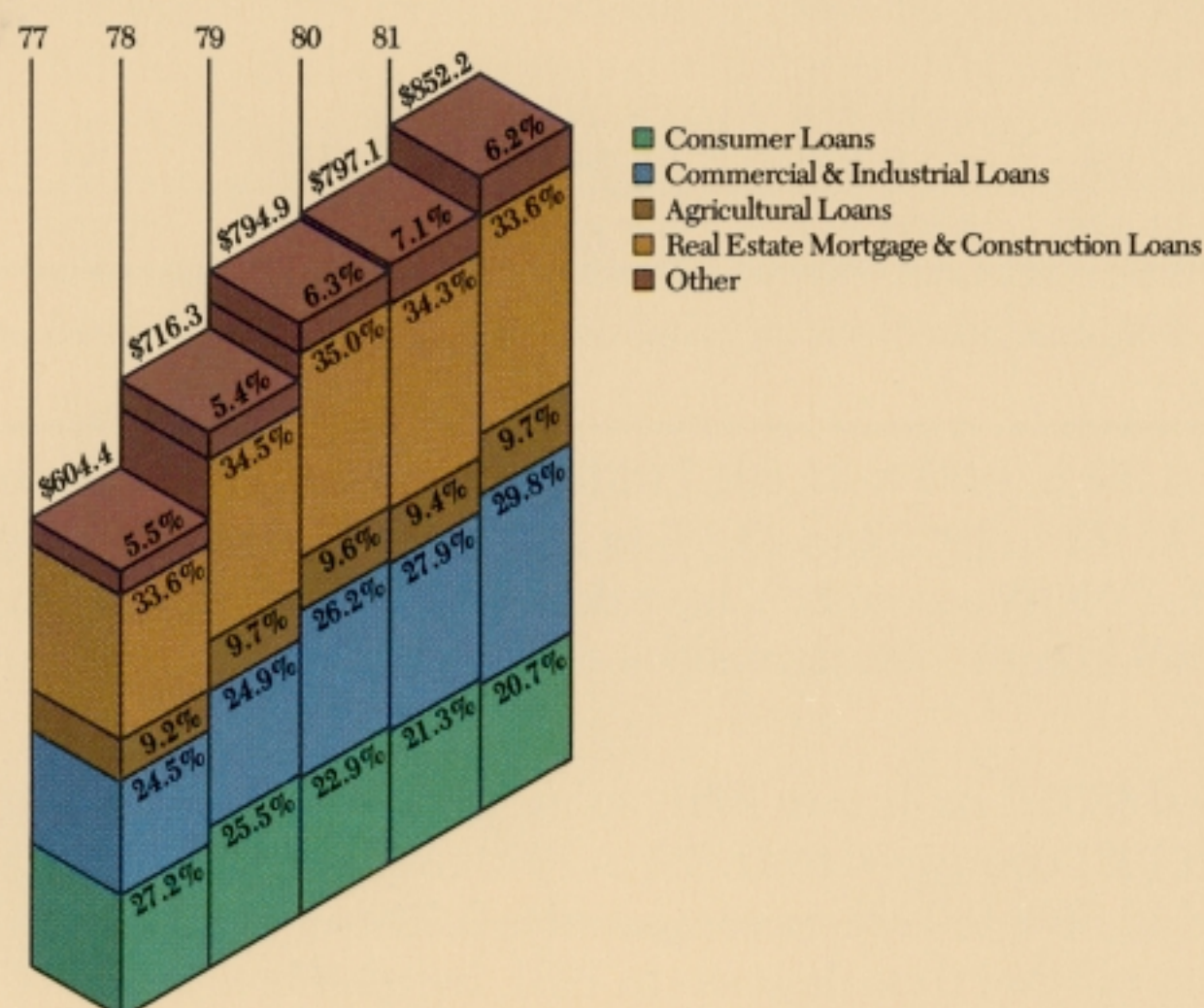
*Does not include 1-4 family residential loans.

Average commercial loans have increased 8.8% in 1981 following an increase of 2.6% in 1980. At the end of 1981, approximately 70% of the commercial loan portfolio had rates tied to the prime rate or matured within 90 days. Due to this rate sensitivity, commercial loans produced a portfolio yield of 16.77% in 1981 as compared to 13.62% in 1980.

Consumer and real estate loan demand remained slow in 1981. Average consumer loans increased 2.7% while average real estate loans increased 6.1%.

Figure 5

Average Loans by Type \$ Millions



Investment Securities

Total average investment securities increased 24.1% in 1981 to \$214.4 million. Investment securities provide liquidity for future loan growth. Prudent management of the portfolio and an expansion of short-term non-taxable securities resulted in a tax-equivalent yield of 11.73% in 1981 compared to 9.82% in 1980. The average maturity of the investment portfolio was 3 years and 8 months at year-end 1981 compared to 3 years and 5 months at year-end 1980.

Investment Portfolio Schedule 7

Book value at December 31 (In Thousands)	1981	1980	1979
U.S. Treasury and other U.S. government agencies and corporations	\$104,594	\$119,162	\$ 75,799
State and political subdivisions	104,811	89,884	84,414
Other taxable securities	1,711	1,730	1,662
Total	\$211,116	\$210,776	\$161,875

Remaining maturities and average yields at December 31, 1981:

	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	\$ 46,606	13.08%	\$ 24,023	18.26%			\$ 70,629	14.84%
After 1 year but within 5	44,960	12.58	40,344	10.71			85,304	11.70
After 5 years but within 10			33,918	9.50			33,918	9.50
After 10 years	13,028	7.39	6,526	11.84	1,711	5.50	21,265	8.87
Total	\$104,594	12.16%	\$104,811	12.12%	\$1,711	5.50%	\$211,116	12.14%

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

Deposits

Total average deposits increased 6.0% in 1981 to \$1,201.7 million. Demand deposits comprised 39.1% of total average deposits, a decline from 42.9% in 1980 and 43.5% in 1979. Similarly, savings deposits, excluding interest bearing demand deposits ("NOW accounts"), have declined to 19.5% of total average deposits in 1981 from 23.0% in 1980. These declines in consumer demand and savings accounts represent deposit movements to higher yielding time deposits.

Total other time deposits averaged \$305.1 million in 1981, an increase of 26.4%. Other time deposits comprised 25.4% of total average deposits in 1981 compared to 21.3% in 1980 and 17.3% in 1979. The yield to depositors on other time instruments averaged 12.50% in 1981, as compared to 9.79% in 1980. Money market certificates were the primary growth category of other time deposits in 1981, increasing to 28.2% of average deposits from 21.7% in 1980.

Figure 6

Average Deposits by Type \$ Millions

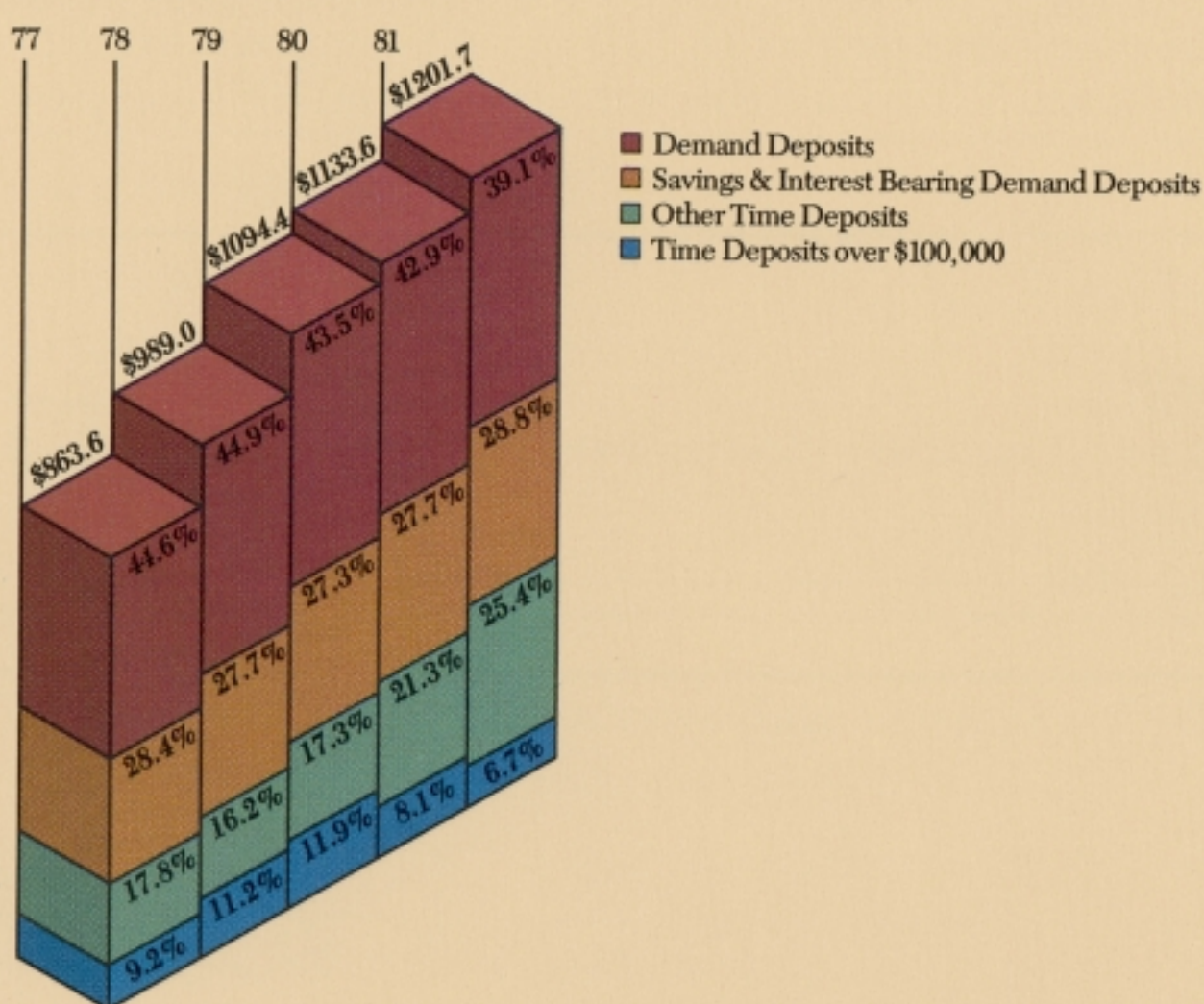
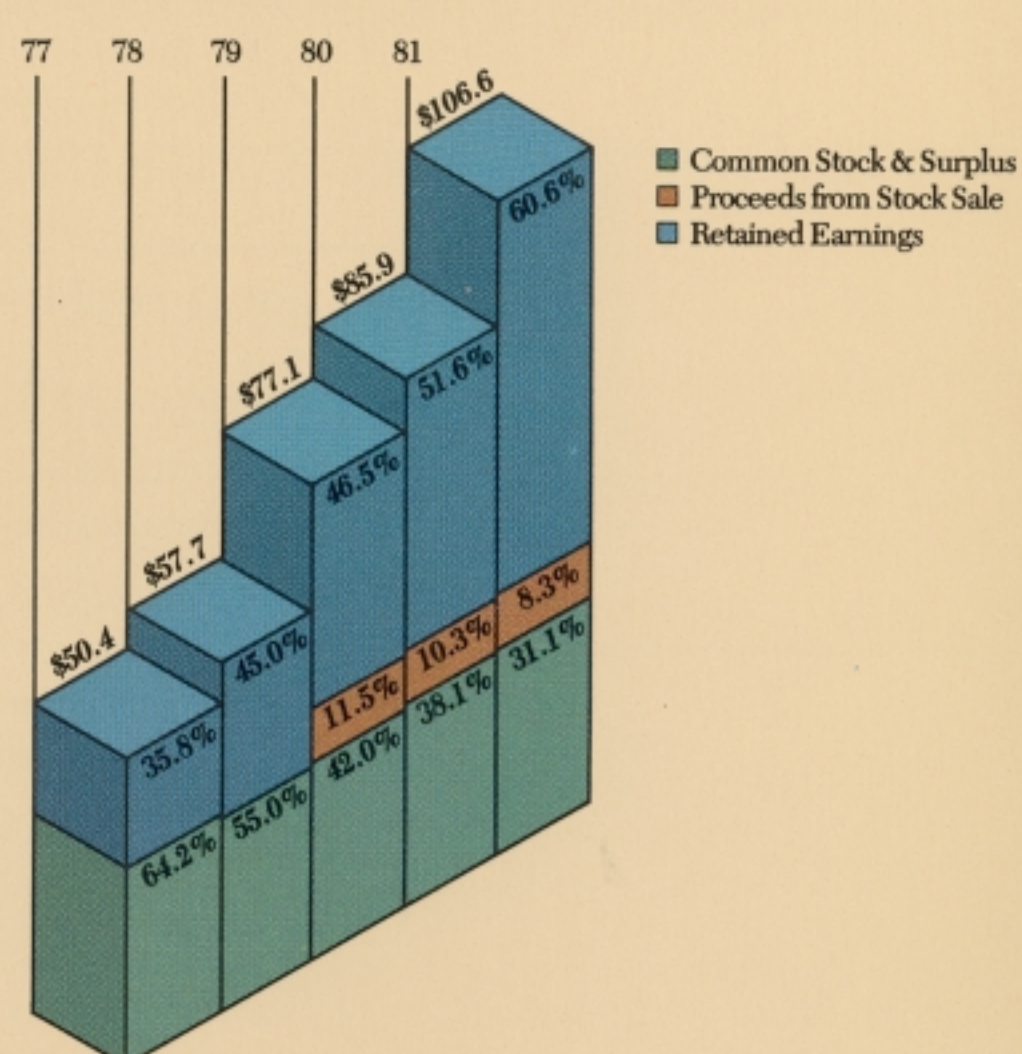


Figure 7

December 31 Shareholders' Equity \$ Millions



Shareholders' Equity and Capital Resources

Shareholders' equity at year-end 1981 increased 24.1% to \$106.6 million. This growth followed an 11.5% increase in 1980. The increase in equity in 1981 was the result of re-established goodwill of \$8.5 million on the reorganization of Peoples Bancorporation and \$11.8 million of net income after deducting declared dividends.

Year-end shareholders' equity as a percent of year-end assets amounted to 6.12% in 1981 compared to 5.77% in 1980. In assessing the Corporation's capital adequacy, emphasis is placed on the Corporation's ability to maintain stable earnings. Figure 7 is a representation of equity capital sources during the last five years. Total equity has increased at a five-year compound growth rate of 17.0%.

Liquidity Management and Interest Rate Sensitivity

The objective of liquidity management is to ensure sufficient funds are available to meet the loan demand and deposit withdrawal requirements of the Corporation's customers. Currently, liquidity is provided through management of the Bank's investment portfolio, short term borrowings and a proper matching by maturity of earning assets and funding liabilities.

Average time certificates of deposit (over \$100,000) amounted to \$81.2 million in 1981 (6.7% of total average deposits). Peoples Bancorporation could add \$190 million in large certificates of deposit based upon 1981 deposit levels and still exhibit an "average" mix of deposits as compared to the deposit mix of peer banks (\$1-5 billion in assets).

Careful management of rate sensitive assets and liabilities is a means of maintaining a stable net interest margin during periods of rapidly fluctuating rates such as those experienced during the last two years. As indicated in Schedule 8, the Corporation maintains a slightly positive rate sensitive asset position for 90 day maturing assets and liabilities. This posture enables the Corporation to produce stable increases in net interest margin during periods of relatively high or increasing rates. Conversely, the downside risk of dropping rates is minimized.

Maturities and Interest Rate Sensitivity Schedule 8

December 31, 1981 (In Millions)	Rate Sensitive				Fixed	
	1-30 days	31-90 days	91-180 days	181-365 days	over 1 year	Total
Earning assets:						
Loans	\$267.2	\$ 80.6	\$ 55.3	\$ 46.9	\$ 443.7	\$ 893.7
Investments	6.8	21.8	15.7	50.0	128.9	223.2
Other earning assets	211.4	3.2	4.8	9.6	21.5	250.5
Other non-earning assets					375.5	375.5
Total	\$485.4	\$105.6	\$ 75.8	\$106.5	\$ 969.6	\$1,742.9
Interest bearing deposits and liabilities:						
Money market certificates	\$ 37.3	\$ 70.5	\$114.7			\$ 222.5
Other interest bearing deposits and liabilities:	315.7	30.2	4.7	\$.5	\$ 467.1	818.2
Demand deposits					517.8	517.8
Other liabilities and equity					184.4	184.4
Total	\$353.0	\$100.7	\$119.4	\$.5	\$1,169.3	\$1,742.9
Gap	\$132.4	\$ 4.9	\$(43.6)	\$106.0	\$ (199.7)	
% of earning assets	9.7%	.3%	(3.2)%	7.8%	(14.6)%	

The primary impact of inflation on financial institutions is the effect of general price level changes on interest rates. The ability of the individual institution to cope with changing interest rates is determined by the structure of the balance sheet. The Corporation's balance sheet, as indicated above, is positioned to minimize the impact of fluctuating interest rates. (See note Q in notes to financial statements for a further discussion of the effects of general price level changes).

Average Balances/Interest Income and Expense/Rates

(In Thousands)	1981			1980	
	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid	Average Balance	Interest Income/Expense
Assets					
Investment securities:					
Taxable investments	\$ 112,340	\$ 13,354	11.89%	\$ 85,631	\$ 8,704
Non-taxable investments	102,087	11,804	11.56	87,144	8,268
Total investment securities	214,427	25,158	11.73	172,775	16,972
Interest bearing deposits with banks	1,323	140	10.55		
Trading account securities	2,453	390	15.91	1,439	176
Federal funds sold and securities purchased under agreements to resell	144,266	23,491	16.28	158,769	21,029
Loans:					
Commercial loans	446,974	74,949	16.77	410,848	55,971
Consumer loans	134,728	16,582	12.31	131,238	14,499
Real estate loans	270,518	29,849	11.03	254,978	25,902
Total loans — net of unearned income	852,220	121,380	14.24	797,064	96,372
Direct lease financing	39,326	5,368	13.65	57,417	7,648
Total earning assets	1,254,015	\$175,927	14.03%	1,187,464	\$142,197
Less reserve for possible loan losses	(8,630)			(7,827)	
Cash and due from banks	221,540			205,869	
Other non-earning assets	113,591			88,321	
Total Assets	\$1,580,516			\$1,473,827	
Liabilities and Shareholders' Equity					
Deposits:					
Savings and interest bearing demand deposits	\$ 345,847	\$ 18,134	5.24%	\$ 314,340	\$ 16,587
Time deposits over \$100,000	81,187	12,634	15.56	92,054	10,700
Other time deposits	305,079	38,126	12.50	241,309	23,613
Total time deposits	732,113	68,894	9.41	647,703	50,900
Federal funds purchased and securities sold under agreements to repurchase	154,547	22,589	14.62	145,636	16,914
Other short-term borrowings	52,020	8,324	16.00	46,633	5,723
Long-term debt	16,402	1,367	8.33	17,274	1,432
Total interest bearing liabilities	955,082	\$101,174	10.59%	857,246	\$ 74,969
Demand deposits	469,574			485,891	
Other liabilities	58,815			48,031	
Shareholders' equity	97,045			82,659	
Total Liabilities and Shareholders' Equity	\$1,580,516			\$1,473,827	
Average rate earned on earning assets	\$1,254,015	\$175,927	14.03%	\$1,187,464	\$142,197
Average interest cost related to earning assets		101,174	8.07		74,969
Net Interest Margin		\$ 74,753	5.96%		\$ 67,228

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

1979									
Avg. Rates Earned/Paid	Average Balance	Interest Income/Expense	Avg. Rates Earned/Paid	Volume	Year Ended 1981 over 1980 Rate	Total	Volume	Year Ended 1980 over 1979 Rate	Total
10.16%	\$ 61,111	\$ 5,127	8.39%	\$ 2,710	\$ 1,940	\$ 4,650	\$ 2,059	\$ 1,518	\$ 3,577
9.49	79,371	6,945	8.75	1,421	2,115	3,536	679	644	1,323
9.82	140,482	12,072	8.59	4,131	4,055	8,186	2,738	2,162	4,900
				140		140			
12.24	2,410	221	9.17	124	90	214	(89)	44	(45)
13.25	118,310	13,434	11.36	(1,921)	4,383	2,462	4,595	3,000	7,595
13.62	400,626	47,294	11.80	4,907	14,071	18,978	1,203	7,474	8,677
11.05	130,104	13,828	10.63	407	1,676	2,083	120	551	671
10.16	264,157	25,050	9.48	1,587	2,360	3,947	(876)	1,728	852
12.09	794,887	86,172	10.84	6,901	18,107	25,008	447	9,753	10,200
13.32	61,823	8,659	14.01	(2,410)	130	(2,280)	(616)	(395)	(1,011)
11.97%	1,117,912	\$120,558	10.78%	\$6,965	\$26,765	\$33,730	\$7,075	\$14,564	\$21,639
	(6,404)								
	195,204								
	74,197								
	\$1,380,909								
5.28%	\$ 298,310	\$ 15,251	5.11%	\$1,675	\$ (128)	\$ 1,547	\$ 810	\$ 526	\$ 1,336
11.62	129,812	13,460	10.37	(1,265)	3,199	1,934	(3,913)	1,153	(2,760)
9.79	189,636	14,571	7.68	6,244	8,269	14,513	3,959	5,083	9,042
7.86	617,758	43,282	7.01	6,654	11,340	17,994	856	6,762	7,618
11.61	123,934	12,767	10.30	1,029	4,646	5,675	2,237	1,910	4,147
12.27	37,256	3,922	10.53	710	1,891	2,601	989	812	1,801
8.29	18,405	1,515	8.23	(72)	7	(65)	(93)	10	(83)
8.75%	797,353	\$ 61,486	7.71%	\$8,321	\$17,884	\$26,205	\$ 3,989	\$ 9,494	\$13,483
	476,613								
	37,248								
	69,695								
	\$1,380,909								
11.97%	\$1,117,912	\$120,558	10.78%						
6.31		61,486	5.50						
5.66%		\$ 59,072	5.28%						
				\$(1,356)	\$ 8,881	\$ 7,525	\$ 3,086	\$ 5,070	\$ 8,156

Quarterly
Financial
Information

(In Thousands, Except Per Share)	1981			
	1st	2nd	3rd	4th
Interest and lease income	\$40,718	\$43,649	\$46,113	\$46,527
Interest expense	22,567	24,933	27,238	26,436
Net interest and lease income	18,151	18,716	18,875	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	19,059	20,130	21,179
Income before taxes and securities transactions	5,155	5,503	5,523	6,183
Applicable income taxes	1,676	1,754	1,697	1,627
Income before securities transactions	3,479	3,749	3,826	4,556
Net income	\$ 3,480	\$ 3,749	\$ 3,827	\$ 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

	1980			
	1st	2nd	3rd	4th
Interest and lease income	\$35,776	\$35,964	\$34,769	\$39,272
Interest expense	18,431	18,813	17,394	20,331
Net interest and lease income	17,345	17,151	17,375	18,941
Provision for possible loan losses	1,264	1,019	309	697
Non-interest income	5,661	5,859	6,131	6,551
Non-interest expense	16,734	17,057	17,337	19,061
Income before taxes and securities transactions	5,008	4,934	5,860	5,734
Applicable income taxes	1,692	1,677	2,081	1,810
Income before securities transactions	3,316	3,257	3,779	3,924
Net income	\$ 3,316	\$ 3,262	\$ 3,769	\$ 3,924
Earnings per share:				
Primary:				
Income before securities transactions	\$.87	\$.86	\$.99	\$1.03
Net income	.87	.86	.99	1.03
Fully diluted:				
Income before securities transactions	.80	.79	.92	.95
Net income	.80	.79	.92	.95

Quarterly
Common Stock
Data

	1981			
	1st	2nd	3rd	4th
Market bid price:				
High	\$18½	\$20½	\$19½	\$19¾
Low	16½	16½	15¾	17¼
Dividends declared per share	.25	.25	.25	.25
	1980			
	1st	2nd	3rd	4th
Market bid price:				
High	\$17¾	\$15½	\$17½	\$16¾
Low	13	13½	14¾	14¼
Dividends declared per share	.22	.22	.22	.25

Peoples Bancorporation's common stock is traded in the over-the-counter market under the NASDAQ symbol PEOB and quoted daily in leading financial publications. There were approximately 2,108 shareholders of record as of December 31, 1981. The payment of dividends on common stock is subject to the restrictions described in Note J to the consolidated financial statements. The above bid quotations were compiled by the National Quotation Bureau, Inc.

Board of Directors
Peoples Bancorporation
Seattle, Washington

We have examined the consolidated balance sheets of Peoples Bancorporation and subsidiaries as of December 31, 1981 and 1980, 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, 1981. 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 discussed in Note O, the Washington State Supreme Court on January 14, 1982 reversed the trial court's summary judgement dismissing all claims against Peoples Leasing Company, Inc. and the Bank and remanded the case back to Superior Court to determine the issues. The ultimate outcome of this lawsuit cannot be determined at this time. In view of this development subsequent to the date of our reports containing unqualified opinions on the 1979 and 1980 financial statements, we are herein qualifying our opinion on the 1979, 1980 and 1981 financial statements.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matter discussed in the previous paragraph, the financial statements referred to above present fairly the consolidated financial position of Peoples Bancorporation and subsidiaries at December 31, 1981 and 1980, 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, 1981, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of accounting for goodwill as described in Note J to the financial statements, have been applied on a consistent basis.

Seattle, Washington
January 14, 1982

Ernst & Whinney

Consolidated Balance Sheets
Peoples Bancorporation and Subsidiaries

December 31 (In Thousands)	1981	1980
Assets		
Cash and due from banks	\$ 264,194	\$ 230,004
Interest bearing deposits with banks	7,900	
Investment securities (market value — \$185,331 — 1981; \$190,434 — 1980) — Note B	211,116	210,776
Trading account securities	4,201	3,800
Federal funds sold and securities purchased under agreements to resell	211,436	89,565
Loans — Note C	899,233	836,643
Less: Unearned income	(5,495)	(6,645)
Reserve for possible loan losses — Note D	(9,064)	(8,055)
Total loans less reserve	884,674	821,943
Direct lease financing — Note E	39,015	47,576
Bank premises and equipment — Note F	44,300	40,150
Customers' acceptance liability	32,750	19,414
Other assets	43,281	25,088
Total Assets	\$1,742,867	\$1,488,316
Liabilities and Shareholders' Equity		
Deposits:		
Demand deposits	\$ 517,807	\$ 559,789
Savings and interest bearing demand deposits	358,088	327,013
Other time deposits — Note G	426,563	347,938
Total deposits	1,302,458	1,234,740
Federal funds purchased and securities sold under agreements to repurchase — Note H	202,576	48,700
Other short-term borrowings — Note H	53,434	58,919
Acceptances outstanding	32,750	19,414
Accounts payable and accrued liabilities	29,016	23,560
Long-term debt — Note I	15,984	17,069
Total Liabilities	1,636,218	1,402,402
Shareholders' Equity — Note J		
Common stock, par value \$5.00 a share — authorized 10,000,000 shares, outstanding 3,824,960 shares in 1981 and 3,808,026 shares in 1980	19,125	19,040
Surplus	23,106	22,802
Retained earnings	64,418	44,072
Total Shareholders' Equity	106,649	85,914
Total Liabilities and Shareholders' Equity	\$1,742,867	\$1,488,316

See notes to consolidated financial statements.

Consolidated Statements of Income
Peoples Bancorporation and Subsidiaries

Year Ended December 31 (In Thousands, Except Per Share)	1981	1980	1979
Interest and Lease Income			
Interest and fees on loans	\$127,890	\$103,759	\$ 94,516
Interest on deposits with banks	140		
Interest on federal funds sold	23,491	21,029	13,434
Interest on investment securities:			
Taxable	13,354	8,704	5,127
Exempt from federal income taxes	6,374	4,465	3,751
Interest on trading account securities	390	176	221
Income from direct lease financing	5,368	7,648	8,659
Total Interest and Lease Income	177,007	145,781	125,708
Interest Expense			
Interest on deposits—Note G	68,894	50,900	43,282
Interest on federal funds purchased	22,589	16,914	12,767
Interest on short-term borrowings	8,324	5,723	3,922
Interest on long-term debt	1,367	1,432	1,515
Total Interest Expense	101,174	74,969	61,486
Net Interest and Lease Income	75,833	70,812	64,222
Provision for possible loan losses—Note D	3,211	3,289	3,404
Net Interest and Lease Income After Provision for Possible Loan Losses	72,622	67,523	60,818
Non-Interest Income			
Trust income	3,508	3,025	2,456
Service charges on deposit accounts	7,410	6,652	5,580
Other service charges and fees	14,147	11,018	9,202
Other	3,769	3,507	2,583
Total Non-Interest Income	28,834	24,202	19,821
	101,456	91,725	80,639
Non-Interest Expense			
Salaries	37,425	32,739	28,949
Employee benefits	8,094	6,419	5,746
Occupancy expense—Note F	4,747	4,552	3,852
Furniture and equipment expense	7,515	6,555	4,971
Other	21,311	19,924	17,004
Total Non-Interest Expense	79,092	70,189	60,522
Income before income taxes and securities transactions	22,364	21,536	20,117
Applicable income taxes—Note L	6,754	7,260	6,903
Income before securities transactions	15,610	14,276	13,214
Securities transactions net of applicable income taxes (benefits) of \$3 in 1981, \$(3) in 1980, and \$47 in 1979	3	(5)	55
Net Income	\$ 15,613	\$ 14,271	\$ 13,269
Earnings Per Share:			
Primary:			
Income before securities transactions	\$4.09	\$3.75	\$3.73
Net income	\$4.09	\$3.75	\$3.74
Fully Diluted:			
Income before securities transactions	\$3.83	\$3.47	\$3.37
Net income	\$3.83	\$3.47	\$3.38

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position
Peoples Bancorporation and Subsidiaries

Year Ended December 31 (In Thousands)	1981	1980	1979
Source of Funds			
Net income	\$ 15,613	\$ 14,271	\$ 13,269
Charges to income not requiring funds:			
Depreciation and amortization	4,236	3,444	2,897
Provision for possible loan losses	3,211	3,289	3,404
Deferred tax expense (benefit)	1,326	(358)	(921)
Total from operations	24,386	20,646	18,649
Increase in:			
Deposits	67,718	30,307	141,068
Federal funds purchased and securities sold under agreements to repurchase	153,876		
Other short-term borrowings		3,229	5,256
Accounts payable and accrued liabilities	4,126		3,545
Net proceeds from sale of common stock			8,929
Decrease in:			
Cash and due from banks		56,405	
Trading account securities			544
Federal funds sold and securities purchased under agreements to resell			6,232
Direct lease financing	8,561	19,951	
Other assets			1,236
Total Sources of Funds	\$258,667	\$130,538	\$185,459
Application of Funds			
Increase in:			
Cash and due from banks	\$ 34,190	\$	\$ 72,584
Interest bearing deposits with banks	7,900		
Investment securities	340	48,901	19,238
Trading account securities	402	2,981	
Federal funds sold and securities purchased under agreements to resell	121,871	1,615	
Loans	65,882	27,754	51,394
Direct lease financing			23,104
Bank premises and equipment	8,159	7,011	4,680
Other assets	9,930	2,981	
Decrease in:			
Federal funds purchased and securities sold under agreements to repurchase		32,355	10,836
Other short-term borrowings	5,485		
Accounts payable and accrued liabilities		625	
Subordinated purchase notes	696	696	696
Excess of purchase price over allowed carrying value of net assets of acquired bank — Note J		2,271	
Cash dividends paid	3,812	3,348	2,927
Total Applications of Funds	\$258,667	\$130,538	\$185,459

See notes to consolidated financial statements.

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

(In Thousands)	Common Stock	Surplus	Retained Earnings	Total
Balance at December 31, 1978, as previously reported	\$15,949	\$16,076	\$26,226	\$ 58,251
Reduction to accrue vacation compensation associated with prior periods — Note P			(573)	(573)
Balance at December 31, 1978, as restated	15,949	16,076	25,653	57,678
Net income			13,269	13,269
Cash dividends declared (\$.88 per share)			(3,204)	(3,204)
Conversion of convertible debentures to common stock	115	296		411
Net proceeds from sale of 580,000 shares of common stock	2,900	6,210	(181)	8,929
Balance at December 31, 1979	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 allowed carrying value of net assets acquired — Note J			(2,271)	(2,271)
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
Reestablished goodwill — Note J			8,549	8,549
Balance at December 31, 1981	\$19,125	\$23,106	\$64,418	\$106,649

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Peoples Bancorporation and Subsidiaries

Note A Summary of Significant Accounting Policies

Peoples Bancorporation, a bank holding company, was formed in a corporate reorganization effective at the close of business on June 30, 1981. All of the common stock of Peoples National Bank was exchanged on a one for one basis for common stock of Peoples Bancorporation.

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 the 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.; and Peoples National Bank of Washington and its subsidiaries: Western States Mortgage Company; Western States Leasing Company, Inc., dba 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 1981 and 1980, 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 on a straight-line method over the combined loan and commitment period. 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 are 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 (principally interest on securities of state and political subdivisions).

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 (1981—3,813,900; 1980—3,805,926; and 1979—3,547,180) 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)	1981		1980	
	Book	Market	Book	Market
U. S. Treasury and other U. S. Government				
Agencies and corporations	\$104,594	\$ 99,668	\$119,162	\$114,172
State and political subdivisions	104,811	84,123	89,884	74,611
Other taxable securities	1,711	1,540	1,730	1,651
Total investment securities	\$211,116	\$185,331	\$210,776	\$190,434

Other taxable securities consist primarily of investments in the Federal Reserve Bank and the Federal National Mortgage Association. Securities carried at approximately \$61,983,000 on December 31, 1981 and \$53,595,000 on December 31, 1980 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)	1981	1980
Commercial, financial and agricultural	\$409,878	\$373,457
Real estate construction loans	29,326	30,312
Real estate mortgage loans	274,620	253,396
Installment loans	185,409	179,478
Total loans	\$899,233	\$836,643

**Note D
Reserve for Possible
Loan Losses**

Changes in the reserve for possible loan losses for 1981, 1980, and 1979 were as follows:

(In Thousands)	1981	1980	1979
Balance at beginning of year	\$8,055	\$7,105	\$6,119
Provision charged against earnings	3,211	3,289	3,404
Deduct:			
Loans charged off	3,621	3,189	3,007
Less recoveries	(1,419)	(850)	(589)
Net loan charge-offs	2,202	2,339	2,418
Reserve for possible loan losses at end of year	\$9,064	\$8,055	\$7,105

**Note E
Net Investment in
Direct Lease
Financing**

The components of the net investment in direct lease financing at December 31 are as follows:

(In Thousands)	1981	1980
Minimum lease payments receivable	\$46,447	\$54,663
Estimated residual values of leased property (unguaranteed)		150
Less unearned income	(6,814)	(6,637)
Less allowance for uncollectible lease receivables	(618)	(600)
Total	\$39,015	\$47,576

At December 31, 1981 lease payments scheduled to be received for each of the next five years are as follows:

(In Thousands)	
1982	\$27,431
1983	8,823
1984	3,370
1985	2,638
1986	2,128

**Note F
Premises and
Equipment**

The components of premises and equipment at December 31 are as follows:			
(In Thousands)	Estimated Useful Life	1981	1980
Land		\$ 6,069	\$ 5,594
Buildings	5-45 Years	33,246	31,704
Leasehold improvements	Life of Lease	7,880	6,631
Furniture and fixtures	10-15 Years	22,642	20,042
		69,837	63,971
Less accumulated depreciation and amortization		(25,537)	(23,821)
Total		\$44,300	\$40,150

Occupancy expense has been reduced by rental income received. Such income amounted to \$1,800,000, \$1,975,000 and \$1,613,000 for the years ended December 31, 1981, 1980 and 1979 respectively.

**Note G
Time Deposits**

Time certificates of deposit of \$100,000 or more totaled \$75,059,000, \$70,257,000 and \$119,964,000 at December 31, 1981, 1980 and 1979 respectively.

The components of interest expense on deposits for the years ended December 31, 1981, 1980 and 1979 were as follows:

(In Thousands)	1981	1980	1979
Interest on savings and interest bearing demand deposits	\$18,134	\$16,587	\$15,251
Interest on time certificates of deposit of \$100,000 or more	12,615	10,700	13,460
Interest on other time deposits	38,145	23,613	14,571
Total	\$68,894	\$50,900	\$43,282

Maturities of time certificates of deposit of \$100,000 or more as of December 31, 1981 were as follows:

(In Thousands)	
Maturities within 3 months	\$68,931
After 3 months but within 6 months	4,628
After 6 months but within 12 months	1,500
After 12 months	
Total	\$75,059

**Note H
Short-Term
Borrowings**

Short-term borrowings are summarized as follows:

	U.S. Treasury Demand Notes		Commercial Paper		Total	
(In Thousands)	1981	1980	1981	1980	1981	1980
Balance at December 31	\$18,915	\$24,235	\$34,519	\$34,684	\$53,434	\$58,919
Average interest rate at December 31	12.29%	18.75%	13.21%	13.26%	12.88%	15.52%
Maximum outstanding at any month-end	\$32,367	\$35,358	\$40,814	\$34,684	\$73,181	\$70,042
Average daily balance	17,043	14,890	34,977	31,743	52,020	46,633
Weighted average interest rate	16.94%	12.91%	15.43%	11.97%	16.00%	12.27%

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 I
Long-Term
Debt

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

(In Thousands)	1981	1980
7% Subordinated Purchase Notes, due March 25, 1982	\$ 696	\$ 1,391
8¾% Subordinated Capital Note, due 1983 through 1986	6,500	6,500
8½% Series A Subordinated Convertible Debentures, due December 15, 1984	7,541	7,822
8¾% Series B Subordinated Convertible Debentures, due December 15, 1989	1,247	1,356
Total long-term debt	\$15,984	\$17,069

Subordinated Purchase Notes: Peoples National Bank issued the Subordinated Purchase Notes in connection with the 1977 acquisition of the Bank of Yakima, to each shareholder of the Bank of Yakima who did not elect to receive an all-cash liquidating distribution. The notes are payable in five equal annual payments of approximately \$696,000 commencing March 25, 1978. The Purchase Notes are unsecured and are subordinated to the rights of depositors of the Bank.

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, holders of the Purchase Notes discussed above 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 any unamortized goodwill recorded as an asset on the books of the Holding Company, less 5%. At December 31, 1981 the conversion rate was \$24.44 per share. During 1981, debentures with a face value of \$389,000 were converted into 16,934 shares of common stock. The convertible debentures are unsecured, subordinate and junior in right of payment to the rights of depositors, holders of the Purchase Notes discussed above 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.

The aggregate maturities for long-term subordinated notes and convertible debentures for the next five years are as follows:

(In Thousands)	
1982	\$ 696
1983	1,000
1984	8,541
1985	1,000
1986	3,500

Note J
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. Assets acquired included loans aggregating approximately \$20.2 million and liabilities assumed included deposits aggregating approximately \$25.3 million. In accordance with the regulations of the Comptroller of the Currency, undivided profits were reduced by \$2.3 million, representing the excess of the cash purchase price of \$5.3 million over the carrying value of the net assets acquired (goodwill).

On December 10, 1981, the Bank acquired the assets and assumed the liabilities of Washington State Bank in a transaction accounted for as a purchase. Assets acquired included approximately \$12.1 million of loans and liabilities assumed included approximately \$17.4 million of deposits. The Bank is currently in the process of allocating the cash purchase price of \$4.0 million to the fair market value of specific assets acquired.

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

Reestablishment of Goodwill: Upon reorganization, Peoples Bancorporation reestablished \$8,549,000 of goodwill as an asset and also increased undivided profits by a like amount as required by generally accepted accounting principles. This amount represents the unamortized goodwill which would have been recorded on the Bank's books on the date of reorganization had the goodwill originally been recorded as an asset and amortized using a 40 year life for all goodwill arising from acquisitions other than Columbia Bank, which is being amortized over approximately five years. Prior periods have not been restated due to the immaterial nature of the annual amortization. Amortization expense for 1981 amounted to \$285,000.

Conversion of Debentures: At December 31, 1981, 724,000 shares of common stock were reserved for the conversion of convertible debentures discussed in Note I. As a result of conversion of convertible debentures, the Corporation issued shares of common stock as follows: 16,934 in 1981, 15,194 in 1980 and 23,000 in 1979.

Restrictions on Dividends, Loans, or Advances: Certain restrictions exist regarding the ability of the Bank to transfer funds to the Corporation in the form of cash dividends, loans or advances. 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 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.

Section 23A of the Federal Reserve Act prohibits the Bank from making loans or advances to the Corporation in excess of 10% of its capital stock and surplus.

As a result of these restrictions, approximately \$77.6 million of the \$92.2 million of net assets of the Bank which are included in consolidated net assets of the Corporation are restricted from being transferred to the Corporation as cash dividends, loans or advances. Amounts available for payment of dividends under the most restrictive conditions at December 31, 1981 aggregate approximately \$12 million.

Note K Pension Plan

The Corporation has a non-contributory pension plan covering substantially all employees of Peoples Bancorporation and its subsidiaries. Total pension expense was \$1,865,000, \$1,760,000 and \$1,638,000 in 1981, 1980 and 1979 respectively. 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

\$ 9,695

Net assets available for benefits

\$10,095

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% in 1981 and 5% in 1980 and 1979. The assumed annual rate of salary escalation was increased from 3% in 1980 and 1979 to 7% in 1981. These changes decreased 1981 pension expense by \$84,000 and decreased the present value of accumulated plan benefits by \$3,710,000.

**Note L
Income
Taxes**

The provision for federal income taxes consisted of the following at December 31:			
(In Thousands)	1981	1980	1979
Currently payable	\$5,428	\$7,618	\$7,824
Deferred expense (benefit)	1,326	(358)	(921)
Total provision for federal income taxes	\$6,754	\$7,260	\$6,903

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)	1981	1980	1979
Accrual method for financial reporting purposes and cash method for income tax purposes	\$ 233	\$(157)	\$(501)
Leasing income recognized on financing method for financial reporting purposes and on operating method for income tax purposes	486	13	(280)
Provision for possible loan losses	(141)	(358)	(208)
Long-term gain recognized for reporting purposes and deferred for tax purposes		59	(145)
Pension plan costs	37	30	117
Depreciation recognized for tax purposes and deferred for reporting purposes	188	32	37
Tax credits deferred for reporting purposes	492		
Other deferred items	31	23	59
Deferred federal income tax expense (benefit)	\$1,326	\$(358)	\$(921)

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

(In Thousands)	1981		1980		1979	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	\$10,287	46.0%	\$9,903	46.0%	\$9,301	46.0%
Effect of tax-exempt income	(3,018)	(13.5)	(2,144)	(10.0)	(1,999)	(9.9)
Tax credits	(537)	(2.4)	(393)	(1.8)	(268)	(1.3)
Other	22	0.1	(106)	(0.5)	(131)	(0.7)
Federal income tax expense	\$ 6,754	30.2%	\$7,260	33.7%	\$6,903	34.1%

**Note M
Leases**

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, 1981:

(In Thousands)	
1982	\$2,804
1983	2,825
1984	2,718
1985	2,388
1986	1,138
1987 and subsequent	4,870
Total minimum payments required	\$16,743

Certain leases contain renewal options from 5 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 \$5,734,000 in 1981, \$5,010,000 in 1980 and \$3,788,000 in 1979.

**Note N
Related Party
Transactions**

Peoples Bancorporation's relationships with its directors, their immediate families and affiliated companies are a source of business for the Corporation and its subsidiaries. Certain related parties (principally directors of the Corporation, their immediate families and other enterprises in which they are principal owners) were loan customers of and had other transactions with the Corporation and its subsidiaries in the ordinary course of business. The amount of obligations outstanding at December 31, 1981 and 1980 were approximately \$39,242,000 and \$28,974,000 respectively. The aggregate maximum amounts of obligations outstanding to related parties during 1981 and 1980 were approximately \$61,911,000 and \$41,775,000 respectively.

**Note O
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 at December 31, 1981 and 1980 which amounted to \$28,957,000 and \$10,873,000 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. The named plaintiffs claim unspecified amounts of damages on their own behalf and on behalf of a purported class comprising lessees of motor vehicles from Peoples Leasing Company, Inc., who allegedly paid more than 12% "interest" on what plaintiffs claim were loans or purchases of the vehicles rather than leases. A claim to treble the damages and for attorney fees and costs under the Consumer Protection Act was included. Peoples Leasing Company, Inc. and the Bank have denied all material allegations, have asserted affirmative defenses and have counterclaimed for fees, costs and damages.

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

On July 9, 1980, the plaintiffs filed a notice of appeal of the summary judgement and de-certification order. The appeal was filed with the Washington Supreme Court. On October 6, 1981, the Supreme Court heard arguments of the parties and took the case under advisement.

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 trial court to determine issues respecting application of the state usury statute to the transactions and for reconsideration of the trial court's order de-certifying the case as a class action. A motion for reconsideration by the Supreme Court will be presented by the Bank and Leasing Company within the time required.

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 P
Compensated
Absences**

The Financial Accounting Standards Board Statement No. 43 "Accounting for Compensated Absences," which is effective for years beginning after December 15, 1980, requires that the cost of employees' vacation pay benefits be accrued as earned. Prior to 1981, the Corporation followed the common practice of accounting for such costs in the period they were paid. Since the change in accounting policy had an immaterial effect on the results of operations in any prior year, net income has not been restated for years prior to 1981. Rather, the change has been accounted for by recording a liability of \$1,061,000 and reducing retained earnings by \$573,000 (net of \$488,000 income tax effect) as of December 31, 1978. Additional vacation expense accruals amounted to \$180,000 in 1981.

Note Q
Supplemental
Information on
the Effects of
Changing Prices
(Unaudited)

Basis of Preparation of 1981 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 bank 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.

The purchasing power loss of \$4,316,000 was computed by determining the difference between net monetary assets at the beginning and end of 1981, after conversion into average dollars using the average Consumer Price Index (CPI) for 1981. 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 the supplemental information.

Comparative information on net interest and lease income, cash dividends declared, and market price per share has been adjusted for the effect of general inflation by applying the average CPI for 1981 to the amounts as originally reported.

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.

Statement of Income Adjusted for Changing Prices

	Year Ended December 31, 1981
(In Thousands)	
Net income, as reported in the consolidated statement of income	\$15,613
Less:	
Increase in depreciation expense to reflect the effect of general inflation (constant dollars)	(1,679)
Net income, adjusted for general inflation	\$13,934

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

(Adjusted to Average 1981 Dollars)

	Years Ended December 31				
(In Thousands, Except Per Share)	1981	1980	1979	1978	1977
Historical Cost Information					
Adjusted for General Inflation					
Net interest and lease income	\$ 75,833	\$ 78,186	\$ 80,499	\$74,837	\$69,328
Income before securities transactions	13,931	11,572	13,486		
Net income	13,934	11,567	13,556		
Net assets at year-end	135,966	113,576	112,013		
Purchasing power loss from holding net monetary assets during the year	4,316	5,506	4,865		
Other Information					
Primary earnings per common share adjusted for stock dividends:					
Income before securities transactions	3.65	3.04	3.80		
Net income	3.65	3.04	3.82		
Cash dividends declared	1.00	1.00	1.10	.91	.79
Market bid price (at year-end)	19.25	18.22	20.37	19.52	22.52
Average consumer price index for all urban consumers	272.5	246.8	217.4	195.4	181.5

**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
President, Washington Fruit and
Produce Company of Yakima, Inc.
Charles P. Burnett III
Investor
Louis K. Bye*
Investments
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.
Howard E. Lovejoy
Chairman of the Board, Puget
Sound Freight Lines, 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, Cariboo-Pacific
Corporation
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 Director 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

Charles E. Riley*
Executive Vice President
Donald Greenfield*
Senior Vice President
Leo M. Riley*
Senior Vice President and
Secretary-Treasurer
James L. Austin
Senior Vice President
Walter T. Bagnall
Senior Vice President

David O. Beck
Senior Vice President
H. Ronald Masnik
Senior Vice President
Frank McArthur
Senior Vice President
John H. Mitten
Senior Vice President

*Administrative Committee Members

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2411 Fourth Avenue
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Magnolia
Denise Pinch, Manager
3124 West McGraw
Seattle, WA 98199

North Seattle
Carmela M. Faccone
Vice President and Manager
1023 NE 63rd
Seattle, WA 98115

Northgate Plaza
Cathryn S. Schalkle, Manager
10548 Fifth Avenue NE
Seattle, WA 98125

Rainier and Empire
Yvonne M. Blaine, Manager
2910 Rainier Avenue South
Seattle, WA 98144

Skyway Park
David S. Coomber, Manager
12610-76th Avenue South
Seattle, WA 98178

South Seattle
Gary W. Lindberg, Manager
6520 Fourth Avenue South
Seattle, WA 98108

Third Avenue
Robert D. Corbin, Manager
1903 Third Avenue
Seattle, WA 98101

Tukwila Andover Park
Nada Hughes, Manager
151 Andover Park East
Seattle, WA 98188

University Hub
Ruth B. Wilson, Manager
University of Washington
Student Union Building
Post Office Box 5659
Seattle, WA 98105

University South Campus
Ruth B. Wilson, Manager
University of Washington
South Campus Center
Post Office Box 5659
Seattle, WA 98105

Wedgwood
Sandra Hale, Manager
8702-35th Avenue NE
Seattle, WA 98115

West Seattle
Lincoln L. McCoy
Vice President and Manager
4213 SW Alaska Street
Seattle, WA 98116

West Seattle Motor-In
Lincoln L. McCoy
Vice President and Manager
4200 SW Edmonds
Seattle, WA 98116

**Western
Washington
Offices**

Anacortes
Floyd C. Waller
Vice President and Manager
910 "O" Avenue
Anacortes, WA 98277

Auburn
Jim Jameson
Vice President and Manager
27751 East Valley Highway
Auburn, WA 98002

Bellevue
Kenneth Kirkpatrick
Vice President and Manager
704 Bellevue Way NE
Bellevue, WA 98004

Bellevue-Highlands
Diedra Pellegrini, Manager
1915-140th Avenue NE
Bellevue, WA 98005

Bothell
John M. Lloyd
Vice President and Manager
10027 Main Street
Bothell, WA 98011

Bothell Motor-In
John M. Lloyd
Vice President and Manager
10016 Main Street
Bothell, WA 98011

Bremerton
Robert B. Smock
Vice President and Manager
190 Pacific Avenue
Bremerton, WA 98310

Edmonds
Diane West, Manager
140 Fourth Avenue South
Edmonds, WA 98020

Everett
James P. Stark
Vice President and Manager
1702 Hewitt
Everett, WA 98201

Evergreen Way
James P. Stark
Vice President and Manager
10400 Highway 99 South
Everett, WA 98204

Federal Way
Dean E. McBride
Vice President and Manager
1436 South 312th Street
Federal Way, WA 98003

Freeland
Forrest Johnson, Manager
Harbor Avenue and Main Street
Freeland, WA 98249

Hazel Dell
Francis Scott, Manager
7916 NE 6th Avenue
Vancouver, WA 98665

Hoquiam
727 Simpson Avenue
Hoquiam, WA 98550

Kenmore
Osmund Kvithammer, Manager
65th Avenue NE and NE Bothell Way
Kenmore, WA 98155

Kent
Jim Jameson
Vice President and Manager
505 West Meeker
Kent, WA 98031

Kirkland
Elaine C. Shimono, Manager
177 Central Way
Kirkland, WA 98033

Langley
Robert J. Barclay, Manager
Second and Anthes
Langley, WA 98260

Lincoln Street
134 East Seventh
Port Angeles, WA 98362

Lynnwood
Gary R. Dale, Manager
19525 Highway 99
Lynnwood, WA 98036

Mountlake Terrace
Elizabeth Marx, Manager
5703-232nd SW
Mountlake Terrace, WA 98043

Nineteenth and Mildred
Valli L. McIntosh, Manager
6723 South 19th Street
Tacoma, WA 98466

Pacific Avenue
LeRoy K. Linde
Vice President and Manager
2317 Pacific Avenue
Tacoma, WA 98402

Port Angeles
104 West First Street
Port Angeles, WA 98362

Redmond
Joseph J. Rees, Manager
8005-161st NE
Redmond, WA 98052

Renton
Barry J. Follman
Vice President and Manager
858 South Second Street
Renton, WA 98055

SeaTac Mall
Dean E. McBride
Vice President and Manager
2233 South 320th Street
Federal Way, WA 98003

Sequim
Virgil A. Gamlem
Vice President and Manager
101 West Washington
Sequim, WA 98382

Sixth Avenue
Frank Heard, Jr., Manager
2802 Sixth Avenue
Tacoma, WA 98406

Totem Lake
Marlene Ackley, Manager
12427 NE 124th
Kirkland, WA 98033

Vancouver
Roland D. Funk
Vice President and Manager
109 East 13th Street
Vancouver, WA 98660

Vancouver Mall
Stanley R. Wisch
Vice President and Manager
4813 NE Thurston Way
Vancouver, WA 98662

Vashon Island
James DeYoung, Manager
99th Avenue SW and SW 176th Street
Vashon, WA 98070

Washougal
Cliff Brecht
Vice President and Manager
Sixth and "E" Street
Washougal, WA 98671

West Renton
Evelyn Healy, Manager
707 Rainier Avenue South
Renton, WA 98055

Woodinville
Howard W. Hagen, Manager
13216 NE 175th
Woodinville, WA 98072

**Eastern
Washington
Offices**

Chalet Mall
Freda M. Tabert, Manager
5601 Summitview
Yakima, WA 98908

Clearwater
Conrad J. Tobin, Manager
3250 West Clearwater
Kennewick, WA 99336

Columbia Center
Thomas P. Liedigk, Manager
1000 Columbia Center
Kennewick, WA 99336

Ellensburg
R. Harry Clark, Manager
Fourth and Ruby
Ellensburg, WA 98926

Ephrata
Frank Buty, Manager
121 Basin Street NW
Ephrata, WA 98823

Fruitvale
Donna M. Evans, Manager
1705 Fruitvale Boulevard
Yakima, WA 98902

George
Frank Buty, Manager
Post Office Box 5008
George, WA 98824

Kennewick
Georth Rath, Manager
10 North Washington Street
Kennewick, WA 99336

Mattawa
Versil L. Brixey, Manager
Post Office Box 875
Mattawa, WA 99344

Medical Center
Joel Perry, Manager
301 South 11th Avenue
Yakima, WA 98907

Metropolitan
Dennis J. Hogenson, Manager
314 East Yakima Avenue
Yakima, WA 98901

Metropolitan Motor-In
Dennis J. Hogenson, Manager
16 South Fourth Street
Yakima, WA 98901

Moses Lake
Sam E. Clark
Vice President and Manager
203 East Third Avenue
Moses Lake, WA 98837

Nob Hill
Diane M. Young, Manager
2606 West Nob Hill Boulevard
Yakima, WA 98902

Othello
Duane B. Ragsdale
Vice President and Manager
101 East Main
Othello, WA 99344

Pasco
Carl L. Leth
Vice President and Manager
215 North Tenth Avenue
Pasco, WA 99301

Prosser
Larry E. Anderson, Manager
1115 Meade Avenue
Prosser, WA 99350

Richland
Nadine M. Johns, Manager
1100 Jadwin Avenue
Richland, WA 99352

Royal City
C. Roderick Powell, Manager
100 Evergreen Street
Royal City, WA 99357

Soap Lake
Frank Buty, Manager
331 Main Avenue
Soap Lake, WA 98851

South First Street
Sandra L. Ellingson, Manager
2405 South First Street
Yakima, WA 98907

Southgate
Paula Redd, Manager
315 West Nob Hill Boulevard
Yakima, WA 98902

Summitview
Donna J. Barlow, Manager
4106 Summitview
Yakima, WA 98908

Sunnyside
John D. Urness, Manager
322 South Sixth Street
Sunnyside, WA 98944

Tieton Drive
Roxana M. Miller, Manager
4700 Tieton Drive
Yakima, WA 98908

Warden
Vincent J. Jollo
Vice President and Manager
116 South Main
Warden, WA 98857

Washtucna
Duane B. Ragsdale
Vice President and Manager
Post Office Box 715
Washtucna, WA 99371

West Richland
Edna V. Pierce, Manager
3801 West Van Giesen
West Richland, WA 99352

Yakima Main
Richard E. Werttemberger
Vice President and Manager
Richard E. Rouleau
Vice President

404 West Yakima Avenue
Yakima, WA 98902

Yakima Main Motor-In
Richard E. Werttemberger
Vice President and Manager
404 West Yakima Avenue
Yakima, WA 98902

Subsidiaries

Peoples Computer Services, Inc.

Frank McArthur
President
Main Office:
9707 Fourth Avenue NE
Seattle, WA 98115
Other Offices:
Bellingham, Washington
Portland, Oregon

Peoples Escrow Company

Arlene Kazala
President
Main Office:
Fourth and Battery Building
2411 Fourth Avenue—Suite 150
Seattle, WA 98121
Other Offices:
Tacoma, Vancouver and
Yakima, Washington.

Peoples Insurance, Inc.

Roger Meline
President
Main Office:
Fourth and Battery Building
2411 Fourth Avenue—Suite 190
Seattle, WA 98121

Peoples Mortgage Company

Dean M. Olson
Chairman of the Board
Robert W. Gaber
President and Chief Operating Officer
Head Office:
Fourth and Battery Building
2411 Fourth Avenue—Suite 400
Seattle, WA 98121
Other Offices:
Denver, Colorado; Las Vegas, Nevada;
Portland, Oregon; Kennewick, Seattle,
Tacoma, Vancouver and
Yakima, Washington.

Peoples Small Business Investment Corporation

Quentin Ellis
President
Main Office:
1414 Fourth Avenue—Fifth Floor
Seattle, WA 98111

Western States Leasing Company, Inc. dba

Peoples Leasing Company
Frank L. Anderson
Senior Vice President and Manager
Main Office:
15301 Fourth Avenue SW
Seattle, WA 98166

Western States Mortgage Company

Clifford A. Peterson
Vice President and Manager
Main Office:
Fourth and Battery Building
2411 Fourth Avenue—Suite 270
Seattle, WA 98121
Other Offices:
Everett, Lynnwood, Moses Lake,
Renton and Seattle, Washington.

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 89 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 Washington Athletic Club, 1325 Sixth Avenue, Seattle, Washington, on Tuesday, March 30, 1982 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
Senior Vice President and Secretary-Treasurer
Peoples Bancorporation
1414 Fourth Avenue
Seattle, Washington 98111

Peoples Bancorporation

1414 Fourth Avenue, Seattle, Washington 98111
Member FDIC