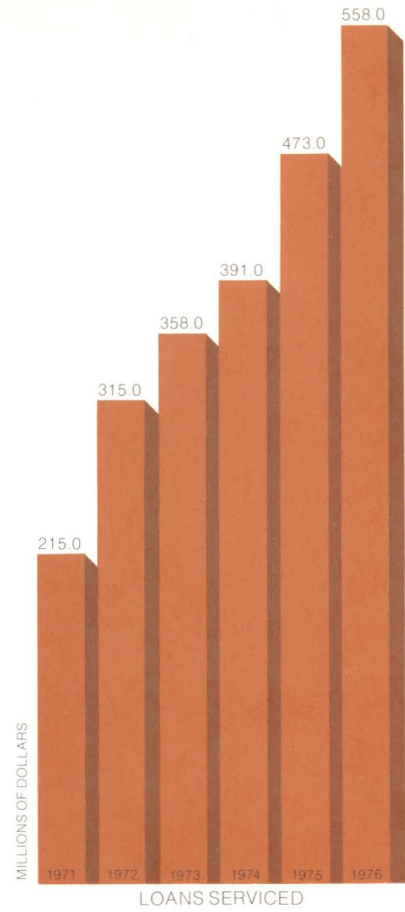
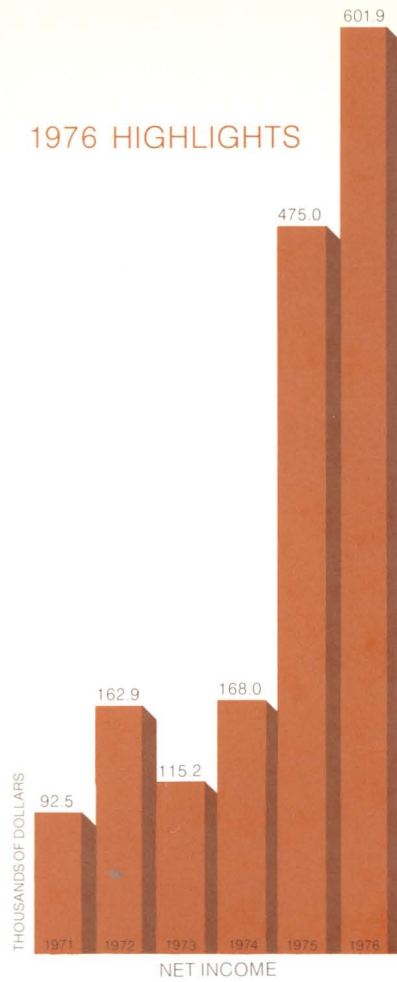


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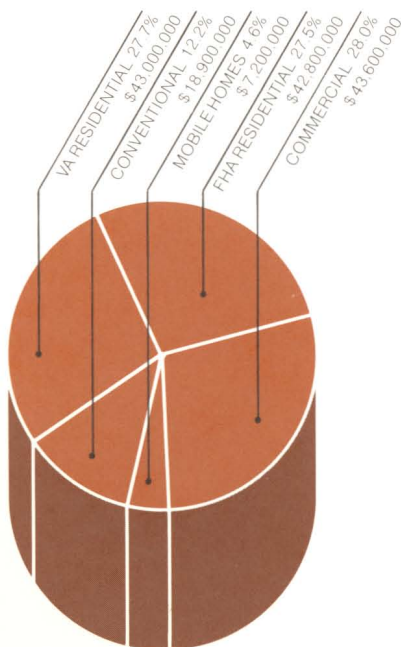
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PeoplesMortgage 1976 Annual Report

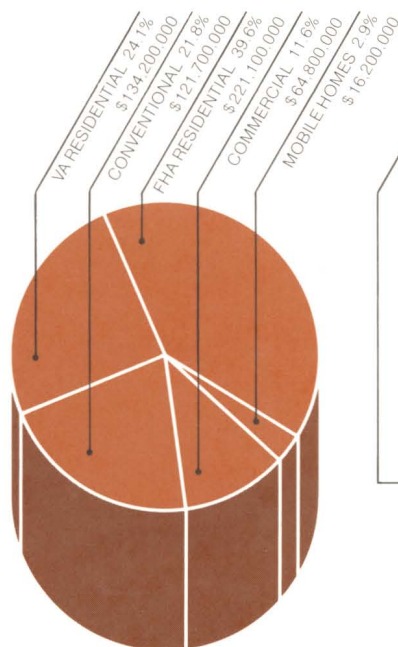
1976 HIGHLIGHTS



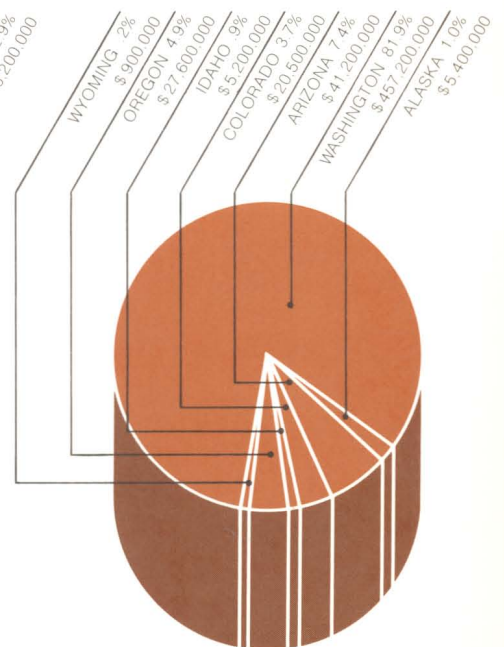
	1976	1975	INCREASE
Operating Income.....	\$ 6,163,437	\$ 5,287,273	16.6
Operating Expenses.....	\$ 4,967,571	\$ 4,404,239	12.8
Net Income.....	\$ 601,866	\$ 475,034	26.7
Retained Earnings.....	\$ 173,213	\$ 171,347	1.1
Total Mortgage Loan Originations.....	\$155,500,000	\$141,000,000	10.3
Servicing Volume at Year End.....	\$558,000,000	\$473,000,000	18.0



1976 LOAN ORIGINATIONS



YEAR END SERVICING VOLUME
BY TYPE OF LOAN



YEAR END SERVICING VOLUME
BY STATE

THE YEAR IN REVIEW

Nineteen hundred and seventy-six was another successful year for Peoples Mortgage Company. We further expanded our geographic penetration and continued to grow in earnings, loan originations and servicing volume. Net income improved in 1976 by 26.7%. Contributing to that improvement was a 10.3% increase in total loan production and an 18% growth in year end servicing volume.

As the national economic picture brightened during 1976, Peoples Mortgage took advantage of improved lending opportunities, both residential and commercial, which prevailed in the mortgage market. Our position among all mortgage banking firms in the nation improved from 70th in size to 63rd.

Nineteen hundred and seventy-six was also a year of significant expansion for the company. New loan origination offices were established in Salt Lake City, Utah and Boise, Idaho. The geographic scope of our commercial lending activity continued to grow with the financing of an increasing number of major projects throughout the Western United States including Alaska and Hawaii.

Our 1976 Seattle area mortgage loan originations of approximately \$59.2 million represented a 23.0% gain over the previous year. We increased our penetration of the overall Seattle area FHA and VA residential loan market from 12.7% in 1975 to 14.5% in 1976 leading all other lenders in this category.

We view 1977 as a year of continued growth for Peoples Mortgage. With the economy of the Pacific Northwest and the nation as a whole continuing to show solid improve-

ment, we are confident that the record earnings and loan production results achieved during the past two years can be sustained through 1977.

The confidence of our investors and of our growing number of customers will be a key factor in our continued progress. PeoplesMortgage has the personnel, the management systems, and the proper balance of investor relationships to serve the financing needs of our customers and the investment goals of the institutional lenders we represent.



Dean M. Olson
Senior Vice President and Manager

A RECORD YEAR FOR EARNINGS,
LOAN ORIGINATIONS AND SERVICING VOLUME

Total loan production for 1976 was a record \$155.5 million. This represented a 10.3% increase over 1975 levels. Residential mortgages totaled \$104.7 million, a 12.6% increase over 1975. Commercial loans totaling \$43.6 million were up 14.7% from the previous year.

Our growth pattern was consistent with economic conditions which

prevailed throughout our geographic sphere of operation. Inflation eased and, although costs continued to increase during the year, they did so at a more stable pace. Interest rates decreased and confidence in the residential construction industry was restored.

Earnings and loan volume from our FHA Title I mobile home program continued to move ahead during 1976. Loan originations under this program totaled \$7.2 million. We extended our market areas and established full service mobile home loan origination offices in Portland, Oregon and Boise, Idaho where an increasing flow of business is anticipated.

Total servicing volume in 1976 reached a new high of \$558 million which represented approximately 26,000 loans by year's end. Our goal in 1977 is to maintain a steady flow of residential and commercial business, maintain our competitive posture, and expand our efforts to repeat cooperative ventures with commercial loan customers.

Our efforts to streamline production procedures, expand our market areas and further solidify our strength in the mortgage banking industry have placed us in a favorable position to utilize to full advantage the healthy economic climate and mortgage lending opportunities we believe will highlight the year ahead.



PEOPLES MORTGAGE COMPANY INVESTORS

American United Life Insurance Company
Indianapolis, Indiana

Arlington Heights Federal Savings &
Loan Association
Arlington Heights, Illinois

Bankers Life Company
Des Moines, Iowa

Bay Ridge Savings & Loan Association
Brooklyn, New York

Bell Federal Savings & Loan Association
Chicago, Illinois

Buffalo Savings Bank
Buffalo, New York

The Canada Life Assurance Company
Toronto, Ontario, Canada

Cardinal Federal Savings & Loan
Association
Cleveland, Ohio

Carpenters Trust of Western Washington
Seattle, Washington

Central Savings Bank in the City of
New York
New York, New York

Century Federal Savings & Loan
Association of Long Island
Cedarhurst, New York

Coachella Valley Savings and Loan
Association
Palm Springs, California

College Point Savings Bank
College Point, New York

Columbia Pacific Life Insurance Company
Salt Lake City, Utah

Columbia Savings and Loan Association
Denver, Colorado

Columbia Savings and Loan Association
Woodhaven, New York

Community Savings and Loan
Association
Long Beach, California

County Federal Savings & Loan
Association
Commack, New York

Country Life Insurance Company
Bloomington, Illinois

Down River Federal Savings & Loan
Taylor, Michigan

Emigrant Savings Bank
New York, New York

Federal Home Loan Mortgage
Corporation
Los Angeles, California

Federal National Mortgage Association
Washington, D.C.

First Federal Savings and Loan Association
of Great Falls
Great Falls, Montana

First Federal Savings and Loan
Association of Port Jervis
Port Jervis, New York

Franklin Savings Bank
New York, New York

Financial Savings & Loan of
San Francisco
Marysville, California

First Texas Savings Association of Dallas
Dallas, Texas

First Savings & Loan Association
San Angelo, Texas

General Security Life Company
Seattle, Washington

Government National Mortgage
Association
Washington, D.C.

The Great West Life Assurance Company
Vancouver, B.C., Canada

The Greater New York Savings Bank
Brooklyn, New York

Home Federal Savings
Chicago, Illinois

Home Savings Bank
White Plains, New York

Humboldt Federal Savings and Loan
Eureka, California

Ideal National Insurance Company
Salt Lake City, Utah

Institutional Securities Corporation
New York, New York

Kansas City Life Insurance Company
Kansas City, Missouri

Magyar Savings and Loan Association
New Brunswick, New Jersey

Massachusetts Mutual Life Insurance
Company
Springfield, Massachusetts

Metropolitan Savings and Loan
Association
Fargo, North Dakota

Metropolitan Savings Bank
Brooklyn, New York

Mid-Jersey Savings and Loan
Association
Dunellen, New Jersey

The Minnesota Mutual Life Insurance
Company
St. Paul, Minnesota

National Life Insurance Company
Montpelier, Vermont

Niagara Permanent Savings and Loan
Association
Niagara Falls, New York

Northern Federal Savings and Loan
Association
St. Paul, Minnesota

Northern National Life Insurance
Company
Bismarck, North Dakota

Old Stone Bank
Providence, Rhode Island

Palomar Savings and Loan Association
Escondido, California

Peoples National Bank of Washington
Seattle, Washington

Portland Federal Savings and Loan
Association
Portland, Oregon

Provident Life Insurance Company
Bismarck, North Dakota

Provident Mutual Life Insurance
Company of Philadelphia
Philadelphia, Pennsylvania

Prudential Savings and Loan
Association
San Gabriel, California

Seamen's Bank for Savings
New York, New York

Safeco Life Insurance Company
Seattle, Washington

Schenectady Savings Bank
Schenectady, New York

Security Federal Savings and Loan
Association
Chicago, Illinois

State Farm Life Insurance Company
Bloomington, Illinois

State of Washington Public Employees
Retirement Board
Olympia, Washington

Teachers State Bank
Seattle, Washington

Unigard Olympic Life Insurance
Company
Seattle, Washington

United Benefit Life Insurance Company
Omaha, Nebraska

United States Savings Bank of
New Jersey
Newark, New Jersey

Universal Security Life Insurance
Company
Bellevue, Washington

Washington Law Enforcement Officers'
and Fire Fighters' Retirement Board
Olympia, Washington

Washington State Teachers
Retirement System
Olympia, Washington

Washington State Finance Committee
Olympia, Washington

Wells Fargo Bank
San Francisco, California

PEOPLES MORTGAGE COMPANY
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year ended December 31	
	1976	1975
Income:		
Loan servicing fees — Note 8	\$1,775,764	\$1,423,747
Loan origination and related fees	2,298,146	1,843,565
Interest on notes and mortgage loans	2,044,148	1,978,983
Other	45,379	40,978
	<u>6,163,437</u>	<u>5,287,273</u>
Expenses:		
Salaries and bonuses	1,904,967	1,366,535
Other employee benefits	258,321	241,471
Interest	970,350	1,188,429
Depreciation and amortization	97,982	46,355
Management fee to Peoples National Bank	36,000	36,000
Provision for loan losses	222,726	311,585
Other operating expenses including amortization of mortgage service acquisition costs — Notes 3 and 8	<u>1,477,225</u>	<u>1,213,864</u>
	<u>4,967,571</u>	<u>4,404,239</u>
Income from operations before provision for federal income taxes and cumulative effect of change in accounting principle to reflect adoption of Statement of Position	1,195,866	883,034
Provision for federal income taxes — Note 1	<u>542,000</u>	<u>408,000</u>
Income before cumulative effect of change in accounting principle to reflect adoption of Statement of Position	653,866	475,034
Cumulative effect to December 31, 1975 of change in accounting principle to reflect adoption of Statement of Position during 1976 — Note 2	<u>(52,000)</u>	
Net income	601,866	475,034
Retained earnings, beginning of year	171,347	146,313
Dividends, \$40.00 and \$45.00 per share — Note 6	<u>(600,000)</u>	<u>(450,000)</u>
Retained earnings, end of year	<u>\$ 173,213</u>	<u>\$ 171,347</u>
Pro-forma net income assuming adoption of the Statement of Position was applied retroactively — Note 2	<u>\$ 653,866</u>	<u>\$ 527,034</u>

See accompanying notes to consolidated financial statements.

PEOPLES MORTGAGE COMPANY
CONSOLIDATED BALANCE SHEET

	December 31	
	1976	1975
Assets— Note 1		
Current Assets:		
Cash on hand and in banks	\$ 127,879	\$ 123,348
First mortgage loans in process (net of undisbursed loan funds of \$9,752,805 and \$7,668,845) or held for resale (net of discounts of \$702,062 and \$606,404) at December 31, 1976 and 1975, respectively	\$44,541,089	\$39,930,885
Accrued interest receivable	366,389	322,505
	44,907,478	40,253,390
Less— Participations sold to—		
Peoples National Bank— Note 8	24,265,081	21,688,553
Other banks	5,131,580	18,564,837
Real estate held for resale	85,147	217,315
Reserve for possible losses	(160,000)	(135,000)
Notes and accounts receivable	228,890	188,846
Prepaid expenses and deposits	302,189	261,059
	16,094,922	19,220,405
Trust Funds:		
Cash in bank	6,868,711	6,280,274
Less— Contra liability	(6,868,711)	(6,280,274)
Fixed Assets, at cost (net of accumulated depreciation and amortization of \$271,401 and \$194,536, respectively)	150,423	179,956
Investments:		
FNMA stock, at cost, market value, \$352,193 and \$296,295, respectively	287,301	285,956
Other Assets— Note 3	418,389	457,758
	\$16,951,035	\$20,144,075
Liabilities and Stockholder's Equity		
Current Liabilities:		
Notes payable— Note 4	\$13,856,198	\$17,256,748
Accrued interest payable	188,879	228,198
Accounts payable and accrued expenses	547,772	263,920
Payable for Federal Income Taxes— Note 1	484,973	524,236
Deferred fees and interest	200,000	199,626
	15,277,822	18,472,728
Stockholder's Equity:		
Common stock, \$100 par value—		
15,000 shares authorized and outstanding at December 31, 1976 and 1975— Note 6	\$ 1,500,000	\$ 1,500,000
Retained earnings—		
Unappropriated	153,213	151,347
Appropriated for contingencies	20,000	20,000
	1,673,213	1,671,347
Commitments and Contingent Liabilities— Note 7		
	\$16,951,035	\$20,144,075

See accompanying notes to consolidated financial statements.

PEOPLES MORTGAGE COMPANY
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1976	1975
Financial resources were provided by:		
Net income	\$ 601,866	\$ 475,034
Add back charges not representing a use of financial resources—		
Depreciation and amortization	\$ 97,982	\$ 46,355
Amortization of mortgage servicing premium	109,682	174,288
	207,664	220,643
Reclassification of prepaid taxes	809,530	695,677
Sale of fixed assets	1,552	41,285
Proceeds from issuance of common stock		1,803
	811,082	500,000
Financial resources were used for:		
Acquisition of fixed assets	56,627	1,238,765
Additions to other assets	83,687	64,832
Additions to investments	1,345	22,274
Dividends	600,000	25,917
	741,659	450,000
Net increase in working capital	\$ 69,423	\$ 563,023
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash on hand and in banks	\$ 4,531	\$ 72,334
First mortgage loans in process	4,610,204	7,750,351
Accrued interest receivable	43,884	(109,476)
Participations sold to Peoples National Bank and other banks	(7,708,108)	(4,488,486)
Real estate held for resale	(132,168)	(330,796)
Reserve for possible loss	(25,000)	(72,427)
Notes and accounts receivable	40,044	127,693
GNMA securities		(945,034)
Prepaid expenses and deposits	41,130	132,342
	(3,125,483)	2,136,501
(Increase) decrease in current liabilities:		
Notes payable	3,400,550	(974,477)
Accrued interest payable	39,319	80,334
Accounts payable and accrued expenses	(283,852)	(8,440)
Payable for federal income taxes	39,263	(358,550)
Deferred fees and interest	(374)	(199,626)
	3,194,906	(1,460,759)
Net increase in working capital	\$ 69,423	\$ 675,742

See accompanying notes to consolidated financial statements.

PEOPLES MORTGAGE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1976 & 1975

Note 1 — Ownership and Summary of Significant

Accounting Policies: Peoples Mortgage Company is engaged in the mortgage banking business including the servicing of mortgage loans for others under agreements with various investors.

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

Corporate ownership — Peoples Mortgage Company is a wholly owned subsidiary of Peoples National Bank of Washington (Note 8).

In 1976, Western States Mortgage Company was organized by Peoples Mortgage Company as a wholly owned subsidiary. This subsidiary operates in various states as an approved mortgagee for the purpose of originating mortgage loans.

Principles of consolidation — The consolidated financial statements of Peoples Mortgage Company include the accounts of the company and its subsidiary, Western States Mortgage Company. All significant intercompany transactions and balances have been eliminated.

Fixed assets — Property and equipment are stated at cost less accumulated depreciation and amortization. The company provides for depreciation and amortization of fixed assets over their estimated useful lives as follows:

	Method	Years
Furniture and fixtures	Declining-balance	5-10
Leasehold improvements	Straight-line	(Life of lease)
Automobile equipment	Straight-line	3

Gains and losses on routine dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and betterments are capitalized.

Investments — In order to maintain the right to service FNMA-owned loans, the company is required to hold FNMA stock. At December 31, 1976, substantially all shares owned by the company are required to continue this servicing.

Federal income taxes — The company files a consolidated tax return with its parent company. Accordingly, the federal income tax provision is based on financial reported income computed at a statutory rate of 48% and amounts currently due are paid to the parent company. Deferred taxes are provided for timing differences between financial reporting and income tax reporting. The tax effects of these timing differences, primarily arising from differences in recording of deferred interest income and commitment fees for book and tax purposes, are reflected as prepaid income taxes and are included in prepaid expenses and deposits. Investment tax credits are realized at the time of property acquisitions utilizing the flow-through method of accounting.

Note 2 — Change in Accounting Principle:

During the current year, the company adopted the accounting recommendation in the "Statement of Position on Accounting for Origination Costs and Loan and Commitment Fees in the Mortgage Banking Industry." The new method was adopted to match more closely commitment fee income with the term of interim loans. The effect of the change in 1976 was to decrease income before cumulative effect of change in accounting principle by approximately \$100,000. The adjustment of \$52,000 (net of \$48,000 in taxes) to apply retroactively the new method is included as an expense in 1976. The pro forma amounts shown on the income statement have been adjusted for the effect of retroactive application of the new accounting principle, net of tax.

Note 3 — Other Assets: In prior years, the company acquired nonaffiliated mortgage companies and the right to service loan portfolios. The cost of the right to service loan portfolios acquired is being amortized over the expected average life of portfolios. The unamortized servicing acquisition costs, included in other assets, at December 31, 1976 and 1975 amounted to \$417,139 and \$443,133, respectively.

Note 4 — Notes Payable: Notes payable are comprised of:

	December 31	
	1976	1975
Peoples National Bank, payable on demand, bearing interest at 6% per annum in 1975		\$ 2,000,000
Commercial Paper, generally payable within 90 days, at rates varying from 5% to 7¼% per annum	\$13,856,198	\$15,256,748
	<u>\$13,856,198</u>	<u>\$17,256,748</u>

Note 5 — Retirement Plans: Effective December 31, 1975, the company discontinued contributions to its profit-sharing plan, terminated its deferred compensation plan and adopted a new pension plan covering substantially all of its employees. Amounts previously accrued under the deferred compensation plan were applied to the new pension plan. It is the company's policy to fund pension costs accrued. At December 31, 1975, the unfunded past service costs of the pension plan amounted to approximately \$195,000. The pension expense in 1976 and 1975 amounted to \$62,520 and \$59,615, respectively, including amortization of past service cost over a 30-year period.

Note 6 — Common Stock: At December 31, 1975, the company issued 5,000 common shares at \$100 par value to Peoples National Bank of Washington in exchange for cash. The dividends paid in 1975 were on the 10,000 shares of stock outstanding during 1975.

PEOPLES MORTGAGE COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1976 & 1975

Note 7—Commitments and Contingent Liabilities:

At December 31, 1976, the company was obligated under the provisions of long-term leases of buildings with approximate minimum rentals as follows:

Year ended December 31	Rentals
1977	\$ 93,000
1978	149,000
1979	145,000
1980	156,000
1981	157,000
1982-1987	891,000

Rental expense for the years ended December 31, 1976 and 1975 included in the accompanying statement of income and retained earnings is approximately \$157,000 and \$72,000, respectively

Note 8—Related-Party Transactions:

Peoples National Bank of Washington—

The company is a party to agreements with Peoples National Bank of Washington whereby it has sold at market value, at negotiated interest rates, its equity in loans in process and GNMA mortgage-backed securities. The bank has discretionary power with respect to loans and

other securities offered, but once accepted, its recourse is limited to its pro rata equity in the loans and securities; however, the mortgage company may repurchase such loans and securities at a negotiated rate. The mortgage company continues to manage these loans and receives a fee for this service.

The company issues commercial paper which is guaranteed by an irrevocable letter of credit of Peoples National Bank of Washington.

Peoples National Bank provides loans and computer services to the mortgage company. Peoples Mortgage Company services real estate loans owned by Peoples National Bank.

A summary of the servicing fees received and expenses paid by the company are as follows:

	December 31	
	1976	1975
Classified on the accompanying financial statements as:		
Loan servicing fees	\$353,000	\$339,000
Interest — Peoples National Bank	47,000	229,000
Other operating expenses	247,000	179,600

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors of
Peoples Mortgage Company

We have examined the consolidated balance sheets of Peoples Mortgage Company and its subsidiary as of December 31, 1976 and 1975, and the related consolidated statements of income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The method of accounting for loan origination costs and loan and commitment fees was changed in 1976 to reflect adoption of the "Statement of Position on Accounting for Origination Costs and Loan and Commitment Fees in the Mortgage Banking Industry" issued by the American Institute of Certified Public Accountants on August 25, 1976 and as more fully discussed in Note 2 to the financial statements.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Peoples Mortgage Company and its subsidiary at December 31, 1976 and 1975, and the results of their operations

and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied, except for the change with which we concur, in the method of accounting for loan origination costs and loan and commitment fees, referred to in the preceding paragraph.

January 11, 1977
Seattle, Washington

Price Waterhouse & Co.

PEOPLES MORTGAGE COMPANY ADDRESSES

Main Office

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

Bellevue

Paul Safstrom, Manager
12505 Bellevue-Redmond Road
Bellevue, Washington 98005

Renton

Gary Vander Meer, Manager
Evergreen Building
15 South Grady Way
Suite 117
Renton, Washington 98055

Tacoma

Steve Benine, Manager
8619 South Tacoma Way
Tacoma, Washington 98499

Vancouver

William H. Nyberg, Manager
109 East 13th Street
Vancouver, Washington 98660

Portland

Wayne Fossen, Manager
500 N.E. Multnomah
Lloyd Building, Suite #850
Portland, Oregon 97322

Phoenix

Larry Kelley, Manager
3500 North Central Avenue
Phoenix, Arizona 85012

Denver

dba Quadrant Mortgage Company
James Umphries, Manager
1720 South Bellaire Street
Suite 1006
Writers Tower Building
Denver, Colorado 80222

Boise

Carl Bixler, Manager
1112 North Cole Road
Suite C
Boise, Idaho 83704

Salt Lake City

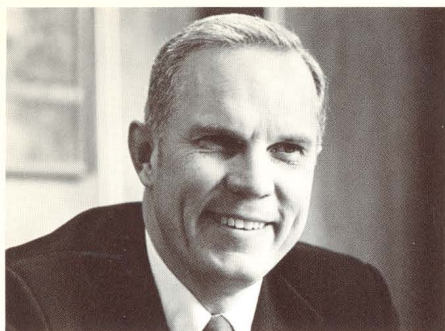
Richard R. Parker, Manager
535 E. 4500 South
Suite D-140
Salt Lake City, Utah 84107

Peoples Service Corporation

dba Peoples Escrow Company	
Virginia W. Johnson	Assistant Vice President & Manager
Adrianne Tollefson	Secretary
Margie E. Patterson	Assistant Vice President
Pamela Frey	Escrow Officer
Hazle Kelley	Escrow Officer
Arlene Kuk	Escrow Officer

PEOPLES MORTGAGE COMPANY IS A
WHOLLY OWNED SUBSIDIARY OF
PEOPLES NATIONAL BANK OF WASHINGTON

PEOPLES MORTGAGE COMPANY OFFICERS AND DIRECTORS



Dean M. Olson



David G. Mullins



Muriel H. Nelson



David E. Thatcher



H. Roger Van Valkenburgh



Jay C. Williams

Joshua Green, Jr.	Chairman of the Board & Director
Joshua Green, III	President & Director
Robert G. Perry	Secretary/Treasurer & Director
E.C. Underhill	Executive Vice President & Director
J.G. Cairns, Jr.	Senior Vice President & Director
Dean M. Olson	Senior Vice President, Director & Manager
David E. Thatcher	Senior Vice President & Director
Elmer Anderson	Director
Larry Kelley	Vice President
David G. Mullins	Vice President
Charles W. Moore	Vice President
James H. McMahan	Vice President
Muriel H. Nelson	Vice President
William H. Nyberg	Vice President
Gordon W. Schlicke	Vice President
H. Roger Van Valkenburgh	Vice President
Jay C. Williams	Vice President
Fred C. Banks	Assistant Vice President
Carl Bixler	Assistant Vice President
Dan L. Carlo	Assistant Vice President
Richard Hooper	Assistant Vice President
Russell A. Jacobson	Assistant Vice President
Carol Smallwood	Assistant Vice President
Clifford A. Peterson	Assistant Vice President
Carolynne Dow	Assistant Vice President
Zella G. Christopher	Accounting Officer
Bonita Butcher	Loan Servicing Officer
Stephen G. Hess	Loan Servicing Officer
Julie Richwine	Loan Servicing Officer
Karen Reed	Production Servicing Officer
Phyllis Updegrave	Personnel Director

Peoples Mortgage Company

1101 Pike Street, Seattle, Washington 98101