

Peoples Mortgage Company
1972 Annual Report

HIGHLIGHTS

| | <u>1972</u> | <u>1971</u> | <u>Increase</u> |
|--|---------------|---------------|-----------------|
| Operating Income | \$ 2,311,701 | \$ 1,958,969 | 18.0% |
| Operating Expense | \$ 2,002,848 | \$ 1,808,477 | 10.7% |
| Net Income | \$ 162,853 | \$ 92,492 | 76.0% |
| Dividends Declared | \$ 157,000 | \$ 139,000 | 12.9% |
| Retained Earnings | \$ 63,059 | \$ 57,206 | 10.2% |
| Total Mortgage Loan Originations | \$ 92,000,000 | \$ 45,100,000 | 104.0% |
| Mortgage Loan Recordings | | | |
| (King County only) | \$ 44,300,000 | \$ 25,100,000 | 76.4% |
| Servicing Volume at Year End | \$315,000,000 | \$215,000,000 | 46.5% |



Peoples Mortgage Co.

A Wholly-Owned
Subsidiary of

Peoples National Bank of Washington

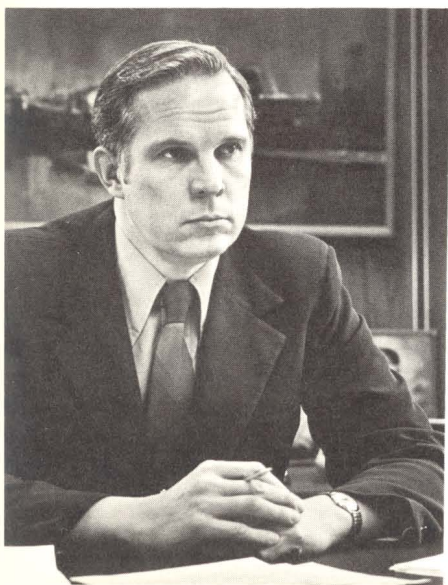
MESSAGE TO STOCKHOLDERS:

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

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

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

During 1972 commercial and multi-family residential loans totaling approximately \$52 million were processed by our commercial loan department. This represents a dramatic 167% increase in loan production over 1971.



Contributing to this increased commercial production are the demands for new services and new methods of financing by institutional investors and real estate developers. To meet these demands the department has developed expertise in feasibility analysis, forecasting of business trends, development consulting, equity analysis and other services requiring innovative financing techniques.

The size of individual commercial loans originated during 1972 ranged from under \$100,000 to upwards of \$20 million; the latter loan involving the construction financing of a major shopping center in Portland, Oregon. In 1972 we continued our emphasis on FHA-insured multi-family housing complexes and local housing authority sponsored projects throughout the Pacific Northwest. Also, several commercial loans were processed utilizing the Small Business Administration's Lease Guaranty Program.

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

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

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

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

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

Senior Vice President
and Manager

APR 11 1973

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SEATTLE CONFIDENCE BUILDS

The brightest thing on the Seattle skyline is its future. Downtown construction has become a daily routine. Hardhats and overhead cranes have become just as commonplace as our Seattle sun and rain.

During 1972, a new office building opened its doors about every other month. And more are scheduled for 1973. Even with this boom in office space, occupancy rates are high and the demand for space promises to keep up with the increasing supply.

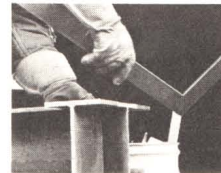
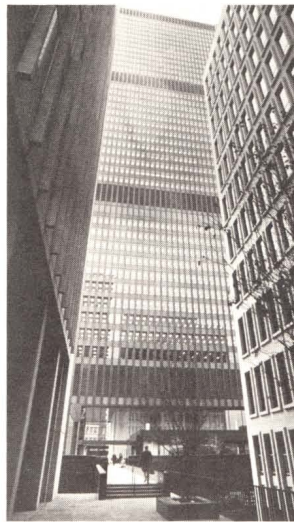
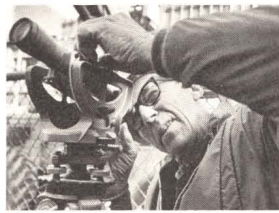
About a million square feet of new office space was in progress during 1972, with completions scheduled through 1973.

Investors and developers have kept a watchful eye on the construction potential in the Puget Sound area. The result: millions of dollars invested in new buildings that are raising Seattle's morale as well as its skyline.

During 1972, Peoples National Bank began construction on a major \$10 million Headquarters and Office Building in the

center of the Seattle business district. The structure will include a three-story central banking facility, plus a twenty-floor office tower. Completion is scheduled for late 1973.

Other construction activity in Seattle during the past year includes the 42-story, \$25 million Bank of California Building; the 30-story, \$17 million Financial Center which opened its doors in November; the new 14-story, \$6 million Northern Life Building; the long awaited 37-story, \$43.5 million



Federal Office Building; and the 21-story, \$10 million Park Place Building, which will adjoin a freeway "lid"—a park covering Interstate 5 Freeway for an entire city block. In addition to these projects, work has begun on Seattle's domed stadium, an attraction for future professional football and baseball teams.

Other companies are expanding their facilities to make more room for expected growth in the '70s and '80s. Among these is

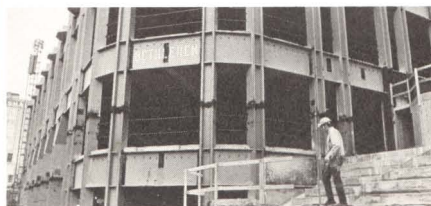
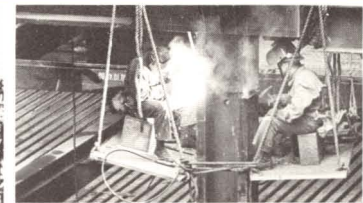
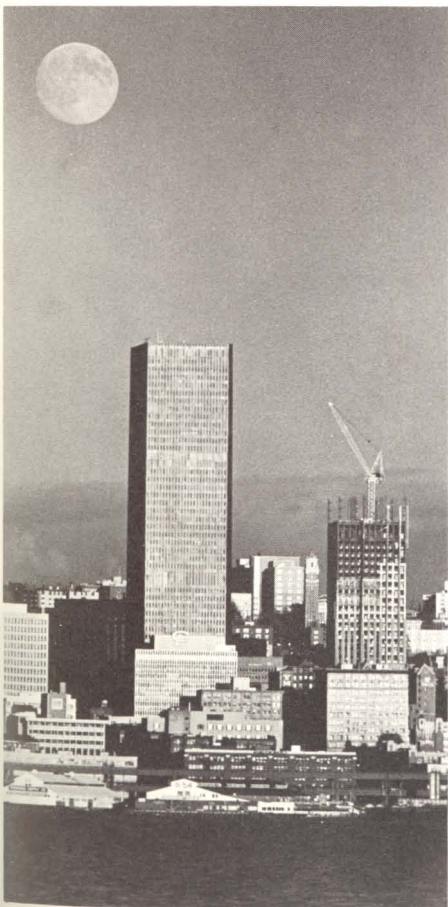
Seattle's Pacific Northwest Bell Building, which is proceeding on a \$6.3 million addition.

In Seattle's University District, the Safeco Insurance Company is putting the finishing touches on a 22-story office building, one of the tallest north of the city center. During 1972, the University of Washington spent \$15 million on the continuing Medical Center project; in addition to beginning the \$7.1 million Meany Hall and the \$5.2 million

Law School. These structures are adding critical space for the '70s in one of the nation's largest institutions of higher learning.

Major residential buildings, including condominiums, are also planned for Queen Anne Hill, Lake Union and Sand Point, plus the deluxe 26-story Royal Crest condominium in the downtown Seattle area.

Far-sighted investors have chosen Seattle as America's long-term growth city. We've only just begun.



During 1972, nearly every barometer of business activity in the Northwest began to climb upward. The economic skid which began in 1969 is showing positive signs of reversal.

A key figure, employment, is at its highest since late 1970 and still climbing. Contributing to this rise is the gain in manufacturing employment, which has increased steadily since January, 1972. Unemployment is at its lowest since April, 1970.

Boeing employment, which fell to 37,000

in October, 1971, showed steady gains in 1972 and is expected to reach the 50,000 mark by mid-1973. This reflects a current "boomlet" of aircraft orders. During the first half of 1972, Boeing sales exceeded figures for the entire year of 1971.

Also during 1972, Moody's Investor's Service announced a boost in Seattle's credit rating. The move has placed Seattle only one notch below the top rating, which is held only by a small handful of cities. This new rating means lower interest rates and

lower interest costs on future general obligation bonds issued by the city.

The Port of Seattle, always a major contributor to Seattle's economic health, projects over 22 million short tons in trade during 1975, excluding military cargoes. This figure reflects growing foreign trade with Europe, British Columbia, Asia and especially Japan, which presently accounts for nearly half of the monetary trade processed through the Port of Seattle.



Containerized cargo, which was pioneered by Seattle in the fifties, is giving the Port a competitive lead for trade among all other Pacific ports. As a result of this ambitious project, Seattle has become the container load center of the Northwest and one of the leading cargo-interface points in U.S. trade with transpacific countries.

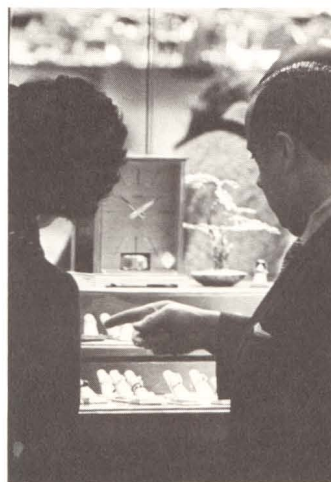
Wood product sales, a key barometer for the construction industry, were up 27.5% earlier this year over previous annual

figures. This increase reflects a national construction boom which is already being felt in Seattle real estate mortgages—up 5.5% over 1971.

Retail sales have shown a strong surge in the Seattle area. Southcenter, for example, which is only a couple of miles from Boeing's main plant, has gained a consistent 6% or more each month over the previous year since opening in 1968. Current projections for 1972 show an estimated gross of \$100

million—an increase of 12% over 1971!

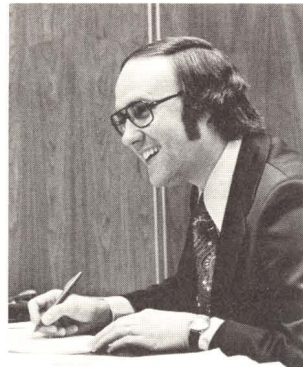
Bank debits, another key figure, are up nearly 12% over 1971. The important item to notice in all of these facts and projections is the positive direction of Seattle's economic upturn. A healthy economy means jobs; jobs mean disposable income; and that means rising residential home sales, commercial loans and mortgages. The entire Puget Sound area has demonstrated the resilience of a great American city.



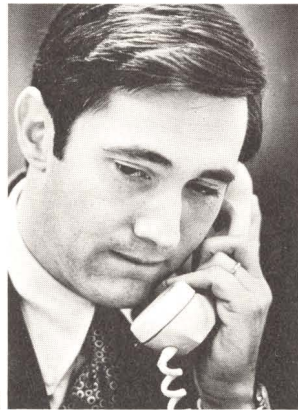
Peoples Mortgage Company is doing everything possible to aid the continued growth of the Puget Sound region. At present, our portfolio includes commercial, industrial and single family residential loans, as well as FHA project loans involving

multi-family buildings which receive rent subsidy. Also included are condominium developments and conventionally financed apartment houses. These accounts are serviced through our five statewide branch offices: Northgate (Seattle), Renton,

Tacoma, Vancouver and Kennewick in addition to our Main Office in Seattle—plus our new office in Phoenix. IBM computer methods now give us the opportunity to expand this servicing base to nearly twice the present volume.



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1 Darrell A. Devine
Vice President

3 John W. Fuller
Senior Vice President

2 David E. Thatcher
Vice President

4 Robert M. Jones
Vice President

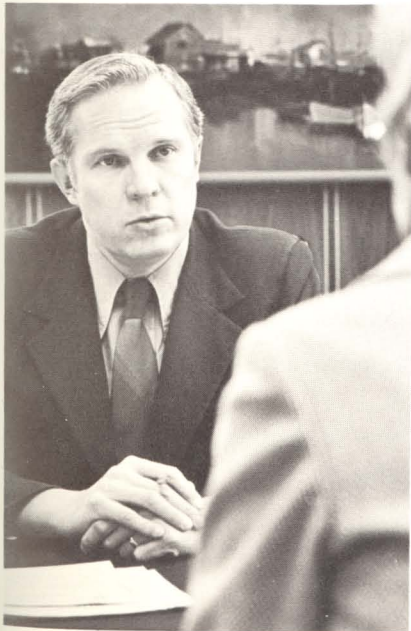
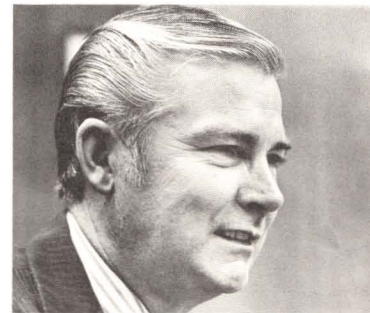
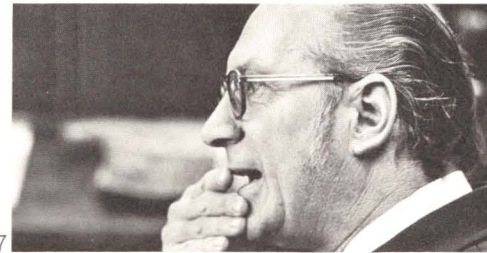
5 Muriel H. Nelson
Vice President

The Peoples Mortgage Company staff has brought with it a high degree of capability in specialized fields such as commercial loans, escrow, equity analysis, construction financing and leasing. We truly have some of the finest people in the business.

We are presently seeking nationwide opportunities for investors and have accomplished much in California, Hawaii, Massachusetts as well as Oregon and Washington. Our new Phoenix office, which opened in August, 1972, promises a large

loan volume.

Our investors include insurance companies, investment trusts, savings associations, banks and pension funds. Our projections are pointing toward a vigorous expansion in all these areas.



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6 Dean M. Olson
Senior Vice President
and Manager

7 Richard V. Todhunter
Vice President

8 John Henkle
Vice President

10 Robert R. Farquhar
Vice President

11 William H. Nyberg
Vice President

9 O. L. Johnson
Vice President

INVESTORS

Ancient Order United Workmen
Seattle, Washington

Arlington Heights Federal Savings and
Loan Association

Arlington Heights, Illinois

Bankers Life
Des Moines, Iowa

Bell Federal Savings and Loan Association
Chicago, Illinois

Buffalo Savings Bank
Buffalo, New York

The Canada Life Assurance Company
Toronto, Canada

Carpenters Trust of Western Washington
Seattle, Washington

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

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

College Point Savings Bank
College Point, New York

Columbia Pacific Life Insurance Company
Salt Lake City, Utah

Columbia Savings and Loan Association
Denver, Colorado

Community Savings and Loan Association
Long Beach, California

Country Life Insurance Company
Bloomington, Illinois

Emigrant Savings Bank
New York, New York

Federal National Mortgage Association
Washington, D.C.

Federal Home Loan Mortgage Association
Seattle, Washington

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

First Federal Savings and Loan Association
of Rochester
Rochester, New York

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

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

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

Northern Federal Savings and Loan
Association
St. Paul, Minnesota

Northern National Life Insurance Company
Bismarck, North Dakota

Olympic National Life Insurance Company
Seattle, Washington

Palomar Savings and Loan Association
Escondido, California

Peoples National Bank of Washington
Seattle, Washington

Portland Federal Savings and Loan
Association

Portland, Oregon

Provident Mutual Life Insurance Company
of Philadelphia
Philadelphia, Pennsylvania

Prudential Savings and Loan Association
San Gabriel, California

Safeco Life Insurance Company
Seattle, Washington

Schenectady Savings Bank
Schenectady, New York

The Second Federal Savings and Loan
Association of Cleveland
Cleveland, Ohio

Security Federal Savings and Loan Association
Chicago, Illinois

State Farm Life Insurance Company
Bloomington, Illinois

State of Washington Public Employees
Retirement System
Olympia, Washington
Teachers State Bank
Seattle, Washington
United Benefit Life Insurance Company
Omaha, Nebraska

United States Savings Bank of New Jersey
Newark, New Jersey
Washington Law Enforcement Officers' and
Fire Fighters' Retirement Board
Olympia, Washington

Washington State Finance Committee
Olympia, Washington
Wells Fargo Bank
San Francisco, California



OFFICERS AND DIRECTORS

Joshua Green, Jr.
Chairman of the Board and Director

Harold A. Rogers
President and Director

Robert G. Perry
Secretary-Treasurer and Director

E. C. Underhill
Senior Vice President and Director

Joshua Green, III
Executive Vice President and Director

J. G. Cairns, Jr.
Senior Vice President and Director

Dean M. Olson
Senior Vice President and Manager

John W. Fuller
Senior Vice President

Darrell A. Devine
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David E. Thatcher
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Richard V. Todhunter
Vice President

Dan L. Carlo
Assistant Vice President

Russell A. Jacobson
Assistant Vice President

Charles W. Moore
Assistant Vice President

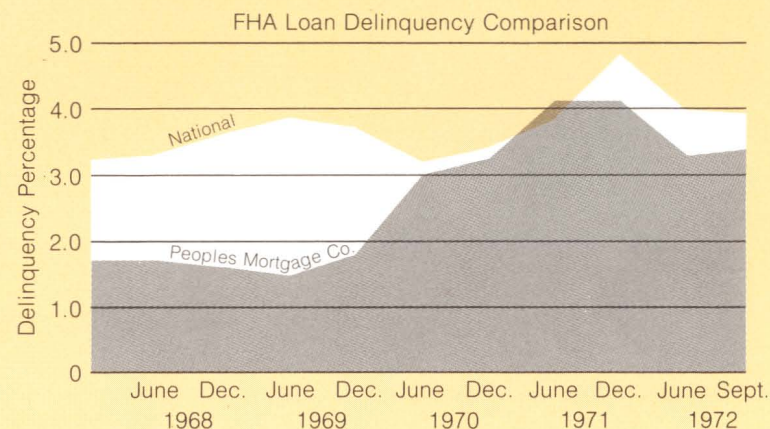
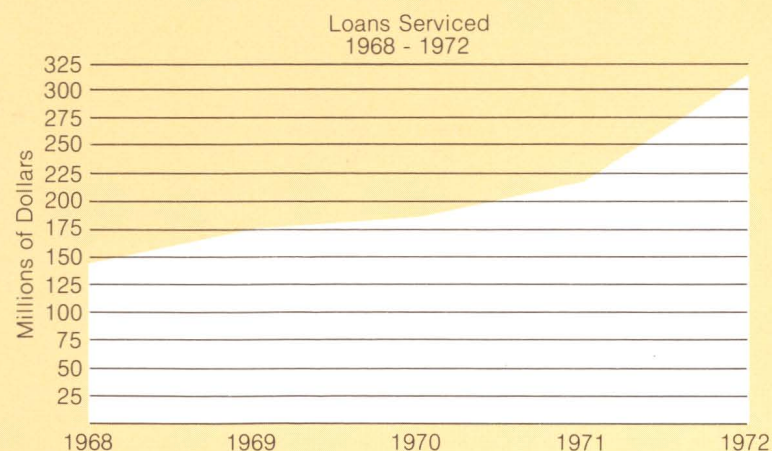
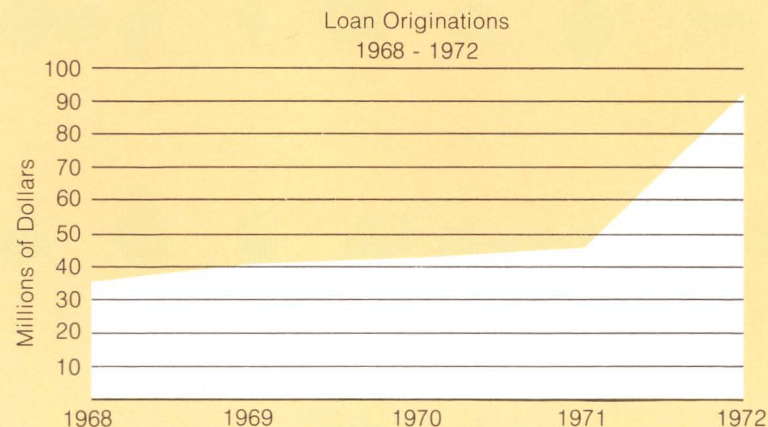
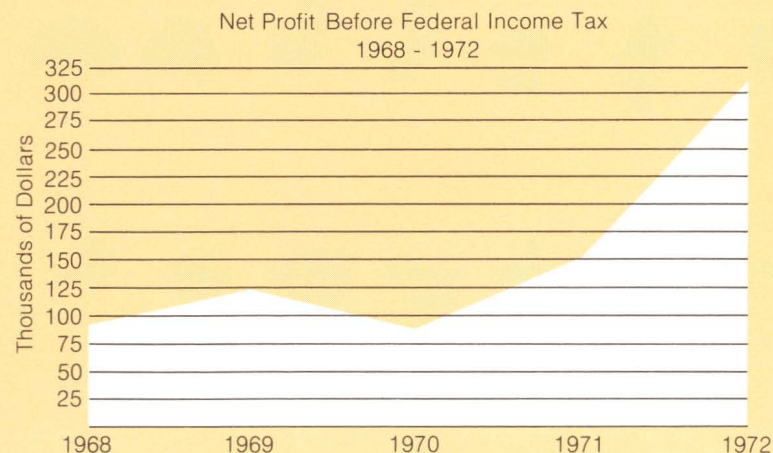
James H. McMahan
Assistant Vice President

Clifford Peterson
Assistant Vice President

Gordon W. Schlicke
Assistant Vice President

Jay C. Williams
Assistant Vice President

Zella G. Christopher
Assistant Treasurer



STATEMENT OF INCOME AND RETAINED EARNINGS

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

See accompanying notes to financial statements

BALANCE SHEET

| | | December 31 | |
|--|--------------------|--------------------|--------------------|
| | | 1972 | 1971 |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash on hand and in banks | | \$ 145,105 | \$ 66,632 |
| Cash in savings and loan associations—Note 3 | | 8,046 | 12,166 |
| First Mortgage loans in process (net of undisbursed commitments of \$8,819,408 and \$6,059,941) or held for resale (net of \$374,563 and \$484,338 discount) at December 31, 1972 and 1971, respectively—Note 4 | \$25,132,467 | | \$19,309,226 |
| Accrued interest receivable | 201,930 | | 193,806 |
| | <u>25,334,397</u> | | <u>19,503,032</u> |
| Less— | | | |
| Participations sold to Peoples National Bank—Note 5 | (21,012,782) | 4,321,615 | (14,707,988) |
| Real estate held for resale | | 381,815 | 362,565 |
| Reserve for possible loss | | (20,000) | (20,000) |
| Notes and accounts receivable | | 97,223 | 112,736 |
| Prepaid expenses and deposits | | 29,585 | 65,885 |
| | | <u>4,963,389</u> | <u>5,395,028</u> |
| TRUST FUNDS: | | | |
| Cash in bank | 6,023,647 | | 3,639,347 |
| Less—Contra liability | <u>(6,023,647)</u> | | <u>(3,639,347)</u> |
| FIXED ASSETS, at cost, net of accumulated depreciation of \$99,801 and \$71,497, respectively—Note 6 | | | |
| | | 184,119 | 142,490 |
| INVESTMENTS: | | | |
| FNMA stock, at cost, market value, \$377,000 and \$305,000, respectively GNMA mortgage-backed securities (net of \$60,260 discount), at cost which approximates market | 2,952,742 | 243,114 | 112,367 |
| Less—Participations sold to Peoples National Bank—Note 5 | <u>(2,952,742)</u> | — | |
| OTHER ASSETS—Note 2 | | | |
| | | 1,009,200 | 496,161 |
| | | <u>\$6,399,822</u> | <u>\$6,146,046</u> |
| LIABILITIES | | | |
| CURRENT LIABILITIES: | | | |
| Notes payable—Note 7 | | \$4,970,068 | \$4,882,503 |
| Accrued interest payable | | 47,570 | 71,455 |
| Accounts payable and accrued expenses | | 180,642 | 76,775 |
| Commitment fees received | | 5,773 | 13,143 |
| Federal income taxes—Note 9 | | 132,710 | 44,964 |
| | | <u>5,336,763</u> | <u>5,088,840</u> |
| STOCKHOLDER'S EQUITY—Note 2: | | | |
| Common stock, \$100 par value—15,000 shares authorized; 10,000 shares issued and outstanding | \$ 1,000,000 | | \$ 1,000,000 |
| Retained earnings | 63,059 | 1,063,059 | 57,206 |
| | | <u>\$6,399,822</u> | <u>\$6,146,046</u> |

See accompanying notes to financial statements

STATEMENT OF CHANGES IN FINANCIAL POSITION

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

See accompanying notes to financial statements

Notes to Financial Statements December 31, 1972

Note 1 - Ownership and Summary of Significant Accounting Policies:

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

Corporate ownership -

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

Securities -

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

Fixed assets -

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

Note 2 - Acquisitions and Operations:

On December 28, 1972, the company consummated the purchase of all of the outstanding stock of Olympic Mortgage Corporation effective December 15, 1972 for approximately \$985,000, of which \$172,500 is contingently payable on a monthly basis over the ensuing five years. The acquired company was liquidated and its assets, subject to the liabilities, were transferred to Peoples Mortgage Company. The transaction has been accounted for under the purchase method. Accordingly, the acquired net assets have been recorded at their market values, which includes an amount paid for the right to service loans owned by various investors. This latter cost is being

amortized over the expected average life of the acquired servicing rights and is included in the accompanying balance sheet under the caption Other Assets, along with similar amounts resulting from the purchases of two other nonaffiliated mortgage companies in 1968 and 1969. The unamortized servicing acquisition costs at December 31, 1972 and 1971 amounted to \$925,723 and \$406,118, respectively.

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

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

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

Note 3 - Cash in Savings and Loan Associations:

The company has sold various loans and notes to savings and loan associations which are secured to the extent of savings accounts on deposit with the associations. It has reserved the right to repurchase the notes or contracts in the event of delinquency. The balances of the loans and notes amounted to \$47,513 and \$75,642 at December 31, 1972 and 1971, respectively.

Note 4 - Foreclosure Proceedings:

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

Note 5 - Participation Agreements:

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

Note 6 - Depreciation:

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

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

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

Note 7 - Notes Payable:

Notes payable are comprised of:

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

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

Note 8 - Provision for Loan Losses:

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

Note 9 - Federal Income Taxes:

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

Note 10 - Profit Sharing:

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

January 9, 1973

Seattle, Wash.

Auditors' Opinion

The Board of Directors
Peoples Mortgage Company

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

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

Price Waterhouse & Co.

Peoples Service Corporation

dba Peoples Escrow Company

O. L. Johnson, Vice President

Donald H. Brown, Assistant Vice President

Sharon Alme, Assistant Secretary

Virginia W. Johnson, Assistant Secretary

Peoples Mortgage Company

A wholly-owned subsidiary of
PEOPLES NATIONAL BANK
OF WASHINGTON

MAIN OFFICE

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

LOAN PRODUCTION CENTERS

North Seattle:

Gary Bruzelius, Manager

11042 - 8th Avenue N.E.

Seattle, Washington 98125

Renton:

William Struchen, Manager

Suite 117, Evergreen Bldg.

15 South Grady Way

Renton, Washington 98055

Vancouver:

Larry Kelley, Manager

109 East 13th St.

Vancouver, Washington 98660

Tacoma:

Richard Hooper, Manager

2317 Pacific Ave.

Tacoma, Washington 98402

Kennewick:

Margie Johnson, Manager

117 Vista Way

Kennewick, Washington 99336

Phoenix:

William Nyberg, Manager

3500 North Central Ave.

Phoenix, Arizona 85012

Peoples Mortgage Company

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

