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PEOPLES NATIONAL BANK OF WASHINGTON
1974 ANNUAL REPORT

74

PEOPLES BANK
PAYS TRIBUTE TO...
WASHINGTON STATE

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Highlights 1974

For the Year	1974	1973
Total Operating Income	\$59,652,480	\$45,393,030
Total Operating Expenses	55,334,975	42,149,501
Net Operating Earnings Before Securities		
Gains or Losses	3,271,505	2,733,529
Net Income Before Extraordinary Items	3,231,998	2,606,679
Net Income	3,325,921	2,606,679
Earnings Per Common Share:		
Net Income Before Securities		
Gains or Losses	5.14	4.29
Net Income Before Extraordinary Items	5.08	4.10
Net Income	5.23	4.10
Cash Common Stock Dividends Declared	1,081,438	1,081,667
Cash Common Stock Dividends Paid Per Share (Par Value \$20)	1.70	1.70

The Year End

Total Resources	\$815,825,191	\$730,414,803
Deposits	615,431,253	564,763,728
Loans	396,841,606	356,325,734
Securities	120,914,012	142,909,334
Capital Funds	40,647,240	39,100,361
Book Value Per Share Common Stock	63.85	61.42
Number of Common Stock Shareholders	1,292	1,285
Number of Banking Staff	1,316	1,232
Number of Banking Offices	59	59

Nature photographs by Peter Mack.

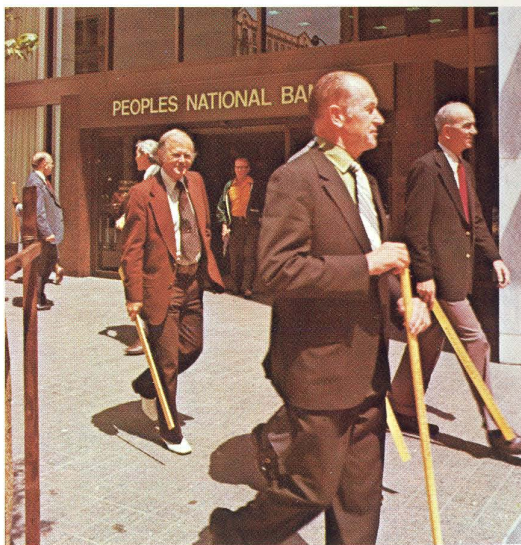
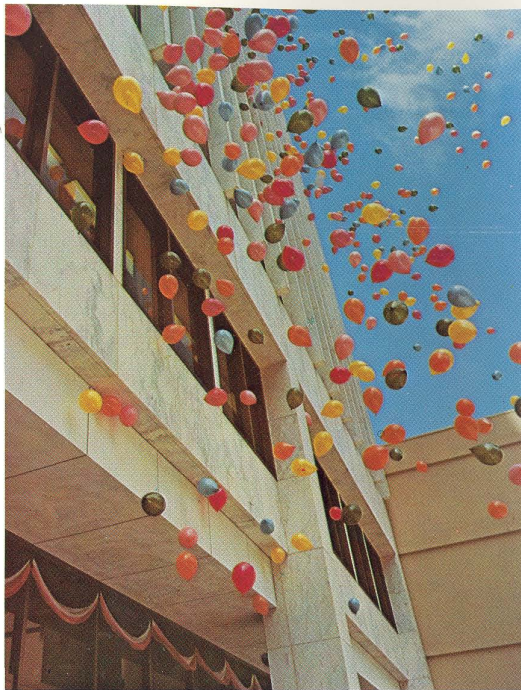


Seattle, the largest city in the state, is the home of the Head Office of Peoples Bank. Cradled between the Olympic and Cascade mountain ranges, Seattle and its neighboring communities along the coast are the hub of the state's shipping, aerospace and manufacturing industries.



(Top) Ribbon-cutting ceremonies were held June 7th, 1974. Participants were: (left to right) Robert W. Bratton, Deputy King County Director; Joshua Green, III, Executive Vice-President; Joshua Green, Jr., Chairman of the Board; Seattle's Mayor Wes Uhlman, and Harold A. Rogers, President.

(Bottom) During open house week over 20,000 visitors toured the new building.



(Top) At the climax of the dedication ceremonies thousands of multi-colored balloons were released.

(Bottom) Each visitor received a yardstick. It was a common sight in downtown Seattle to see people carrying the popular give-away item.



HAROLD A. ROGERS
President

To Our Stockholders • The Year in Review

Dear Stockholder:

While 1974 was a year of economic readjustment and political reevaluation for the nation, it was a year of significant growth for Peoples National Bank. At year end the bank established new highs in deposits, loans, and resources. It was also during 1974 that the bank's new 20-story headquarter building was completed providing for the consolidation of the many separate bank divisions.

Net income totaled \$3,325,921, or \$5.23 per share, up 27.59% from \$2,606,679, or \$4.10 per share in 1973. While earnings have improved in 1974, the bank's management is well aware that we must continue to press for increased earnings to achieve a higher rate of return on capital — this is one of our primary goals for 1975. Consolidated resources grew more than 11.69%, reaching \$815,825,191 at year's end, up \$85,410,388 from \$730,414,803 at the close of 1973. Deposits increased 8.97%, to \$615,431,253, compared with \$564,763,728 a year earlier.

Loans were \$396,841,606 at year's end, an increase of \$40,515,872 or 11.37% over year-end 1973. We have continued to stress quality during 1974 and are confident that the bank's loan portfolio is in a very sound position. During 1974 substantial loan recoveries resulted in the lowest net loan loss in recent years. Despite heavy loan demand during the year, the bank's average loan to deposit ratio during 1974 was 68.14% which is lower than many U.S. Banks. Our management is dedicated to maintain more than adequate liquidity to adjust for possible fluctuations in the economy and to insure that we will be able to serve our lending customers.

We are particularly proud of our fine staff which continues to be our most important asset in providing excellent customer service. 1974 was a year of progress in Personnel Administration. During the past twelve months, 41 women and 18 men received their first officer promotion with the bank. The bank staff at year end was composed of 357 officers of which 118 were women. Total bank staff was 1316. As 1974 ended, there were 10 officer and 87 non-officer minority staff members serving in a variety of functions. In 1975, we will continue to emphasize training, minority placement, and upward mobility of our staff.

1974 was a good year for our Trust Division in terms of people served, assets managed, and income received. Both assets and income show a nice increase over last year. Our Employee Benefit Department experienced a 28% increase, and is currently the fastest growing area of trust business. The Trust Division began to reduce its holdings in common stocks during 1973 and continued this policy during 1974, investing the proceeds on a temporary basis in short-term money market instruments at very favorable returns. This policy proved beneficial to our customers.

Our National and Correspondent Banking Division can point with pride to this past year's progress in the increased number of national accounts and the expanded services offered to our correspondent banks. Fortunately, Washington State continues to attract major companies and the bank's National Division reports that deposits of

these companies increased substantially this past year. During 1974 we also welcomed seven additional banks to our growing list of correspondents. This gives us a total of 85 correspondents in eleven states.

1974 marked a year of reorganization of the bank's Marketing Department. This department is working with the Operations Division and Branch Administration to develop a comprehensive marketing program based on market research and up-to-date market techniques.

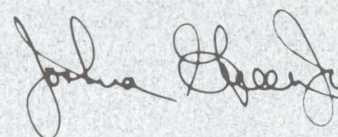
The Investment Division is comprised of five functions — Bank Services, Bond, Public Funds, Portfolio and Operations. Both the volume of investment transactions and the division's income more than doubled in 1974. The customer service of the Investment Department proved very important during periods of heavy investment volume and rapidly changing investment markets in the latter part of 1974.

During 1974 we welcomed Mrs. Helen W. Ditty as an Advisory Director to our bank's Board of Directors. Mrs. Ditty has long been prominent in the business affairs of the Bellevue community, and with her extensive interests will contribute greatly to our bank's position in this area.

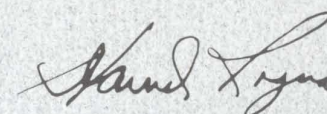
Some of the economic challenges we faced during the past year unquestionably will be with us in the year ahead. Inflation remains a

matter of pressing concern. So does unemployment. These factors and others of a very troubled economy require continual attention and alertness. We are confident that the regional economy in the Northwest will not be as adversely affected as other regions of the nation and we expect 1975 to be a year of progress for the bank and the State of Washington.

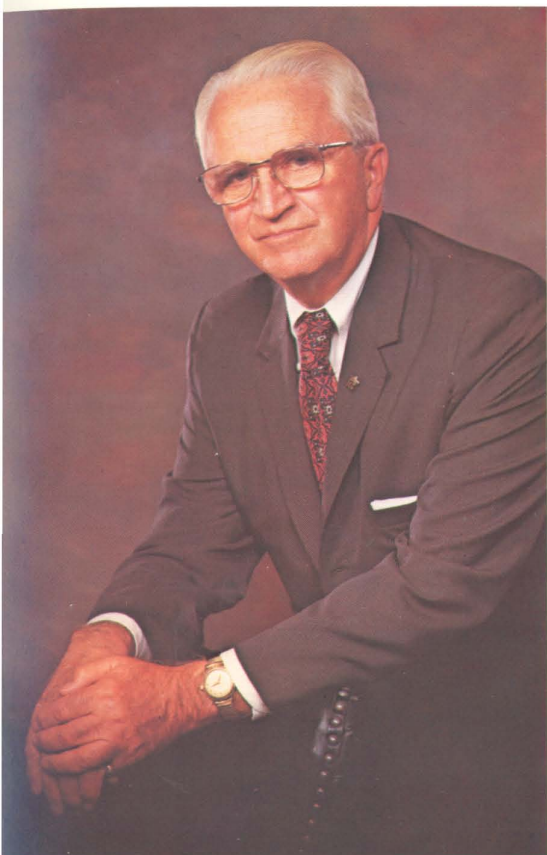
Details of our financial report and other activities in which our bank is engaged are discussed in the following pages and we hope that you find this report informative and useful. The management of our bank is keenly aware that our progress depends upon the dedicated efforts of every employee, stockholder, and director. For their outstanding contribution during 1974, we are deeply grateful.



JOSHUA GREEN, JR.
Chairman of the Board



HAROLD A. ROGERS
President

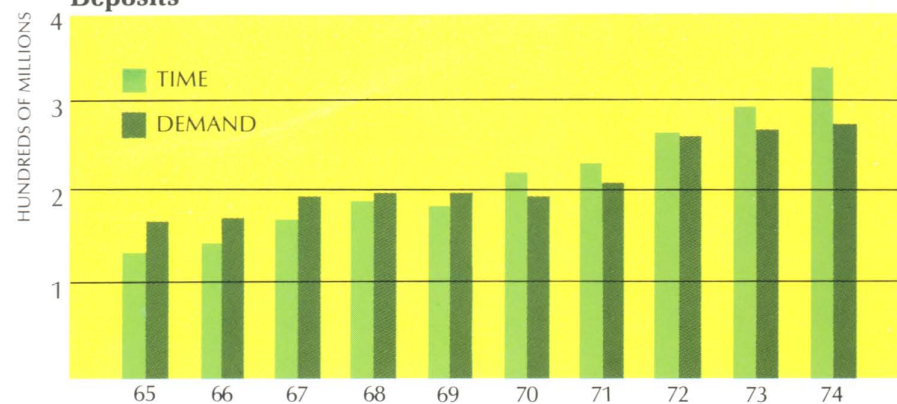


JOSHUA GREEN, JR.
Chairman of the Board

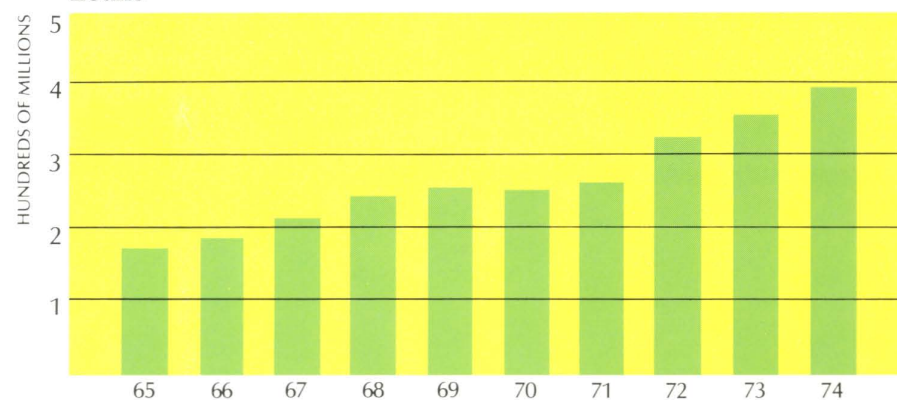


A nighttime view of
Peoples new
Head Office Building.

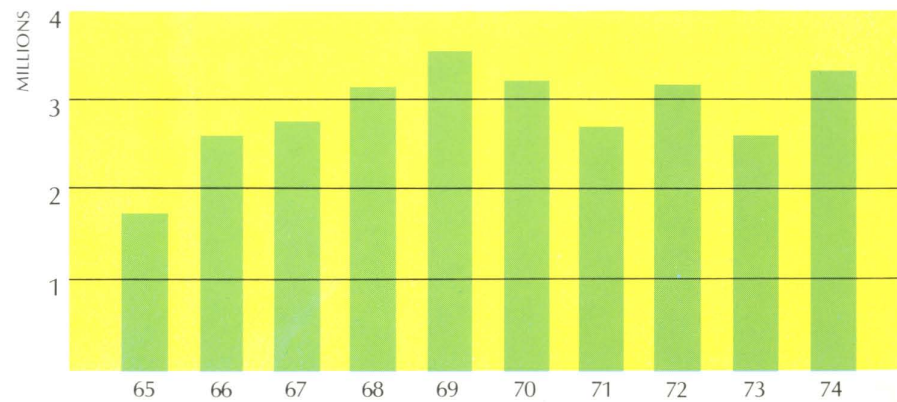
Deposits

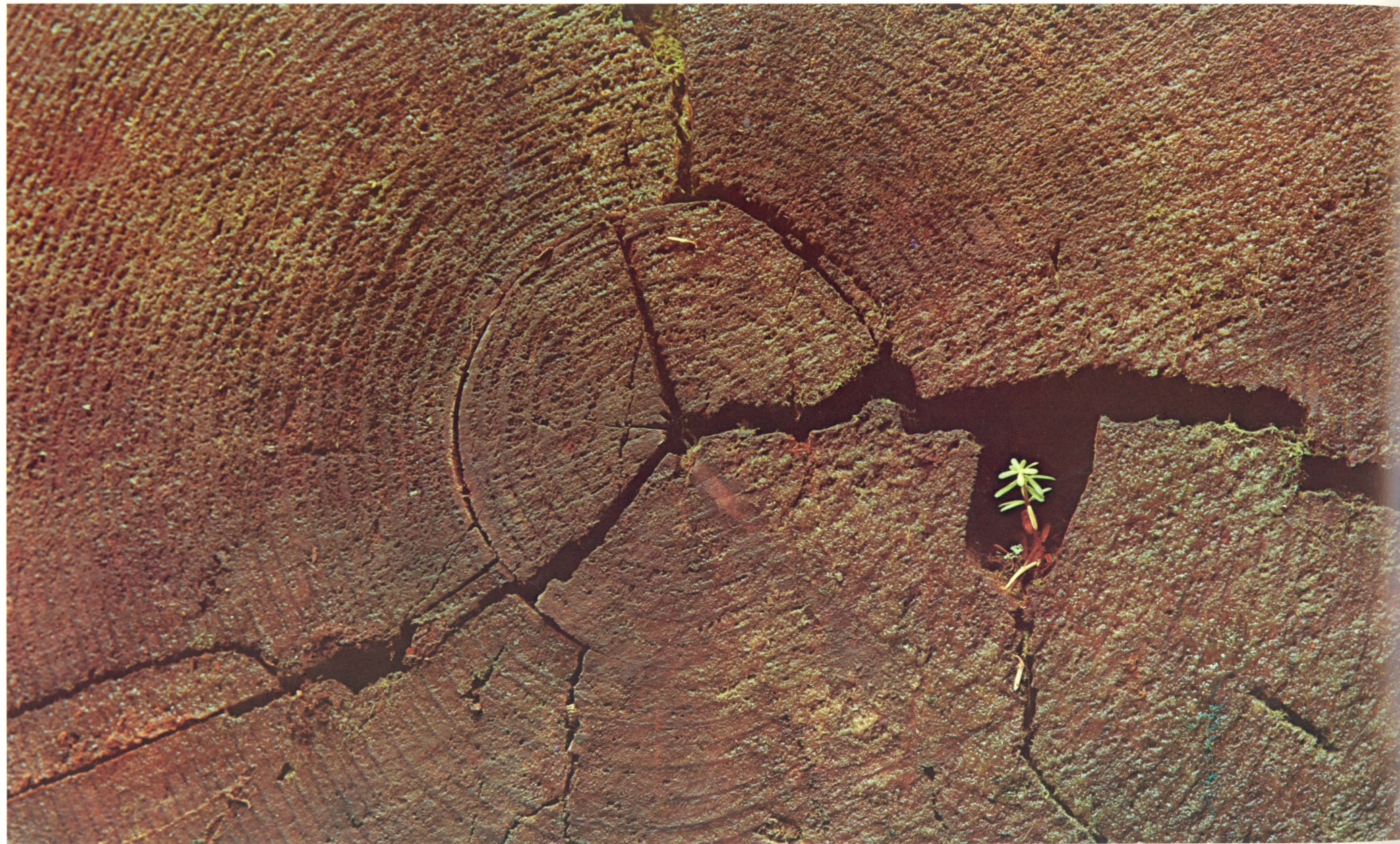


Loans



Net Income





Deposits and Loans

At year end our total deposits established a record year-end high of \$615,431,253 an increase of \$50,667,525 over year-end 1973. A more meaningful comparison would be the year's average total deposits of \$565,683,000. This results in a growth of 10.5%. During 1974 loan demand was very strong, particularly throughout the summer. During August net loan totals reached new highs and gradually lessened until at year-end when total loans and discounts were \$396,841,606. This represents an increase of \$40,515,872 or 11.37% from year-end 1973. Our loan to deposit ratio as of December 31, 1974, was 64.48% compared to 63.09% a year ago.

Operating Income

Total operating income during 1974 reached \$59,652,480, an increase over 1973 of \$14,259,450 or 31.4%. Interest and fees on loans increased \$7,283,479 over 1973, a 23.76% increase. Short term excess funds trading income increased \$4,422,067 or 153.92% over 1973. Other operating income which includes income from equipment leasing and sale of computer services increased \$1,200,675, an increase of 97.84% over 1973.

Operating Expenses

Total operating expenses during 1974 amounted to \$55,334,975 compared to \$42,149,501 for 1973, an increase of 31.28%. Interest on deposits and other interest paid totaled \$27,584,891, an increase of 47.04%. This dramatic increase in interest cost represented payment of higher interest rates to remain competitive in acquiring time deposits. Also the net cost of borrowed money to support our loan portfolio proved very substantial. These factors had a significant effect on our earnings. Salaries and other employee benefits amounted to \$15,756,948, an increase of 13.89%. Taxes paid in the form of real estate, personal property, and business and occupation, and excluding income taxes, increased by 27.01% to a total of \$2,403,950. Operating expenses included the 1974 net loan losses of \$69,017 as compared to \$393,676 incurred during 1973.

Earnings

Net income amounted to \$3,325,921 as compared to \$2,606,679 in 1973, an increase of 27.59%. Income before security gains or losses amounted to \$3,271,505 as compared to \$2,733,529 in 1973, an increase of \$537,976. There were losses on the sale of securities of \$39,507 after applicable taxes compared to a loss in 1973 of \$126,850.

In 1974 based upon 636,140 shares outstanding, the income before security gains or losses and extraordinary items was \$5.14 per share and net income was \$5.23 per share. This is compared to 1973's income before security gains and losses of \$4.29 and total net income for 1973 of \$4.10 per share.

Capital Funds

After the declaration of preferred stock dividends of \$1,323 and common stock dividends amounting to \$1,081,438, the total capital funds at year end were \$40,647,240, an increase of 3.96%. The book value per share based on 636,140 shares outstanding on December 31, 1974 is \$63.85 as compared to \$61.42 on 636,140 shares outstanding on December 31, 1973.

Investments

During 1974 the U.S. Government account was reduced by 24.76% or \$11,880,656. Our state, county and municipal securities were reduced by \$11,301,030 or 19.83%. Federal Agency obligations were increased by 3.21% or \$1,186,364.

The current yields on the important areas of our portfolio are as follows: the Government account 6.15%, the Municipal account 4.13%, and on Federal Agency obligations 6.44%.

At the close of the year, our total investments amounted to \$120,914,012, a reduction of \$21,995,322 or 15.39%.

The schedule of maturities reflects an average life in the total of U.S. Government obligations and Federal Agencies of 2.84 years and in the categories of state, county and municipal securities an average maturity of 5.13 years. As required by law, there is pledged to secure public and trust funds in par value of securities, a total of \$23,140,000.

Peoples Mortgage Company

For most people in the mortgage lending business, including ourselves, 1974 was a particularly challenging year. Peoples Mortgage Company, however, continued to grow in earnings, geographic penetration and servicing volume.

Our Seattle area mortgage loan production of approximately \$47.7 million represented a 25% increase over last year and enabled us to attain the position of second largest lending institution in Seattle in total number and dollar volume of new loan recordings.

We continued to expand production activities from our Pacific Northwest base into Alaska, the Southwest, and Colorado with the opening last May of our new Denver Loan Production Center.

Our aggressive loan origination efforts resulted in a significant 45.9% increase in net income as well as a 9.2% increase in servicing volume, bringing to approximately \$391 million the total loans under servicing at year end.

These accomplishments, achieved during difficult economic times, were attributable in large measure to the dedication and skill of our employees who not only produced business that was appropriate for Peoples Mortgage Company and its investors, but who continued to service individual investor accounts with a thoroughness that fully protected the interest of all our lenders.

To our staff and directors, as well as to our investors and customers, we wish to express our sincere thanks for another successful year and to reaffirm our confidence in the ability of Peoples Mortgage Company to meet the challenges and grasp the opportunities in the months ahead.

Peoples Leasing Company

Peoples Leasing Company, Inc., a wholly-owned subsidiary of Peoples National Bank, was founded in 1972 as a vehicle and equipment lessor serving the Seattle area.

During 1974 the company expanded its operations and now services approximately 75 auto dealers throughout the Greater Puget Sound region. Auto leases more than doubled in 1974 and include over 1900 active accounts which represent over \$7,000,000 worth of lease contracts outstanding.

With the increasing use of equipment leasing as a means of capital-goods financing, Peoples Leasing Company strengthened its position in this rapidly expanding market. Equipment receivables outstanding at year-end now total over \$10,500,000.

The company's performance during a period of extreme fiscal and economic instability was excellent. Our ability to expand during 1974, in

Loan Production Centers, Peoples Mortgage Company

MAIN OFFICE

1101 Pike Street
Seattle, Washington 98101
(206) 344-4500
Dean M. Olson
Senior Vice-President and Manager
Darrell A. Devine, *Vice-President*
David E. Thatcher, *Vice-President*
Muriel H. Nelson, *Vice-President*
Jay C. Williams, *Vice-President*
H. Roger Van Valkenburgh, *Vice-President*
John G. Henkle, *Vice-President*
David G. Mullins, *Vice-President*

NORTH SEATTLE

11042 8th Avenue N.E.
Seattle, Washington 98125
(206) 365-8900
Arvil Wilson, *Manager*

RENTON

Suite 117, Evergreen Building
15 South Grady Way
Renton, Washington 98055
(206) 271-1300
Diane Finley, *Manager*

SOUTHWEST REGIONAL

3500 North Central Avenue
Phoenix, Arizona 85012
(602) 264-5821
William H. Nyberg, *Vice-President and Manager*

TACOMA

2317 Pacific Avenue
Tacoma, Washington 98402
(206) 383-2445
Gary Vander Meer, *Manager*

VANCOUVER

109 East 13th Street
Vancouver, Washington 98660
(206) 696-4361
Carl Bixler, *Manager*

DENVER

DBA / Quadrant Mortgage Company
Writer's Center IV
1720 South Bellaire Street
Denver, Colorado 80222
(303) 753-9301
Larry Kelley, *Manager*

spite of greatly increased interest costs, was particularly significant since interest costs are the greatest single expense related to the leasing business. By proper marketing and pricing, Peoples Leasing maintained a net profit through year end.

Our prospects for future growth are good. The opportunities in the areas of automobile and equipment leasing are growing and we are confident that 1975 will be another successful year.

Peoples Leasing Company, Inc.

515 Union Street
Seattle, Washington 98101
(206) 344-2370
Robert M. Jones
Vice-President and Manager

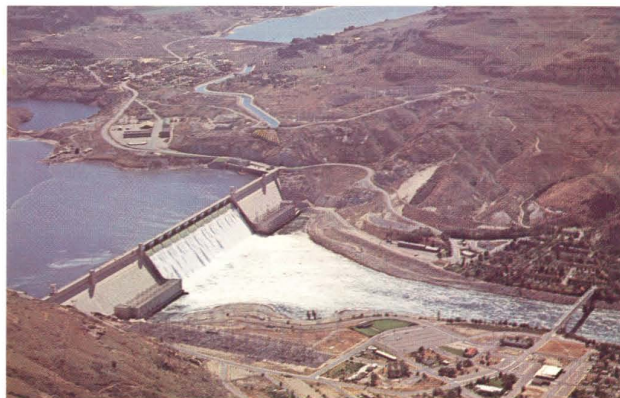


(Top) Giant log booms are formed in Northwest waters as harvested timber awaits shipment to markets throughout the world. The busy Port of Tacoma is in the background.

(Bottom) Lumbering methods before the turn of the century gave rise to the term "Skid Road."



A typical forest scene in Western Washington. Reforestry programs insure a continuous supply of lumber.



(Top) Wild horses gallop across the prairie at dawn.

(Center) Onion harvesting — The fields and equipment shown are the property of Peoples' customer P. J. Taggares.

(Bottom) Wheat harvesting — This photograph was taken about 1930 on the Para Ranch property in Othello, Washington.

(Center) Onions drying in the sunny fields of Central Washington.

(Bottom) Grand Coulee Dam.

Field corn and alfalfa cubes provide fodder for livestock.



Wheat is a major crop in Eastern Washington.

T

Bernard Cattle Co.
Moses Lake

DM

Dwayne Michel
Othello



Robbin Bros.
Royal Slope

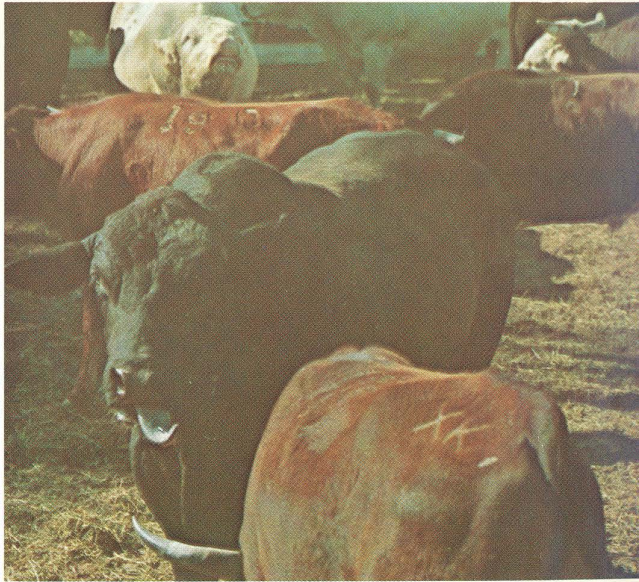
LY

Para Ranch
Othello



Erving and Gale Easterday
Mesa

Customer livestock brands.



(Top) Rodeo Days — A calf-roping cowboy tries for the prize money.

(Bottom) Brahman Bulls — rodeo stock.



Mt. Rainier.

Washington State's Balanced Economy

The word that best describes the State of Washington is balance—balance reflected in a healthy industrial and commercial sector combined with an unmatched clean environment, balance in both conservation and exploitation of a remarkable array of natural resources, and balance in a homogeneous human population comprised of practically every race, color, and creed.

Eastern and Central Washington

Two-thirds of the state lies between the crest of the Cascade mountain range on the West and the Washington/Idaho border on the East. It is a deceiving semi-arid panorama of rolling prairie vistas. Some 854,300 Washington citizens call this big country home. Their remarkable productivity is a monument to the value of enlightened irrigation development. Thanks to water drawn from the Columbia River, hundreds of millions of dollars worth of wheat, sugar beets, alfalfa, potatoes, onions, grains, and beef are harvested annually.

Centered within Eastern Washington is the Columbia River Basin irrigation project. Since 1948, 525,000 acres here have been converted from wasteland to crop and grazing land. According to a recent study conducted by Batelle-Northwest Laboratories an additional 500,000 acres are scheduled for reclamation in the near future. Completion of such a project would mean a total crop value of more than \$300,000,000 a year. With twelve branches scattered throughout the Basin, Peoples Bank is ideally situated to serve the existing and potential financial needs of this agricultural cornucopia.

Power for Today . . . and Tomorrow

Now, more than ever before, adequate power resources are a vital element in mapping any future development. Fortunately, power resource planning may be a less critical consideration in Washington than in most states. One major reason has been our vast water resources. Ninety-six percent of the kilowatt hours produced come from hydro-electric sources; nuclear power produces 3.4% while other sources (coal and oil) account for 0.6%. Total kilowatt hours produced annually amount to 74.5 billion. Washingtonians must realize that the power base in the state is shifting from hydro-electric to nuclear. At present we have the Hanford Nuclear Plant in Central Washington but construction of another six nuclear units located throughout the state is anticipated by the early 1980s.

Western Washington

The Cascade Mountains serve as a natural as well as a climatic barrier between Eastern and Western Washington. The towering range traps and holds warm moisture-laden air swept over the western third of the state. These conditions provide plenty of rain plus a long, dependable growing season. The result is a great natural "greenhouse". Located within are hundreds of millions of trees which provided nearly 5 billion board feet of lumber for the nation's needs last year. An additional 7 billion were exported and nearly 10 billion board feet also went into the manufacture of pulp and paper products.

The Northwest's great forests represented an opportunity that caused a rush of early exploration aimed at exploiting the region's substantial fur resources. The rugged early travelers found the fur they sought. More important, they discovered Puget Sound, Western America's finest deep water port. The result was a natural concentration of population around Elliott Bay on the Sound. Although the fur trade dwindled in time, development of Puget Sound as a key shipping point to the Orient and Alaska served as the solid foundation that sustained the eventual creation of the Seattle/Everett/Tacoma metropolitan complex. Today, 53% of the state's population reside in the area and 39 of Peoples Bank branches are located here.

Distribution trades and shipping are still important facets in Washington's economic picture. Natural resources also continue to provide thousands of jobs for people who work in Western Washington's forest trades. The strong demand for lumber plus raw materials for pulp and paper provide a healthy, current climate for the state's forest industry. The same industry's dynamic conservation and reforestation programs insure an equally sound long-range outlook.

While the land provides jobs, it also represents one of the country's most attractive recreational resources. Hunting, fishing, hiking, skiing, and boating opportunities throughout the year attract residents and non-residents alike. Tourist spending topped \$800 million in the Northwest last year.

The Outlook

Washington's future has never been brighter. Its economy has never been stronger. Hydro-electric power sources are abundant. Demand and prices for the state's agriculture products are high. Foreign trade is expanding. Development of Alaska's resources will insure a variety of continuing demands on Washington's distribution and industrial supply sources. The manufacturing sector is stable and growing.

Peoples Bank is ideally positioned to contribute to and share in Washington's growth.

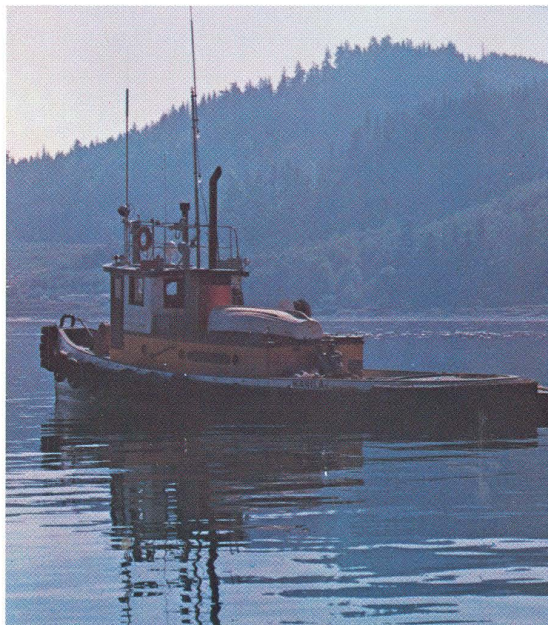


Photo — courtesy of the Seattle Opera.

(Top) Twin rainbows shimmer in the spray from a picturesque waterfall located in Mt. Rainier State Park.

(Bottom) The Seattle Center is a mecca for those who enjoy the opera, concerts, art and a variety of sports events. Shown here is a scene from the Seattle Opera's 1974 production of *The Barber of Seville*.

(Top) The Cascade and Olympic mountains provide an unexcelled playground for skiing enthusiasts.

(Bottom) A charter fishing boat rides quietly at anchor in the little harbor of Seiku Village on the Olympic Peninsula.

Seattle's world-famous Space Needle stands as a monument to the 1962 World's Fair. Atop the 600-foot structure is a fine restaurant and an observation deck.

Wild Flowers



Trillium — forest flower, Lily family.
Skunk Cabbage — marsh flower, Arum family.

Salmonberry — forest flower, Rose family.
Senecio — desert flower, Sunflower family.

Meadow flowers — a carpet of buttercups surrounds a rustic barn near Enumclaw, Washington.

Offices and Personnel, Peoples National Bank

HEAD OFFICE

1414 Fourth Avenue, Seattle, Washington 98171
(206) 344-2300

BANKING AND OPERATIONS ADMINISTRATION

Joshua Green Jr.*, *Chairman of the Board*
Harold A. Rogers*, *President*
Joshua Green III*, *Executive Vice-President*
Robert G. Perry*, *Senior Vice-President*
and *Senior Financial Officer*
E. C. Underhill*, *Senior Vice-President*
Woolsey Bingay, *Senior Vice-President and Cashier*
Robert G. Bourgaize, *Senior Vice-President*
Donald Greenfield, *Senior Vice-President*
John C. Laughlin, *Senior Vice-President*
James G. Cairns, Jr., *Senior Vice-President*
and *Operations Group Manager*
James R. Topper, *Vice-President*
Stanley M. Holifield, *Assistant Vice-President*
and *Affirmative Action Officer*

*Members of Administrative Committee

BRANCH ADMINISTRATION

Elmer Anderson, *Senior Vice-President*
A. Dean Worthington, *Senior Vice-President*
David O. Beck, *Vice-President*
Bruce Broughton, *Vice-President*
William Harisberger, *Vice-President*
Richard C. Strand, *Vice-President*
Rockwell Willson, *Vice-President*

ACCOUNTING AND PURCHASING DIVISION

William E. McMillen, *Vice-President*
L. M. Riley, *Vice-President*

BANK PROPERTIES DIVISION

Frank G. Bourque, *Vice-President*

BRANCH EXAMINATION DIVISION

Harry A. Trout, *Vice-President and Manager*

CLAIMS DIVISION

Fred W. Miles, *Vice-President and Manager*
Madeleine R. Pettitt, *Vice-President*

COMMERCIAL CREDIT DIVISION

John D. McMasters, Jr., *Vice-President and Manager*

CONSUMER CREDIT DIVISION

Richard G. Monson, *Vice-President and Manager*

CORPORATE AUDIT AND CONTROL DIVISION

Paul E. Irish, *Vice-President and Auditor*

INTERNATIONAL DIVISION

William F. Breiten, *Vice-President and Manager*

INVESTMENT DIVISION

John W. Fuller, *Vice-President and Manager*
William S. Mills III, *Vice-President*

MARKETING DIVISION

Douglas R. Shaw, *Vice-President and Manager*

NATIONAL ACCOUNT AND CORRESPONDENT BANK DIVISION

Charles E. Riley, *Senior Vice-President and Manager*
Robert R. Farquhar, *Vice-President*

OPERATIONS GROUP

Peter W. Robinson, *Vice-President and Manager* . . .
Data Processing Division
Gene R. Francisco, *Vice-President and Manager* . . .
Branch Services Division
Robert A. Harris, *Vice-President and Manager* . . .
Legal/Regulations Division
Z. T. Szatrowski, *Vice-President and Manager* . . .
E.D.P. and Market Planning
Victor D. Coupez, *Vice-President and Manager* . . .
Research Division
Albert A. Green, Jr., *Vice-President* . . . Research
Gaylord L. Westby, *Vice-President and Manager* . . .
Automated Banking Division
Robert E. Bruck, *Vice-President and Manager* . . .
Computer Sales Department

PERSONNEL DIVISION

Joseph T. Bemben, *Vice-President and Manager*
Mary Williams, *Vice-President*

TRUST DIVISION

Walter T. Bagnall, *Senior Vice-President and Manager*
O. Ray Cowin, *Vice-President*
E. Gene Treneer, *Vice-President*
William Wilton, *Vice-President*
Stephen M. Davis, *Vice-President*

SEATTLE OFFICES

Area Code 206

MAIN OFFICE

1414 Fourth Avenue • 98171 • Telephone 344-2300
Quentin Ellis, *Senior Vice-President and Manager*
Carroll H. Aitken, *Vice-President*
Maurice S. Dunn, *Vice-President*
Kenneth D. Standish, *Vice-President*

AURORA-MIDWAY

15555 Aurora Avenue North • 98133 • Telephone 545-7222
Carmela M. Faccione, *Manager*

BALLARD

5602 Fifteenth Avenue N.W. • 98107 • Telephone 344-2253
Ferris N. Anderson, *Vice-President and Manager*

BROADWAY

133 Broadway East • 98102 • Telephone 344-3612
Dale A. Lyski, *Manager*

BURIEN

14641 First Avenue South • 98168 • Telephone 244-3876
David W. Langley, *Manager*

DEXTER AND BROAD STREET

530 Dexter Avenue North • 98109 • Telephone 344-3708
Harry Means, *Vice-President and Manager*

FIRST AVENUE

723 First Avenue • 98104 • Telephone 344-2326
Arch N. Currier, Jr., *Vice-President and Manager*
Rolf Rieger, *Vice-President*

FIRST AVENUE AND BROAD STREET

2813 First Avenue • 98121 • Telephone 344-2255
John C. Munroe, *Manager*

FIRST HILL

1200 Madison Street • 98104 • Telephone 344-2276
Barry J. Follman, *Manager*

MAGNOLIA

3124 West McGraw Street • 98199 • Telephone 344-4640
James F. Stepp, *Vice-President and Manager*

NORTH SEATTLE

1023 Northeast Sixty-Third Street • 98115 • Telephone 344-4683
George C. Trotter, *Vice-President and Manager*

NORTHGATE PLAZA

10548 Fifth Avenue N.E. • 98125 • Telephone 545-7321
Dean E. McBride, *Manager*

RAINIER AND EMPIRE

2910 Rainier Avenue South • 98144 • Telephone 344-4657
Robert D. Corbin, *Manager*

SKYWAY PARK

12610 Seventy-Sixth Avenue South • 98178 •
Telephone 772-4573
Lyle M. Sandelius, *Vice-President and Manager*

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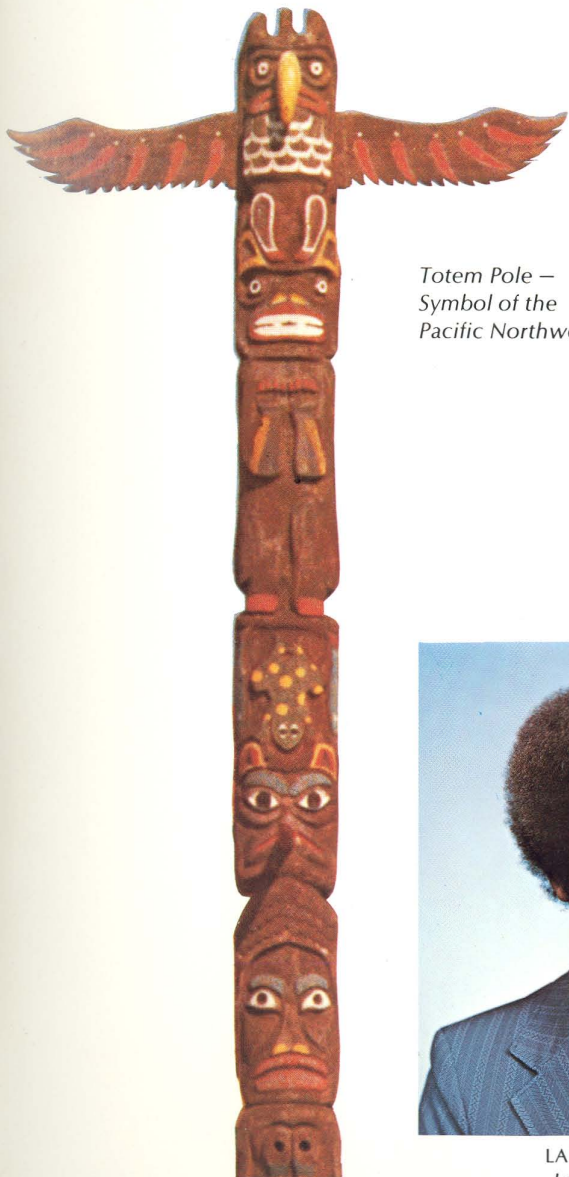
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P.O. Box 664 • Washtucna • 99371 • Telephone 646-3255
John D. Urness, *Manager*

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two or more hours a day, two or more days a week:

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(c/o Moses Lake Office)
David J. McKinney, *Farm Services Representative*



Totem Pole –
Symbol of the
Pacific Northwest



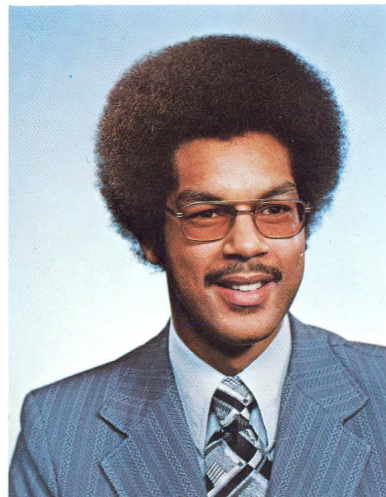
DEBBIE TAKANO
Credit Clerk
Consumer Credit Division



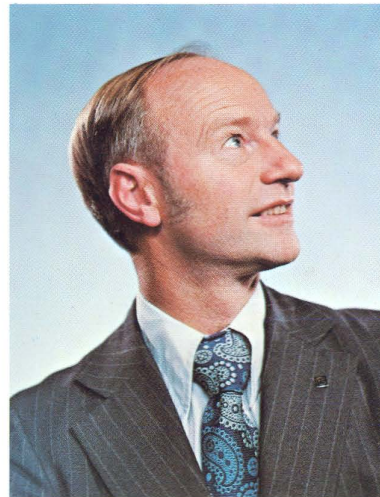
PATRICIA HELLE
Teller
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KATSUSHIGE HIRASAWA
Administrator
International Division



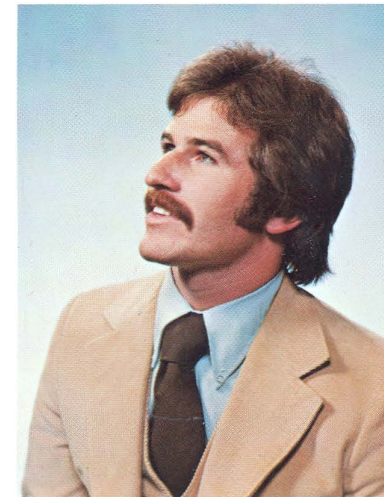
LARRY HAYES
Loan Officer
Aurora-Midway Office



OZZIE NORDHEIM
Assistant Manager
Ballard Office



MICKI HARRISON
Clerk Typist
Trust Division



JIM BLACK
Government Trader
Investment Division



JOSHUA GREEN

October 16, 1869 – January 25, 1975

*"He was a man with a zest for life
that never left him, an interest in
what was going on, a love for
people – all kinds of people."*

The Very Reverend
JOHN C. LEFFLER, D.D.
Dean Emeritus
St. Mark's Cathedral

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*Advisory Directors to the Board

1974 FINANCIAL REVIEW

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PEOPLES NATIONAL BANK OF WASHINGTON

COMPARATIVE CONSOLIDATED STATEMENT OF CONDITION

resources

DECEMBER 31

	1974	1973
Cash and Due from Banks.....	\$ 91,064,928	\$117,873,110
Investments:		
U.S. Government Direct Obligations	36,108,273	47,988,929
State, County and Municipal Securities.....	45,688,437	56,989,467
Federal Agencies Obligations.....	38,166,849	36,980,485
Other Securities.....	950,453	950,453
TOTAL INVESTMENTS	\$120,914,012	\$142,909,334
Time Balances with Domestic Banks.....	5,000,000	—0—
Time Balances with Foreign Banks.....	4,000,000	—0—
Loans and Discounts	396,841,606	356,325,734
Federal Funds Sold and Securities Purchased Under Agreement to Resell.....	111,820,395	61,500,000
Customers' Liability Account Acceptances and Letters of Credit.....	24,431,618	6,888,003
Direct Lease Financing.....	18,379,832	8,837,696
Bank Premises, Improvements and Equipment Net of Depreciation.....	30,866,009	26,375,211
Interest Accrued, Not Collected.....	4,729,239	4,365,615
Other Resources	7,777,552	5,340,100
TOTAL RESOURCES	<u>\$815,825,191</u>	<u>\$730,414,803</u>
liabilities		
Demand Deposits	\$275,491,175	\$269,328,197
Time Deposits:		
Regular Savings	163,690,196	159,089,652
Other Time	176,249,882	136,345,879
TOTAL DEPOSITS	\$615,431,253	\$564,763,728
Acceptances and Letters of Credit.....	24,431,618	6,888,003
Dividends Payable	700,085	700,085
Federal Funds Purchased and Securities Sold Under Agreement to Repurchase.....	92,772,971	98,012,646
Reserve for Federal Income Tax.....	2,266,766	1,830,365
Accrued Taxes and Expenses.....	4,797,622	3,506,128
Income and Interest Collected But Not Earned.....	8,779,714	4,319,598
Other Liabilities	19,826,520	6,235,429
TOTAL LIABILITIES	\$769,006,549	\$686,255,982
Reserve for Possible Loan Losses.....	\$ 6,171,402	\$ 5,058,460
Equity Capital:		
Capital Preferred	31,500	31,500
Capital Common	12,722,800	12,722,800
Surplus	14,445,700	14,445,700
Undivided Profits	12,525,011	10,988,049
Reserve for Contingencies	922,229	912,312
TOTAL CAPITAL FUNDS	<u>\$ 40,647,240</u>	<u>\$ 39,100,361</u>
TOTAL LIABILITIES, RESERVES AND CAPITAL FUNDS.....	<u>\$815,825,191</u>	<u>\$730,414,803</u>

See accompanying notes on page 5.

PEOPLES NATIONAL BANK OF WASHINGTON

COMPARATIVE CONSOLIDATED STATEMENT OF EARNINGS

	YEAR ENDING DECEMBER 31	
	1974	1973
operating income		
Interest and Fees on Loans.....	\$37,933,564	\$30,650,085
Income on Federal Funds Sold and Securities		
Purchased under Agreement to Resell.....	7,294,948	2,872,881
Interest and Dividends on:		
U.S. Government Direct Obligations.....	1,778,451	1,893,204
State, County and Municipal.....	2,060,344	2,021,875
Other Securities.....	1,604,445	1,329,715
	<u>\$50,671,752</u>	<u>\$38,767,760</u>
Trust Department Income.....	1,227,494	1,205,613
Service Charges on Deposit Accounts.....	3,069,440	2,648,534
Other Service Charges, Collections and Exchange Charges, Commissions and Fees...	2,255,932	1,543,936
Other Operating Income.....	2,427,862	1,227,187
TOTAL OPERATING INCOME.....	<u>\$59,652,480</u>	<u>\$45,393,030</u>
operating expenses		
Salaries and Bonuses.....	\$13,591,328	\$11,978,286
Profit Sharing and Other Employee Benefits.....	2,165,620	1,856,816
Interest on Deposits.....	18,562,978	13,831,062
Other Interest Paid.....	9,021,913	4,929,446
Net Occupancy Expenses.....	2,974,405	2,045,746
Equipment Rentals, Depreciation and Maintenance.....	2,234,176	1,671,247
Provision for Loan Losses.....	69,017	393,676
Other Operating Expenses.....	6,715,538	5,443,222
TOTAL OPERATING EXPENSES.....	<u>\$55,334,975</u>	<u>\$42,149,501</u>
Income Before Income Taxes and Security Gains or Losses.....	\$ 4,317,505	\$ 3,243,529
Less Applicable Income Taxes		
Current.....	156,000	431,000
Deferred.....	890,000	79,000
Income Before Security Gains or Losses.....	<u>\$ 3,271,505</u>	<u>\$ 2,733,529</u>
Security Gains or (Losses) Less Related Tax Effect of \$36,400 in 1974		
and \$117,091 in 1973.....	(39,507)	(126,850)
Income Before Extraordinary Items.....	<u>\$ 3,231,998</u>	<u>\$ 2,606,679</u>
Extraordinary Items Less Related Tax Effect of \$40,252 in 1974.....	93,923	—0—
NET INCOME.....	<u>\$ 3,325,921</u>	<u>\$ 2,606,679</u>
Preferred Stock Dividends Declared.....	\$ 1,323	\$ 1,323
Income Available for Common Shareholders.....	<u>\$ 3,324,598</u>	<u>\$ 2,605,356</u>
Earnings Per Common Share		
Shares Outstanding at End of Year.....	636,140	636,140
Income Before Securities Gains.....	\$5.14	\$4.29
Income Before Extraordinary Items.....	5.08	4.10
Net Income.....	5.23	4.10

See accompanying notes on page 5.

PEOPLES NATIONAL BANK OF WASHINGTON

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL ACCOUNTS

	Capital Preferred	Capital Common	Surplus	Undivided Profits	Reserve for Contingencies	Total
BALANCE AT DECEMBER 31, 1972....	\$76,950	\$12,707,520	\$14,415,530	\$ 9,793,790	\$863,626	\$37,857,416
Net Income for the Year 1973.....				2,606,679		2,606,679
Transfer from Reserve for Taxes.....				144,272		144,272
Transfers, Net to Investment						
Securities Reserve				(110,085)		(110,085)
Cash Dividends Declared.....				(1,082,990)		(1,082,990)
Transfer to Deferred Income Tax						
Expense				(81,000)		(81,000)
Transferred to Reserve for Possible						
Loan Losses				(147,471)		(147,471)
Transfer Net to Reserve for						
Contingencies				(48,686)	48,686	
Transfer to Capital Common.....	(15,280)	15,280				
Transfer to Surplus	(30,170)		30,170			
Payment of 1972 Federal Income						
Taxes — Bothell State Bank.....				(70,934)		(70,934)
Amortization of Premium of Acquisition						
of Olympic National Bank				(15,526)		(15,526)
BALANCE AT DECEMBER 31, 1973....	<u>\$31,500</u>	<u>\$12,722,800</u>	<u>\$14,445,700</u>	<u>\$10,988,049</u>	<u>\$912,312</u>	<u>\$39,100,361</u>
Net Income for the Year 1974.....				3,325,921		3,325,921
Refund 1969 Federal Income Tax.....				33,120		33,120
Transfers, Net, to Investment						
Securities Reserve				(54,173)		(54,173)
Cash Dividends Declared				(1,082,761)		(1,082,761)
Transfer to Deferred Income Tax						
Expense				(81,000)		(81,000)
Transferred to Reserve for Possible						
Loan Losses				(578,702)		(578,702)
Transfer Net to Reserve for						
Contingencies				(9,917)	9,917	
Amortization of Premium of Acquisition						
of Olympic National Bank				(15,526)		(15,526)
BALANCE AT DECEMBER 31, 1974....	<u>\$31,500</u>	<u>\$12,722,800</u>	<u>\$14,445,700</u>	<u>\$12,522,011</u>	<u>\$922,229</u>	<u>\$40,647,240</u>

See accompanying notes on page 5.

PEOPLES NATIONAL BANK OF WASHINGTON

CONSOLIDATED STATEMENT OF CHANGES IN RESERVE FOR POSSIBLE LOAN LOSSES

	<u>1974</u>	<u>1973</u>
Balance at Beginning of Year.....	<u>\$5,058,460</u>	<u>\$4,774,861</u>
ADDITIONS:		
Provision Charged to Operating Expense.....	69,017	393,676
Transferred from Undivided Profits.....	578,702	147,471
Transferred from Reserve for Taxes.....	534,240	136,128
TOTAL ADDITIONS	<u>\$1,181,959</u>	<u>\$ 677,275</u>
DEDUCTIONS:		
Loans Charged Off.....	\$1,276,969	\$ 864,989
Less Recoveries on Loans Previously Charged Off.....	1,207,952	471,313
NET LOANS CHARGED OFF	<u>\$ 69,017</u>	<u>\$ 393,676</u>
Balance at End of Year.....	<u><u>\$6,171,402</u></u>	<u><u>\$5,058,460</u></u>

See accompanying notes on page 5.

PEOPLES NATIONAL BANK OF WASHINGTON

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31,
1974 and 1973

note 1 • summary of significant accounting policies:

The accounting and reporting policies of Peoples National Bank of Washington and its subsidiaries, conform to generally accepted accounting principles and to predominant practice within the banking industry.

A. Principles of Consolidation.

The consolidated financial statements include Peoples National Bank of Washington and its wholly-owned subsidiaries: Peoples Mortgage Company, Peoples Leasing Company and Peoples Service Company. All significant intercompany transactions and balances have been eliminated in consolidation.

B. Investments.

Securities are stated at cost or amortized cost. At December 31, 1974, United States Government obligations with a par value of \$4,070,000 and state and municipal bonds with a par of \$19,070,000 were pledged to secure deposits of public and trust funds as required by law.

C. Reserve for Possible 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 this method provides a more accurate reporting than the five-year moving average method which is also permitted.

D. Income Taxes.

The bank accounts for certain income and expense items in different time periods for financial reporting purposes than for income tax purposes. Provisions for deferred taxes are made in recognition of such timing differences. Investment tax credits realized at the time of property acquisitions are used in the acquisition year to reduce applicable income taxes.

note 2 • bank premises, improvements and equipment:

Bank premises, improvements and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed by both straight-line and accelerated methods over the estimated useful life of the related assets. Gains and losses on routine dispositions are reflected in current operations. Maintenance and repairs are charged to operating expenses and betterments are capitalized.

Lives used in computing depreciation are as follows:

Bank premises and improvements.....	5-45 years
Furniture and fixtures.....	10-15 years
Leasehold improvements	Life of Lease

The total provision for depreciation amounted to \$1,500,149 in 1974 and \$1,269,064 in 1973. In June, 1974, the bank entered into sale and leaseback agreements covering certain bank premises for \$6,890,725. The properties were sold at book value and loans in like amount, secured by deeds of trust, were made to the purchasers. The bank is required to repurchase the properties at the end of ten years and has the option to repurchase earlier. Lease payments equal the installments due on the loan and the repurchase price equals the uncollected balance of the loan. For financial reporting purposes, the loan and the offsetting lease/repurchase obligation have been offset; accordingly only the Bank Premises and related depreciation expenses are reflected in the financial statements.

note 3 • extraordinary items:

During 1974 the Bank sold two parcels of real estate for a net gain of \$93,923 after income taxes of \$40,252.

note 4 • retirement plans:

The Bank has two retirement plans; a trustee profit-sharing plan and a deferred compensation plan. Eligibility for participation in both plans requires five years of continuous service; the deferred compensation plan also requires a specified minimum salary and the approval of the Directors' Committee. Benefits under the trustee profit-sharing plan are based on each participant's proportionate share of the trust assets and are fully vested after ten years participation, attainment of age 65, death or disability, whichever occurs first. An annual contribution required under a trustee profit-sharing plan is charged to current earnings. Benefits under the deferred compensation plan are based on rate of earnings during employment to age 65, or to date of death or disability retirement if sooner. Under the deferred compensation plan, current earnings are charged with payments to previously retired personnel. In addition, current costs and amortization of past service costs for presently employed personnel are charged to current earnings. The original past service costs of the plan are being funded over the period ending December 31, 1981. The Bank's expense under the deferred compensation plan amounted to \$556,000 and \$508,000 in 1974 and 1973 respectively.

note 5 • commitments, contingencies and other matters:

The Bank is committed to the payment of annual rentals of approximately \$2,263,000 under various month-to-month and long term leases expiring between 1975 and 1990, covering principally bank premises and bank equipment. Rental expense for the years ended December 31, 1974 and 1973 in the accompanying statements is approximately \$1,767,000 and \$1,197,000 respectively.

In late 1973 a group of automobile dealers and leasing companies brought an action against the bank, its leasing subsidiary and the Comptroller of the Currency, alleging that banks and their subsidiaries do not have the authority to directly lease automobiles or other personal property. The action is being vigorously defended.

No other litigation is pending or threatened, which, in the opinion of the bank or its counsel, will have any materially adverse effect upon the business of the bank or its subsidiaries.

STATISTICAL DATA, 1974 - 1966

PEOPLES NATIONAL BANK OF WASHINGTON

balance sheet statistics—year end	1974	1973	1972	1971	1970	1969	1968	1967	1966
Total Loans	\$396,841,606	\$356,325,734	\$336,735,449	\$264,348,398	\$250,691,071	\$256,105,431	\$245,289,310	\$214,231,416	\$189,394,862
U.S. Government Securities	36,108,273	47,988,929	36,502,307	47,203,940	42,996,283	40,252,285	42,466,224	53,501,308	50,082,880
State, County and Municipal Securities	45,688,437	56,989,467	50,555,944	57,450,350	52,455,654	52,721,182	53,657,699	50,253,050	38,652,952
Other Securities	39,117,302	37,930,938	24,625,177	6,606,538	16,917,965	4,005,040	7,396,173	4,604,500	630,909
Total Securities	120,914,012	142,909,334	111,683,428	111,260,828	112,369,902	96,978,507	103,520,096	108,358,858	89,366,741
Demand Deposits	275,491,175	269,328,197	258,022,682	208,344,611	194,180,993	198,952,629	198,526,256	190,980,523	169,539,292
Time Deposits	339,940,078	295,435,531	264,727,710	232,495,750	220,088,638	186,255,588	190,135,630	174,173,884	143,204,899
Total Deposits	615,431,253	564,763,728	522,750,392	440,840,361	414,269,631	385,203,217	388,661,886	365,154,407	312,744,191
Capital Funds	40,647,240	39,100,361	37,857,416	34,707,542	33,312,418	31,228,834	28,562,515	26,582,339	24,514,640
Total Resources	815,825,191	730,414,803	604,719,269	522,595,273	512,934,825	450,577,553	430,193,865	399,800,124	343,225,577

earnings and dividend statistics—year end

Interest and Fees on Loans Including Federal Funds	\$ 45,228,512	\$ 33,522,966	\$ 24,525,290	\$ 21,890,751	\$ 22,318,632	\$ 21,059,878	\$ 17,268,107	\$ 14,006,276	\$ 11,739,621
Interest and Dividends on Securities	5,443,240	5,244,794	5,830,544	5,538,842	4,936,844	4,370,535	3,969,803	3,595,680	3,305,287
Trust Department and Other Operating Income	8,980,728	6,625,270	5,924,028	5,344,436	4,927,898	4,808,103	4,501,673	4,065,074	3,579,463
Total Operating Income	59,652,480	45,393,030	36,279,862	32,771,029	32,183,374	30,238,516	25,739,583	21,667,030	18,624,371
Salaries and Benefits	15,756,948	13,835,102	11,718,206	10,376,637	9,645,261	8,696,584	7,657,157	6,544,027	5,765,190
Interest Paid	27,584,891	18,760,508	12,444,852	11,626,986	10,638,043	9,271,458	7,800,041	6,628,301	5,332,718
Other Operating Expenses	11,993,136	9,553,891	8,508,819	8,555,103	7,987,353	7,190,154	5,138,476	4,004,843	3,366,904
Total Operating Expenses	55,334,975	42,149,501	32,671,877	30,558,726	28,270,657	25,158,196	20,595,674	17,177,171	14,764,812
Income Before Securities Gains or Losses	3,271,505	2,733,529	3,128,985	2,123,303	3,100,717	3,557,320	3,339,627	3,096,716	2,796,221
Net Income	3,325,921	2,606,679	3,198,875	2,754,192	3,219,141	3,538,489	3,168,472	2,896,470	2,608,740
Cash Dividends Declared	1,082,761	1,082,990	1,082,897	996,413	879,188	908,494	703,350	726,795	562,680
Stock Dividends Paid	—	—	—	—	—	2,344,500	—	1,875,600	—

per share statistics (adjusted for stock dividends)

Income Before Securities Gains or Losses	\$ 5.14	\$ 4.29	\$ 4.87	\$ 3.62	\$ 5.29	\$ 6.07	\$ 5.70	\$ 5.28	\$ 4.77
Net Income	5.23	4.10	4.98	4.70	5.49	6.04	5.41	4.94	4.45
Cash Dividends Paid	1.70	1.70	1.70	1.60	1.50	1.50	1.50	1.50	1.50
Book Value	63.85	61.42	59.46	59.22	56.84	53.28	48.72	45.35	41.82
Number of Common Shareholders — Year End	1,292	1,285	1,278	1,256	1,233	1,228	1,172	1,166	1,145

average earning rates (fully taxable basis)

Total Loans	8.91%	7.84%	7.10%	7.66%	8.19%	7.70%	7.08%	6.84%	6.56%
U.S. Government Securities	6.01	6.08	5.50	5.80	6.89	6.30	5.40	4.59	4.47
State, County and Municipal Securities	8.07	7.86	8.15	7.99	8.24	8.39	7.19	6.46	6.18
Gross Rate on Earning Assets	8.69	7.71	6.83	6.93	7.50	7.08	6.36	5.88	5.70

key percentages—year end

Income Before Securities Gains or Losses To Total Resources ..	0.40%	0.37%	0.52%	0.41%	0.61%	0.80%	0.78%	0.78%	0.82%
Income Before Securities Gains or Losses to Capital Funds	8.37	7.22	9.02	6.37	9.93	12.46	12.56	12.63	12.30
Capital Funds to Deposits	6.60	6.92	7.24	7.87	8.04	8.11	7.34	7.28	7.84
Capital Funds to Loans	10.24	10.97	11.24	13.13	13.29	12.19	11.64	12.41	12.94
Loans to Deposits	64.48	63.09	64.42	59.96	60.51	66.48	63.11	58.67	60.56

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

**STATEMENT OF
INCOME AND RETAINED
EARNINGS**

(Note 1)

income

Loan servicing fees — Note 4.....	
Loan originating and related fees.....	
Interest on notes and mortgage loans.....	
Other	

YEAR ENDED DECEMBER 31	
1974	1973
\$1,619,827	\$1,395,200
1,277,033	1,028,632
939,293	439,973
31,099	66,204
<u>3,867,252</u>	<u>2,930,009</u>

expenses

Salaries and bonuses.....	
Other employee benefits — Note 7.....	
Interest	
Depreciation and amortization — Note 5.....	
Management fee to Peoples National Bank.....	
Provision for loan losses.....	
Other operating expenses including amortization of mortgage service acquisition costs — Note 2.....	

1,075,635	1,024,117
155,843	129,055
1,017,816	446,017
55,725	68,282
36,000	34,000
171,556	89,432
<u>1,044,631</u>	<u>931,898</u>
<u>3,557,206</u>	<u>2,722,801</u>

Income from operations before provision for federal income taxes.....	
Provision for federal income taxes.....	
Net operating income.....	
Retained earnings, beginning of year.....	
Dividends, \$14.00 and \$6.00 per share.....	
Retained earnings, end of year.....	

310,046	207,208
<u>142,000</u>	<u>92,000</u>
168,046	115,208
118,267	63,059
<u>(140,000)</u>	<u>(60,000)</u>
<u>\$ 146,313</u>	<u>\$ 118,267</u>

See accompanying notes to financial statements

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

BALANCE SHEET

ASSETS

(Note 1)

current assets

	1974	1973
Cash on hand and in banks.....	\$ 51,013	\$ 88,478
First mortgage loans in process (net of undisbursed commitments of \$7,144,136 and \$9,316,193) or held for resale (net of \$454,007 and \$712,509 discount) at December 31, 1974 and 1973, respectively — Note 3.....	\$32,180,533	\$28,529,989
Accrued interest receivable.....	431,981	356,849
	32,612,514	28,886,838
Less — Participations sold to —		
Peoples National Bank — Note 4.....	16,558,446	24,003,662
Other banks.....	641,621	4,883,176
Real estate held for resale.....	15,412,447	356,566
Reserve for possible loss.....	548,111	(20,000)
Notes and accounts receivable.....	(62,573)	136,308
GNMA mortgage-backed security, at cost (net of \$54,966 discount)	61,154	—
Prepaid expenses and deposits.....	945,034	41,491
	128,717	5,486,019
	17,083,903	

trust funds

Cash in bank.....	6,650,716	6,406,064
Less — Contra liability.....	(6,650,716)	(6,406,064)

fixed assets

At cost (net of accumulated depreciation of \$161,494 and \$135,026, respectively) — Note 5.....	147,672	158,207
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investments

FNMA stock, at cost, market value, \$346,400 and \$301,400, respectively	260,039	248,373
GNMA mortgage-backed securities, at cost (net of \$175,319 discount)	8,240,366	8,785,107
Less — Participation sold to —		
Peoples National Bank — Note 4.....	(8,240,366)	(7,819,212)
Wells Fargo Bank.....	—	(965,895)

other assets — Note 2	666,667	830,471
	<u>\$18,158,281</u>	<u>\$6,723,070</u>

LIABILITIES

current liabilities

Notes payable — Note 6.....	\$16,282,271	\$5,273,913
Accrued interest payable.....	308,531	116,814
Accounts payable and accrued expenses.....	255,480	130,634
Payable for federal income taxes — Note 1.....	165,686	83,442
	17,011,968	5,604,803

stockholders' equity

Common stock, \$100 par value —		
15,000 shares authorized;		
10,000 shares issued and outstanding.....	\$ 1,000,000	\$ 1,000,000
Retained earnings.....	146,313	118,267
	1,146,313	1,118,267

commitments and contingent liabilities — Note 8	<u>\$18,158,281</u>	<u>\$6,723,070</u>
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See accompanying notes to financial statements

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

**STATEMENT OF
CHANGES IN FINANCIAL
POSITION**

	YEAR ENDED DECEMBER 31	
	1974	1973
Financial resources were provided by:		
Net income.....	\$ 168,046	\$ 115,208
Add back charges not representing a use of financial resources —		
Depreciation and amortization.....	\$ 55,725	\$ 68,282
Amortization of mortgage servicing premium.....	165,288	233,570
	221,013	348,778
	389,059	6,416
Sale of fixed assets.....	5,599	16,636
Sale of investments.....	—	371,830
	394,658	
Financial resources were used for:		
Acquisition of furniture and leasehold improvements.....	35,179	21,926
Additions to other assets.....	17,094	13,419
Additions to investments.....	11,666	21,895
Dividends	140,000	60,000
	203,939	117,240
Net increase in working capital.....	\$ 190,719	\$ 254,590
analysis of changes in working capital		
Increase (decrease) in current assets:		
Cash on hand.....	\$ (37,465)	\$ (64,673)
First mortgage loans in process.....	3,650,544	3,397,522
Accrued interest receivable.....	75,132	154,919
Participations sold to Peoples National Bank and other banks	6,803,595	(2,990,880)
Real estate held for resale.....	191,545	(25,249)
Reserve for possible loss.....	(42,573)	—
Notes and accounts receivable.....	(75,154)	39,085
GNMA securities.....	945,034	—
Prepaid expenses and deposits.....	87,226	11,906
	11,597,884	522,630
(Increase) decrease in current liabilities:		
Notes payable.....	(11,008,358)	(303,845)
Accrued interest payable.....	(191,717)	(69,244)
Accounts payable and accrued expenses.....	(124,846)	55,781
Payable for federal income taxes.....	(82,244)	49,268
	(11,407,165)	(268,040)
Net increase in working capital.....	\$ 190,719	\$ 254,590

See accompanying notes to financial statements

PEOPLES MORTGAGE COMPANY, a wholly-owned subsidiary of Peoples National Bank

NOTES TO FINANCIAL STATEMENTS

December 31, 1974

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 practices 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. Such securities are held as investments for varying periods, the length of which is dependent on the market. Gains or losses resulting from transactions at other than cost are recorded at date of sale.

In order to maintain the right to service FNMA-owned loans, the company is required to hold FNMA stock. At December 31, 1974, substantially all shares owned by the company are required to continue this servicing.

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.

provision for loan losses —

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

As required by national bank examiners, the company is required to write down, on a prescribed basis, its equity in foreclosed properties. Such write-downs amounting to \$30,564 and \$71,606 during the years ended December 31, 1974 and 1973 are included in provision for loan losses in the accompanying statements.

federal income taxes —

In prior years 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 2 • operations:

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, 1974 and 1973 amounted to \$595,147 and \$760,435, respectively.

The company's accounting and servicing records are maintained on the parent company's computer. In this connection, "Other Operating Expenses" in the accompanying financial statements include approximately \$149,800 and \$125,500 paid to the parent for the use of these computer facilities for the years ending December 31, 1974 and 1973, respectively.

note 3 • foreclosure proceedings:

At December 31, 1974, foreclosure proceedings had been initiated to convey title on various FHA- and VA-insured home loans totaling \$389,088. No losses in excess of that provided for in the reserve for possible losses are anticipated upon final disposition.

note 4 • 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 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.

note 5 • depreciation and amortization:

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

	Method	Years
Furniture and fixtures.....	Declining-balance	6-10
Leasehold improvements.....	Straight-line	5-17
Computer software.....	Straight-line	5

Depreciation and amortization of \$55,725 and \$68,282 have been provided for the years ended December 31, 1974 and 1973, respectively.

note 6 • notes payable:

	DECEMBER 31	
	1974	1973
Notes payable are comprised of:		
Peoples National Bank, payable on demand, bearing interest at 8¾% and 7% per annum, respectively	\$ 2,500,000	\$2,500,000
Commercial Paper, generally payable within 90 days, at rates varying from 7¼% to 10½% per annum (guaranteed by the company's parent)	13,782,271	2,773,913
	<u>\$16,282,271</u>	<u>\$5,273,913</u>

note 7 • retirement plans:

The company has two retirement plans: a trustee profit-sharing plan and a deferred compensation plan. Eligibility for participation in both plans requires five years of continuous service and, for the deferred compensation plan, also a specified minimum salary and the approval of the Directors' Committee. Annual payments required under the trustee profit-sharing plan are charged to current earnings. Under the deferred compensation plan, current earnings are charged for estimated benefits accruing to currently qualified personnel. Total charges for the years ended December 31, 1974 and 1973 were \$54,671 and \$27,390, respectively.

note 8 • commitments and contingent liabilities:

At December 31, 1974, the company was obligated under the provisions of long-term leases of buildings with minimum rentals as follows:

Year ended December 31	Rentals
1975	\$45,000
1976	34,300
1977	15,100
1978	500

Rental expense for the years ended December 31, 1974 and 1973 included in the accompanying statements is approximately \$52,686 and \$49,100, respectively.

Seattle, Washington

January 9, 1975

The Board of Directors
Peoples Mortgage Company

We have examined the balance sheets of Peoples Mortgage Company as of December 31, 1974 and 1973, 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, 1974 and 1973, 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.