



- PEOPLE'S PROFILES 1
Feature on Jim Wright
- CUSTOMER CENTRIC 2
Focus on Jim Leavens
- IN RETROSPECT 3
How We Survived the Great Recession / Ken Trautman
- FORWARD LOOK 4
- GROWING STRONG 4
Quarterly Financials

forward look

A NEW BUILDING, A NEW BRANCH

Yes, there does happen to be a “for lease” sign outside our flagship branch, but it’s not for our space. Our Biddle branch means too much to us, and our customers. For us, it represents our humble beginning and acts as a reminder of our purpose. For our customers, it’s their banking “home” and we want them to be able to come home to People’s Bank. Our reasons to expand had little to do with being flush with cash. Rather, it had everything to do with acting on solid banking principles. We decided to follow the advice we had been giving our business customers: take advantage of the lower rates the economy has to offer and create a cost-effective infrastructure for continued growth. We saw an opportunity to purchase a piece of property at a lower price, and lease out space we may not need for a few years. Building the new branch created jobs in our community when construction was at an all-time low.

We heard from a number of people what a symbol of hope it has been, witnessing the building’s progression during their daily commute. Upon entering our new branch in November, our community spirit will be immediately visible. In the words of Ken Trautman, “I think it shows a renewed spirit when you see new buildings rise up like the Lithia Commons and People’s Bank. It says, ‘we’re here to stay.’”

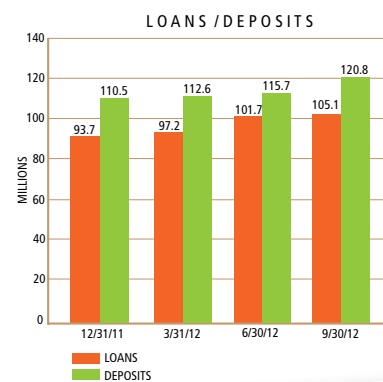
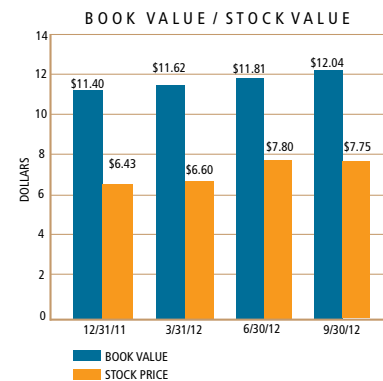
JIM WRIGHT (continued from cover page)

of how fast or slow you allow the company to grow. You always want to have an open mind when considering what’s good for the community, what’s good for the bank, and what’s good for the shareholders.” Which is why they revisit the mission statement over and over again, and remarkably, haven’t found the need to change it.

When asked what he thinks underscores the success of People’s Bank, Jim doesn’t hesitate. “A successful company has to have leaders that hold the same vision; while one person is reaching beyond that vision, the other is keeping it in check—so the scale is balanced. Ken Trautman and Mike Sickels make up that blend. They also brought in the right people to advise them.” In defining the job of the board, Jim details, “We have a cross section of valuable collective knowledge on our board. It’s our job to listen to that input.” Many boards have term limits on them, but that isn’t the case when specific expertise is called for. So how does a board member know when it’s time to leave? “It’s a privilege to serve on a board. When you no longer have the time, are no longer actively involved in the community, and are out of step with the other board members, it’s time to go. You don’t have to be told. You just know.”

growing strong

THIRD QUARTER



people's profiles

BOARDMEMBER, JIM WRIGHT

Jim is proud to say he’s been a board member since 2003. In the early days, Jim sat on the board alongside its founding members. “It was an honor,” he says.

Cutting his teeth on a family business that literally helped build the community, Jim understands only too well the importance of lending support to local business, particularly from a community bank. Jim’s grandfather founded M.C. Lininger & Sons. It’s where he worked alongside his father from the age of 12 through his graduation from Southern Oregon University. As the southern valley grew, M.C. Lininger & Sons grew with it. That included the freeway. Jim’s departure from the valley to the Bay Area in pursuit of a career in banking was short lived. A mandatory hiring physical revealed a degenerative condition that would eventually render Jim blind. He was rejected by Bank of America and returned home to resume helping build the family business. “Dealing with a large state bank was tough back in the 1980s and it was a community bank that ultimately came to our rescue in support of our growth,” Jim explains. Projects eventually became too big for M.C. Lininger & Sons to handle on their own, so they turned to their competitor, Tru Mix, entering into merger discussions. LTM (Lininger-Tru Mix) finally became a

reality in 1988. That’s when the business of building roads, commercial buildings, theatres, homes, and colleges really got underway. SOU, City Hall, Rogue Valley Mall, and Costco are all part of that expansion. And today, many of those businesses are giving back in their support of the Britt Festival, the Craterian, Access, Oregon Shakespeare Festival, and the SOU Foundation. To Jim, that’s the definition of what a community bank contributes: money circulates within a community from the startup of a business, the jobs it creates, and the services it provides, to the money it circulates back into the community.

Jim is passionate about the collective vision of the board. “Our entire bank board grew up in this community, just like I did, and the community grew with us. Businesses like M.C. Lininger & Sons grew out of a need as did People’s Bank. Each of the board members has grown a business themselves and understands the stages of readiness. We know that small businesses starting out need someone looking beyond just the numbers, which is how a large bank operates.”

Jim sees the role of the board as tracking the mission of People’s Bank and making sure they live by it. “With that,” he says, “comes strategic planning, growing a prudent balance (continued on back page)

“A successful company has to have leaders that hold the same vision; while one person is reaching beyond that vision, the other is keeping it in check—so the scale is balanced. Ken Trautman and Mike Sickels make up that blend.”

Jim Wright



customer centric

JIM LEAVENS: WHITELAW WHOLESALE

Banking isn't new to Jim Leavens. But his involvement is. His brother and business partner, Bob, would often announce, "I have an appointment at the bank," and be gone for the afternoon "doing 'Bob things,'" says Jim. "I was in charge of operations and Bob oversaw administrative." All that changed in April of last year. Jim lost his brother, business partner, and best friend when Bob passed away. "I never understood exactly how much my brother did until he was gone. Suddenly, I was overwhelmed not only by his loss but having to take on his job," Jim recalls. "I finally learned what all those 'Bob things' were. I developed a whole new level of appreciation for my brother."

Gene Taylor and Bob first met nearly 30 years ago playing softball. Bob related to Gene because they both grew up in their respective industries and were instilled with the same work ethic. When the opportunity arrived to join the bank Gene represented, it was a natural fit for Whitelaw Wholesale. Gene moved over to People's Bank in 2010 but Bob stayed loyal to the bank that had serviced their business for three decades. A new bank officer was assigned.

Jim was unaware of the additional work required of his employees, to support the job the bank had always done for them. "I never heard from our bank when Bob passed away, no card, no call, nothing." Two weeks after Bob's funeral, their bank officer stopped by to pay a visit. But

he wasn't there to offer his condolences. Instead, he came to break the news that without his brother, Jim's net worth was not enough to cover the investment the bank had made in the company.

Jim's father bought the then 20-year-old company in 1947. Jim worked at Whitelaw Wholesale since he was eleven. So did his brother. Jim reflects, "It was never a question that we would continue in the family business." In 1978 the brothers bought their father's interest and were well on their way. "Suddenly I was faced with the threat of not being able to continue my livelihood. My family was still grieving and this guy had the gall to walk in with only his concerns for the bank's interest. You can imagine what I wanted to say to him," says Jim, biting his tongue in the telling just as he'd done in the moment. "You don't do that to somebody whose been banking with you for 30 years." The bank wasn't willing to look at the longevity of the relationship, or worse, give it any value.

Customer history was something Gene had always taken into account, when he was permitted that authority. When that authority was taken away and the community bank approach vanished, so did Gene. He found it again when he went to work for People's Bank. Fed up with his own situation, Jim gave Gene a call. It turned out that the limitations the officer had outlined weren't true; at least they weren't true for People's Bank. "It's interesting," says Jim, grinning, "no bank ever solicited my business until they heard I was looking. Then I got calls from bankers who'd never given me the time of day before."

Almost overnight the additional tasks imposed on Jim's employees disappeared. Once the burden of banking was lifted, Jim could focus his attention on the operation of the business and making money. No one will ever take the place of Bob, but Gene has helped by doing some of the "Bob things." "Gene comes in to check on our inventory from time to time and we just sit and chat. With People's Bank, it's not all numbers—there's a genuine core of caring. I like that." |

in retrospect

HOW WE SURVIVED THE GREAT RECESSION:

A BANKER'S LOG / by Ken Trautman

Whenever I'm asked to speak at a function, one of the questions everyone wonders is: "Why was People's Bank able to survive the great recession when competitors; like Liberty Bank, Home Valley Bank and Washington Mutual, didn't?" My answer always includes two factors: 1) having a local board of directors who survived the 1980s recession and 2) People's conservative loan underwriting practices—requiring down payments, verifying income, reviewing the payment ability of each borrower, and consideration of other normal credit underwriting conditions—all of which seemed to disappear at other banks during the real estate boom of the early 2000s.

Recently, while cleaning out old board minute files in preparation for the move to our new corporate headquarters, I had the opportunity to revisit crucial board minutes that ultimately steered us clear of the proverbial real estate glacier:

BOARD MEETING, APRIL 16, 1999

Management outlines a residential mortgage program expansion plan. After weighing the situation approval was given to increase staff.

BOARD MEETING, JULY 19, 1999

Management presents a new report detailing all lending activities, including all real estate construction and development loans (residential and commercial), plus an outline of presold loans and speculative construction.

BOARD MEETING, JUNE 18, 2001

Management reports that due to 1) the reputation of our residential construction loan officer, 2) our bank's excellent service to builders, and 3) the increasingly active local building market, we are approaching our policy limit for single-family residential construction lending. The profitability and the risks are all weighed and discussed. The board underlines its consideration of continued growth in the construction portfolio as long as it does not expose the bank to undue risk.

BOARD MEETING, JULY 17, 2001*

The Presold/Spec report is again reviewed. The board asks for more refinement and clarification of the report.

BOARD MEETING, APRIL 18, 2005**

(Perhaps the most important meeting in our bank's history) Management reviews the construction and development report with the board and expresses rising concern of the shift from presold to spec construction and the increasing price of spec and lot loans being requested from borrowers. The board and management indicated their willingness to remain conservative, "even at the expense of a loss in such business." Management is asked to reduce the number of loans in the near future, continue to monitor risk and exposure, and provide ongoing reports.

BOARD MEETING, APRIL 16, 2006

Management reports the continued decline in construction and development loans, including the prospect of a slowdown in the local real estate market and a hypothetical downturn in housing prices. As a result of our conservative underwriting levels, combined with the recent rapid rise in market values, the report showed we could withstand a 40% reduction in sales prices before our combined principal was at risk. It is noted that interest reserves will be fully expended if properties sit on the market for extended periods of time, adding pressure to borrowers in meeting cash flow requirements to properly service debts. A review of local real estate sales activity shows that sales have slowed although no broad concessions have been made in sales prices.

BOARD MEETING, JULY 25, 2006

Spec and construction loans continue to decline and a softening of the real estate market is reported. Management continues to meet with borrowers to discuss operating plans for dealing with the slowdown. The board expresses their continued concern for spec lending.

BOARD MEETING, SEPTEMBER 21, 2006

Management again reports a decline in spec construction lending. The board asks management to carefully review all major developer and spec loans, identifying those who would be most adversely affected by a continued downturn in the real estate market.

LATE SEPTEMBER 2006

From this point forward, the world realizes that the real estate market is suffering a downturn. |

"Gene comes in to check on our inventory from time to time and we just sit and chat. With People's Bank, it's not all numbers—there's a genuine core of caring. I like that."

Jim Leavens

"Spec and construction loan totals continued to decline. At the highest point in People's Bank construction and development lending, slightly over half our loans were in this area. The majority of borrowers honored their promises to pay the bank, even if they suffered a loss as a result. Strong loan policies, knowledgeable loan officers, strong loan underwriting, and a great board of directors navigated through tough waters without a single loss to speculative borrowers—and most likely saved the bank. The so-called experts did not realize we were in a real estate bubble until June of 2007, two years after our board expressed concern."

Ken Trautman

*From August 2001 until March 2005 the board and management conduct monthly reviews monitoring the construction and development loan portfolio. Minor changes are made to reinforce the underwriting requirements.

**From May through July 2005 regulatory review of the loan portfolio indicates that totals of high-risk loans are going down, slightly.

PEOPLE'S BANK REPORTS 13 CONSECUTIVE QUARTERS OF PROFITABILITY

(Medford, Oregon) People's Bank of Commerce (OTCBB: PBCO) reported earnings of \$676,000 for the first nine months of 2012, up 114% over the \$315,000 for the same period last year. This resulted in earnings of \$0.57 per share for the first nine months of 2012, compared to \$0.27 per share reported the prior year. Net interest income was up by 16% year-to-date, the result of strong loan growth during 2012. The Bank is also excited to report the opening of its Barnett Road branch in mid-November 2012.

"The first nine months of 2012 produced the best net profit we've had in the past five years and marks the Bank's 13th consecutive quarter of profitability since the recession hit," said Ken Trautman, president and CEO of People's Bank.

"Strong loan and deposit growth continues in excess of 14%, as local businesses refinance with People's Bank to take advantage of the extremely low long-term rates. The bank's excellent profit, due in large part to its tremendous development in commercial lending, showcases its commitment to lend local deposits to local businesses," added Trautman.

Earnings for the third quarter of 2012 were \$252,000, compared to \$155,000 for the same period in 2011, an increase of 62%. The Bank reported earnings of \$0.21 per share for the three months ending September 30, 2012, compared to \$0.13 per share in 2011. Mortgage lending income for the current three month period was \$413,000, up 185% over the same period last year. Non-interest income was also 36% higher during the third quarter of 2012, compared to the third quarter of 2011. Non-interest expenses showed an increase of 19% over the same period last year, due primarily to salaries of added personnel to support the Bank's strong growth.

For the first three quarters, non-interest income was up 50%, compared to 2011, primarily due to the increase in mortgage lending activity, reflective of the improved local residential real estate market. Non-interest expense for the nine month period ending September 30, 2012 was up 14% over the prior year.

"It is very satisfying to report significant mortgage lending income, which reflects an energized local residential real estate market," said Trautman. "This is in stark contrast to last year's report of 'reduced mortgage lending income, reflective of a slow residential real estate market.'"

The Bank's loan quality continues to excel with non-current loans to total loans at 0.09% as of September 30, 2012, down from 0.27% last year. Non-performing assets to total assets compares loans past due 90 days and more, loans on non-accrual and other real estate owned to total assets. This ratio was 1.39% as of September 30, 2012, compared to 2.44% at the end of September 2011. Reserves totaled 1.62% of total loans at the end of the third quarter 2012, compared to 1.61% one year ago. The loan loss provision totaled \$242,000 for the first nine months of 2012, compared to \$258,000 for the first nine months of 2011.

People's Bank reported total assets of \$137 million at the end of September 2012, up 16% from the prior year. The Bank has total shareholders' equity of \$14.4 million and a book value of \$12.04 per share. Tier one capital to average assets remains strong at 10.3%, considerably above regulatory guidelines for a well-capitalized bank. The Bank's stock trades on the over-the-counter market under the symbol PBCO.

People's Bank of Commerce

	<u>2012</u>		<u>2011</u>	
<u>Quarter ended September 30:</u>				
Net interest income	\$ 1,437,000		\$ 1,245,000	
Provision for Loan Losses	114,000		163,000	
Noninterest income	699,000		514,000	
Noninterest expense	1,646,000		1,380,000	
Net income	252,000		155,000	
EPS	0.21		0.13	**
<u>Year to Date</u>				
Net Interest income	\$ 4,085,000		\$ 3,534,000	
Provision for Loan Losses	242,000		258,000	
Noninterest income	1,792,000		1,194,000	
Noninterest expense	4,637,000		4,075,000	
Net income	676,000		315,000	
EPS	0.57		0.27	**
<u>At September 30:</u>				
Total Portfolio Loans	\$ 105,104,000		\$ 92,081,000	
Total Reserve for Loan Losses	1,750,000		1,525,000	
Total Deposits	120,767,000		100,141,000	
Total Assets	137,060,000		118,199,000	
Total Shareholders' Equity	14,384,000		13,352,000	
No. of shares outstanding	1,194,253		1,179,262	**
Book Value, per share	12.04		11.32	
** Retroactively adjusted for 2012 stock dividend				

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

This release includes forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally can be identified by phrases such as People's Bank or its management "believes," "expects," "anticipates," "foresees," "forecasts," "estimates" or other words or phrases of similar import. Similarly, statements herein that describe People's Bank's business strategy, outlook, objectives, plans, intentions or goals also are forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those in forward-looking statements