



Barnett branch opens its doors November 13, 2012.

## in community

**WHAT IT MEANS TO BE A COMMUNITY BANK: STOCK AND INVESTOR OPTIONS / by Ken Trautman**

One of the interesting things about banks is that they are one of the few (if not only) businesses that can issue and sell their own stock without using SEC licensed investment professionals. By selling stock to raise capital in 2010, we were able to increase loans outstanding by \$30 million. Our shareholders are a true representation of the community. They include business professionals, retirees, employees, family of employees, and other local individuals. What they all have in common is the belief that we need to support our local businesses, including our bank, in the best interest of the community. Without shareholder support, we might have been limited to an increase of only \$10 million in new loans.

I am often asked how an individual can purchase People's Bank stock\*. Below are some frequently asked questions about the advantages of becoming a shareholder at People's Bank.

**Q: How do I become a shareholder?**

**A:** We encourage anyone in the community to look into investing in People's Bank's stock. As a community investor you experience pride of ownership in the bank. Unlike our initial stock offering back in 1997, it is now advisable to use a local stockbroker or financial advisor when looking to purchase stock. They will tell you that your retirement plan, or your IRA for example, can be used to invest in the bank. If you know someone who



Barnett branch construction underway.

already owns stock in the bank and wants to sell a portion of their stock to you, we may be able to assist with that transaction. By becoming an investor you help local enterprises prosper, which in turn strengthens the local economy. Whenever you buy or invest locally, the whole community benefits.

**Q: What are the comparisons of a large bank versus a community bank?**

**A:** A large bank has shareholders who not only live outside the area of the bank's location, but may not even do their banking there. Many have huge corporate asset management ownership. In our case, over 90 percent of current shareholders are from Jackson County; the other 10 percent have a connection to the Valley through a family or business association. Our shareholders include

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Medford, Oregon 97504  
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1311 East Barnett Road  
Medford, Oregon 97504  
541-622-6222

**People's BANK**  
OF COMMERCE  
peoplesbankofcommerce.com

## earnings report

**PEOPLE'S BANK REPORTS 66% INCREASE IN 2012**

People's Bank of Commerce (OTCBB: PBCO) reported earnings for the year ended December 31, 2012, of \$875,000 or \$0.74 per share, compared to earnings of \$528,000 or \$0.45 per share during 2011. Net interest income for the year of \$5.5 million was up 14 percent from \$4.8 million in 2011. At December 31, 2012, the bank reported a 20 percent increase in portfolio loans to \$112.1 million, a 14 percent increase in total assets to \$144.5 million, and a 14 percent increase in deposits to \$125.7 million, when compared to the prior year.

Fourth quarter earnings for 2012 were \$199,000 or \$0.17 per share, compared to \$213,000 or \$0.18 per share for the same quarter in 2011. "Fourth quarter earnings were impacted by one-time expenses associated with our new branch headquarters, including costs related to moving the administrative offices to the Barnett Road location," said Ken Trautman, President and CEO of People's Bank. Net interest income for the fourth quarter of 2012 was up 11 percent when compared to the same quarter in the prior year, due to increased loan totals and lower deposit interest expense.

The net interest margin for 2012 showed a slight reduction to 4.83 percent, compared to 4.94 percent in 2011. "This reduction in the net interest margin follows the bank's strategic plan, which is to grow commercial loans of the highest credit quality available, in part, by implementing competitive pricing standards for strong borrowers," commented Trautman.

Non-interest income for the current year was up 40 percent over last year, benefitting greatly from a 103 percent increase in mortgage lending income. The strong commercial loan growth in 2012 supported a 30 percent increase in loan fees compared to 2011. "The

improvement in the local real estate market in both purchases and new construction, coupled with strong refinance activity and bolstered by record low home loan rates, account for most of the growth in non-interest income," Trautman said. The provision for loan loss expense of \$361,000 in 2012, compared to \$411,000 in 2011, resulted in reserves to total portfolio loans of 1.63 percent, compared to 1.69 percent in 2011.

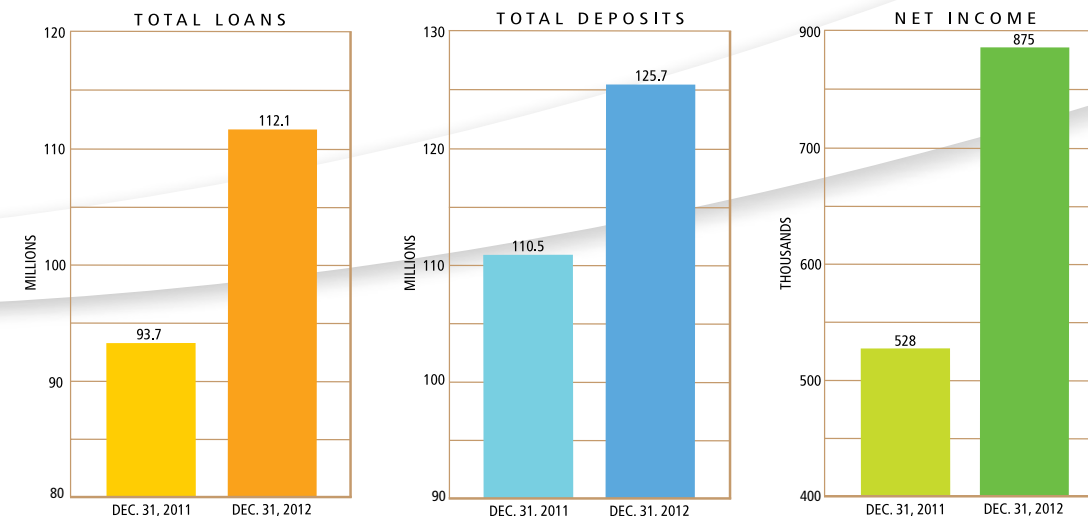
Non-current loans (past due 90 days or more or non-accruing) at December 31, 2012, were 0.04 percent of total loans, compared to 0.15 percent in 2011. Non-performing assets to total loans, a ratio that adds other real estate owned to non-performing loans, was 1.52 percent at December 31, 2012, compared to 2.81 percent in 2011.

"People's Bank's 20 percent growth in total commercial loans this past year, along with the 16 percent growth in 2011, is indicative of our commitment to supporting local business growth in the Rogue Valley," commented Trautman. "Capital continues to be strong at 10 percent, which allowed us the opportunity to expand our branch network to better serve the Southern Oregon community."

The newest branch on Barnett Road opened in November of 2012 and is People's Bank's fourth Southern Oregon branch and second location in Medford. The new bank building also houses its commercial lending center, home lending division, and administrative offices, all of which were moved from the Biddle Road location.

People's Bank of Commerce is headquartered at its Barnett Road branch in Medford, Oregon. Other branches are located in Medford, Ashland and Central Point, Oregon.

People's Bank has a total shareholders' equity of \$14.7 million and a book value of \$12.13 per share. The stock trades in the over-the-counter market under the symbol "PBCO." |



**"Bank loans are assets. That's why we invest in loaning money to local businesses, helping them expand."**

**"Right now, every \$1 invested in new capital allows us to disperse \$10 in new loans to benefit the community."**

Russ Milburn

For updated news releases log onto:  
[www.peoplesbankofcommerce.com/investor-relations.htm](http://www.peoplesbankofcommerce.com/investor-relations.htm)





Marionann and Bud Kaufman

## people's profiles

### FOUNDING BOARDMEMBER, BUD KAUFMAN

Bud Kaufman started Cross & Kaufman Logging in 1954 with his partner Dwain, \$300 of borrowed money and a horse. A year and a half later, they replaced the horse with a CAT, and a \$300 per month payment looming over them. "There were more days than not where we worried about how we'd make that payment," says Bud. "We'd work 18 hours a day, 7 days a week just to pay for the CAT. Sometimes we didn't even make \$100." Then they took on cable logging and more debt. And for a long time, Dwain and Bud learned only too well the meaning of sweat equity.

In 1960, Cross & Kaufman incorporated and became Croman Corporation. By 1972 they had taken their business to new heights: helicopter logging. Back in the 70s, when banks were still starting up everywhere, financing was easy to come by. "My impression of banks back then was that they asked a lot of damn fool questions," Bud reflects. He's adjusted his thinking since becoming a founding board member of People's Bank in 1997. "Now, I realize a lot of those questions are necessary."

Bud was very aware of the magnitude of the risk he and Dwain took when borrowing money to purchase the McGrew Brothers Sawmill in 1981. There was only one problem; they needed a market for their logs. They decided to purchase the mill and manufacture the logs into lumber. "If a hill was too steep, why Dwain would grind it down and drive right over it," is how Bud describes Dwain's determination back then. The

lumber sales proved profitable and they built another mill in Boise, Idaho. But when the sawmill industry completely dried up in 1998, that hill proved to be too much even for Dwain. It took more than six years to liquidate their mill assets. They kept the helicopters. Today, Croman Corporation operates a versatile fleet of Sikorsky S-61, Bell 206BIII Jet Ranger, and Lama 315B helicopters, flying within 11 western states and across the south: 6 are dedicated to fire fighting and logging, 2 are used to supply U.S. Navy ships in Hawaii, and 2 more transport supplies to U.S. troops in Afghanistan.

When Bud was first introduced to Ken and Mike, he was impressed. Bud was part of six founding directors willing to make a sizable investment to finance the bank. They not only had to submit their financials for inspection by the Regulators, but also carried the full risk of the bank in the event it failed. By virtue of putting their name on the bank charter, they took on more liability in the process. "Mike and Ken seemed like they knew what they were talking about," he remembers. "We met at Elmer's for close to a year, and they always bought breakfast." What Ken remembers is a dark day later in the year when a large director/investor candidate bailed. There wasn't a bank yet, they didn't even have a name, and without a full group of investors it didn't look like the bank was ever going to happen. Ken called Bud to break the news to him. "They were pretty down that day," recalls Bud. Having faced times like that himself, Bud knew it was a pivotal moment and took immediate action. "'Come on over,' I told them."

So on that dark day in early 1997, Bud sat across



### BUD KAUFMAN (continued)

from Mike and Ken and asked, "What do we do next?" That was the definitive meeting. "Bud isn't a risk taker," Ken stresses, "but he was fiercely committed to the new bank and willing to front a big portion himself." As soon as he did, people said, "Well if Bud has invested, I will, too." Soon after that, the remaining bank director/investors were secured. They were ready to apply for their charter. Later that year, the FDIC and the State of Oregon granted final approval and they could begin offering stock. In just three weeks they had not only sold all \$4 million in stock, but increased the offer amount by another \$2 million and sold that too.

You'll notice right away that Bud has a strong work ethic, and his working boots are an immediate giveaway. He wears them regardless of the occasion. Don't let his quiet demeanor fool you; he's a loyal man, a fair man, and one heck of a listener. "I know a lot more about banking than I did back in the 80s. My real job on this board," says Bud, "is to be a thinker." In board meetings, Ken searches for Bud's cue of that mechanism at work. "I look to see if his grey head is nodding yes or no," says Ken. One of the most valuable lessons Bud puts into practice as a board member is, he says, "The hard work you put in during the good times is what makes all the difference in how you manage the bad times." And his net worth, as well as that of every other board member, is tied to People's Bank. He understands that the purpose of the bank is to partner with small businesses. "If we don't help businesses succeed in meeting the needs of the community, then they can't serve the community and we haven't done our job."

Bud also understands what a successful partnership takes. He speaks from experience. Bud and his wife, Marionann, have been married 48 years. And after a 59-year partnership with Dwain, they still get along better than either of them ever did with that horse. |

## shared interests

### DONNA BECKER, SHAREHOLDER

The main reason Donna Becker decided to buy stock in People's Bank back in 1997 is the same reason you'll hear from other shareholders: "I believed in what Ken and Mike were doing and trusted them." What she and many other initial shareholders also had in common was they neither had a stockbroker

nor had ever purchased stock before. What's more, putting money into stock meant taking a risk because the bank was a new company and the funds wouldn't be liquid. What struck everyone involved as unique was Mike's overwhelming concern for the retired shareholders looking to invest. He seemed to be watching out for their interest as much as the bank's, which just happens to be the way People's Bank still operates today. Asking shareholders to invest in the startup bank was tantamount to its very existence. But Ken and Mike didn't want the foundation to be built on people unable to access money they needed to live on. And so People's Bank talked some shareholders into investing only what they could afford to risk. This approach actually increased the determination of early investors, rather than deter them.

Donna Becker was among the first to invest. "I have always trusted my gut," she says. "My faith and confidence in Ken allowed me to scrape the bottom of the barrel." And so she did (or at least as much as Mike would allow her to). She started with 300 shares and now owns almost 3,000. That same conviction gave her the courage to blaze her way west from Ellsworth, Minnesota with her husband, Gordon Henslin, back in 1955. While Gordon worked on The Dalles Dam, Donna worked for First National Bank of The Dalles. Years later, that same bank would become a branch of First National Bank of Oregon, later changed to First Interstate Bank.

When you consider that Donna spent a year in a body cast following two consecutive invasive scoliosis surgeries, while at the same time watching her husband helplessly succumb to blindness from macular degeneration at age 36, plus her courageous battle with breast cancer at the age of 52, it isn't any wonder this woman is fearless when it comes to taking risks. But investing in People's Bank was a calculated risk. And one that's paid good dividends. Almost every one of those initial shareholders has left their money right where it is.

"When the new branch opened, I was proud to be a shareholder," beams Donna. The Central Point branch is where she does her banking. The employees know Donna simply as Donna, a customer. They don't know she is a shareholder, and they certainly don't know she just happens to be Ken's mother-in-law. |



**"I have always trusted my gut. My faith and confidence in Ken allowed me to scrape the bottom of the barrel. When the new branch opened, I was proud to be a shareholder."**

Donna Becker



## customer centric

### CLYDE SMITH: APPLIED REFRIGERATION

Just this past December, Clyde found an install van in Roseburg for \$8,000 less than the one he was prepared to purchase. All he needed was one phone call from People's Bank to close the deal. "Any other [bank], and I'd be dealing with paperwork for days on end," says Clyde.

The only time Clyde has lived outside of Oregon is the four years he served with the First Cavalry Division in Ft. Hood, Texas, and the years he attended San Joaquin Delta College, where he studied mechanical engineering and met his future wife, Sharon. A large nationwide refrigeration company was looking to open a location in Medford, and recruited Clyde in 1990. By the time he had worked his way up to Oregon Division Manager eight years later, Clyde decided it was not only time to start his own refrigeration and HVAC company, but to diversify into the family amusement business as well. He registered two EINs and wrote two business plans: one for Applied Refrigeration Technology and another for an indoor Slick Kart Track & Arcade. Both EINs were just one digit apart.

"I talked to other banks, but they wouldn't touch Slick Kart," recalls Clyde. He was advised to contact the Small Business Administration (SBA). It was a loan query through the SBA that led him to Jerry Burns at People's Bank. "Jerry believed in it and was impressed with my business plan." But what impressed Clyde was Jerry's enthusiasm and how quickly he pushed through SBA to get it all done. Clyde didn't see People's Bank's role in Applied Refrigeration just yet. "I already had established a line of credit with my [refrigeration] vendors using my service vehicles as collateral, and was using an outside service for payables and receivables," remembers Clyde. "My mind was on Slick Kart, a cash-based business." Meanwhile, Sharon, Clyde's wife, moved all of their personal banking to People's, opened a professional account, and wrote their first Slick Kart check (#1501). After these first steps, they were on their way. And so, ironically, was People's Bank. "We were one of their first business and personal banking customers," Clyde beams.

By March 2001, Thomas Knox was overseeing Clyde's account. "It was Thomas that initiated the line of credit for Applied Refrigeration," Clyde says, smiling. "He looked over our numbers and showed



us how we could save 12 percent by moving our accounting to People's Bank instead of paying the finance charges from the service we had contracted with. That freed up more working capital to purchase diesel equipment trucks, rather than gas, which saved us even more money."

In 2002, a check forgery occurred, which People's Bank caught. "Because they are a small enough bank and were intimately familiar with our business, they recognized that something was out of the ordinary. They caught every one of the forgery checks that came through," Sharon confides. "We feel like they are really looking out for us." People's Bank looks out for their well-being in other ways, too. The couple has been able to realize their portfolio goals much earlier, allowing more security for the future and the ability to reward their employees with bonuses and incentives.

"People's Bank keeps the business going on our behalf with the least amount of effort on our part," Clyde emphasizes. "And we'd never get that kind of attention from a large bank." |

**"People's Bank keeps the business going on our behalf with the least amount of effort on our part. And we'd never get that kind of attention from a large bank."**

Clyde Smith



Sharon and Clyde Smith



1311 East Barnett Road Medford, Oregon 97504

### IN COMMUNITY (continued from front page)

business professionals, retirees, employees, family of employees, and other local individuals. People's Bank's board of directors and senior officers hold about 40 percent of the stock. By living in the community in which they invest shareholders are able to drive by the local businesses their investment supports and see for themselves if they are prospering.

#### Q: How do shareholders benefit financially from their investment?

**A:** Investors get something in return for their investment: cash, stock, or both. The value of that investment generally increases over time. Currently, People's Bank's price to earnings ratio is around 13 as compared to that of Wells Fargo bank's price to earnings ratio at 10. That is our shareholders' way of showing confidence in our ability to continually increase our profit.

#### Q: How is the bank's contribution to the community measured?

**A:** In addition to supporting non-profit organizations, the success of our bank is measured, from the community's perspective, by the number of loans made available, providing housing, construction development, and the addition of businesses of all kinds, which ultimately creates more jobs. We have provided \$31 million more in loans today than we did two years ago. From our per-

spective, we consider more than just the financial quotient when assessing the measure of our success: "Are we well thought of? Do we have a good reputation? Have we earned the respect of the community? Do we have integrity?" If we can say "yes" to those, then we can safely say our bank has successfully lived up to our commitment of contributing to the community.

#### Q: What role does the bank play in non-profits?

**A:** We believe it's important to support our local community with a combination of human resources and financial support. We consciously staff our organization with people who actively give back to the community. The organizations we support are largely guided by the ones our employees are involved with, those we collectively have a soft spot for, and organizations that have the greatest impact across the community.

We encourage all of our customers, new or existing, to become shareholders. The more our shareholder base continues to grow the more we can provide to our local businesses to benefit the community at large. Our goal has always been to be a permanent fixture in the community, both as a bank and as a participant, so that you can proudly say, "People's Bank, now that's my Bank." |

**"What a community bank really means: There's a lot more that goes into building a community bank than just bricks."**

Ken Trautman

\*The shares of common stock of People's Bank are not bank products and are not insured by the FDIC.

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