

PEOPLES BANCORP INC
Form 10-Q
April 24, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

138 Putnam Street, P. O. Box 738,
Marietta, Ohio

45750

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated Accelerated filer Non-accelerated filer

Smaller reporting company

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filer o

(Do not check if a smaller reporting
company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,799,572 common shares, without par value, at April 23, 2013.

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	March 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$27,790	\$47,256
Interest-bearing deposits in other banks	97,608	15,286
Total cash and cash equivalents	125,398	62,542
Available-for-sale investment securities, at fair value (amortized cost of \$592,005 at March 31, 2013 and \$628,584 at December 31, 2012)	602,645	639,185
Held-to-maturity investment securities, at amortized cost (fair value of \$48,567 at March 31, 2013 and \$47,124 at December 31, 2012)	48,307	45,275
Other investment securities, at cost	24,884	24,625
Total investment securities	675,836	709,085
Loans, net of deferred fees and costs	980,518	985,172
Allowance for loan losses	(17,439)	(17,811)
Net loans	963,079	967,361
Loans held for sale	2,844	6,546
Bank premises and equipment, net	27,745	27,013
Bank owned life insurance	49,816	51,229
Goodwill	65,401	64,881
Other intangible assets	4,576	3,644
Other assets	24,027	25,749
Total assets	\$1,938,722	\$1,918,050
Liabilities		
Deposits:		
Non-interest-bearing	\$340,887	\$317,071
Interest-bearing	1,188,039	1,175,232
Total deposits	1,528,926	1,492,303
Short-term borrowings	32,395	47,769
Long-term borrowings	127,074	128,823
Accrued expenses and other liabilities	24,248	27,427
Total liabilities	1,712,643	1,696,322
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at March 31, 2013 and December 31, 2012	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,167,721 shares issued at March 31, 2013 and 11,155,648 shares issued at December 31, 2012, including shares in treasury	167,451	167,039
Retained earnings	72,885	69,158
Accumulated other comprehensive income, net of deferred income taxes	708	654
Treasury stock, at cost, 599,574 shares at March 31, 2013 and 607,688 shares at December 31, 2012	(14,965)	(15,123)
Total stockholders' equity	226,079	221,728
Total liabilities and stockholders' equity	\$1,938,722	\$1,918,050

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended	
	March 31, 2013	2012
Interest Income:		
Interest and fees on loans	\$11,454	\$11,760
Interest and dividends on taxable investment securities	4,215	5,507
Interest on tax-exempt investment securities	379	341
Other interest income	18	4
Total interest income	16,066	17,612
Interest Expense:		
Interest on deposits	1,939	2,547
Interest on short-term borrowings	13	19
Interest on long-term borrowings	1,139	1,119
Interest on junior subordinated debentures held by subsidiary trust	—	495
Total interest expense	3,091	4,180
Net interest income	12,975	13,432
Recovery of loan losses	(1,065	)(2,137
Net interest income after recovery of loan losses	14,040	15,569
Other Income:		
Insurance income	2,878	2,951
Deposit account service charges	2,057	2,237
Trust and investment income	1,702	1,496
Electronic banking income	1,419	1,488
Mortgage banking income	718	549
Net gain on investment securities	418	3,163
Net loss on asset disposals and other transactions	(5	)(3,062
Other non-interest income	298	361
Total other income	9,485	9,183
Other Expenses:		
Salaries and employee benefit costs	8,717	8,245
Net occupancy and equipment	1,858	1,432
Professional fees	894	813
Electronic banking expense	840	694
Marketing expense	450	475
Data processing and software	461	487
Franchise tax	413	412
Communication expense	303	348
Foreclosed real estate and other loan expenses	217	221
FDIC insurance	280	309
Amortization of other intangible assets	189	107
Other non-interest expense	1,563	1,473
Total other expenses	16,185	15,016
Income before income taxes	7,340	9,736
Income tax expense	2,318	3,079
Net income	\$5,022	\$6,657
Earnings per share - basic	\$0.47	\$0.63
Earnings per share - diluted	\$0.47	\$0.63

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Weighted-average number of shares outstanding - basic	10,556,261	10,513,388
Weighted-average number of shares outstanding - diluted	10,571,383	10,513,388
Cash dividends declared	\$1,295	\$1,172
Cash dividends declared per share	\$0.12	\$0.11
See Notes to the Unaudited Consolidated Financial Statements		

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2013	2012
Net income	\$5,022	\$6,657
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Gross unrealized holding gain (loss) arising in the period	457	(1,063)
Related tax (expense) benefit	(160	)372
Less: reclassification adjustment for net gain included in net income	418	3,163
Related tax expense	(146	)(1,107)
Net effect on other comprehensive income (loss)	25	(2,747)
Defined benefit plans:		
Amortization of unrecognized loss and service cost on benefit plans	45	38
Related tax expense	(16	)(13)
Net effect on other comprehensive income (loss)	29	25
Total other comprehensive income (loss), net of tax	54	(2,722)
Total comprehensive income	\$5,076	\$3,935

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	\$167,039	\$69,158	\$654	\$(15,123	)\$221,728
Net income		5,022			5,022
Other comprehensive loss, net of tax			54		54
Common stock cash dividends declared		(1,295)			(1,295)
Tax benefit from exercise of stock options	27				27
Reissuance of treasury stock for deferred compensation plan				142	142
Purchase of treasury stock				(31	)(31)
Common shares issued under dividend reinvestment plan	95				95
Common shares issued under Board of Directors' compensation plan	(7)			47	40
Stock-based compensation expense	297				297
Balance, March 31, 2013	\$167,451	\$72,885	\$708	\$(14,965	)\$226,079

See Notes to the Unaudited Consolidated Financial Statements

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2013	2012
Net cash provided by operating activities	\$10,757	\$8,433
Investing activities:		
Available-for-sale investment securities:		
Purchases	(67,397)	(83,594)
Proceeds from sales	69,114	63,651
Proceeds from principal payments, calls and prepayments	31,446	34,069
Held-to-maturity investment securities:		
Purchases	(3,231)	(18,348)
Proceeds from principal payments	116	309
Net decrease (increase) in loans	5,607	(5,869)
Net expenditures for premises and equipment	(1,776)	(645)
Proceeds from sales of other real estate owned	16	1,381
Proceeds from bank owned life insurance	1,441	—
Business acquisitions, net of cash received	(1,524)	—
Net cash provided by (used in) investing activities	33,812	(9,046)
Financing activities:		
Net increase in non-interest-bearing deposits	23,816	28,607
Net increase in interest-bearing deposits	12,805	18,839
Net decrease in short-term borrowings	(15,374)	(6,738)
Payments on long-term borrowings	(1,756)	(38,771)
Repurchase of preferred shares and common stock warrant	—	(1,201)
Cash dividends paid on common shares	(1,201)	(1,086)
Purchase of treasury stock	(31)	(34)
Proceeds from issuance of common shares	1	2
Excess tax benefit from share-based payments	27	—
Net cash provided by (used in) financing activities	18,287	(382)
Net increase (decrease) in cash and cash equivalents	62,856	(995)
Cash and cash equivalents at beginning of period	62,542	38,950
Cash and cash equivalents at end of period	\$125,398	\$37,955

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (“2012 Form 10-K”).

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples’ 2012 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after March 31, 2013, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2012, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples’ 2012 Form 10-K.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year, due in part to seasonal variations and unusual or infrequently occurring items. Peoples’ insurance income includes contingent performance-based insurance commissions that are recognized by Peoples when received, which typically occurs during the first quarter of each year. For the three months ended March 31, 2013 and 2012, the amount of contingent performance-based insurance commissions recognized totaled \$504,000 and \$919,000, respectively.

New Accounting Pronouncements: In February 2013, the Financial Accounting Standards Board issued an accounting standards update with new guidance on the presentation of accumulated other comprehensive income (“AOCI”). This standard was effective for public companies for interim and annual periods beginning after December 15, 2012. The amendment requires an entity to present the reclassification adjustments out of AOCI and into net income for each component reported. These amounts may be disclosed before-tax or after-tax, and must be disclosed in either the income statement or the notes to the financial statements. This update is intended to supplement changes made in 2012 to increase the prominence of items reported in other comprehensive income. Peoples adopted this new guidance on January 1, 2013, as required. As a result of the adoption, the disclosure of AOCI included in Note 5 contains additional information regarding reclassifications out of AOCI and into net income.

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Note 2. Fair Value of Financial Instruments

Assets measured at fair value on a recurring basis comprised the following at March 31, 2013:

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013				
Obligations of:				
U.S. Treasury and government agencies	\$25	\$—	\$25	\$—
U.S. government sponsored agencies	459	—	459	—
States and political subdivisions	47,165	—	47,165	—
Residential mortgage-backed securities	495,135	12,713	482,422	—
Commercial mortgage-backed securities	48,072	—	48,072	—
Bank-issued trust preferred securities	7,879	—	7,879	—
Equity securities	3,910	3,775	135	—
Total available-for-sale securities	\$602,645	\$16,488	\$586,157	\$—
December 31, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$26	\$—	\$26	\$—
U.S. government sponsored agencies	516	—	516	—
States and political subdivisions	45,668	681	44,987	—
Residential mortgage-backed securities	514,096	—	514,096	—
Commercial mortgage-backed securities	64,416	—	64,416	—
Bank-issued trust preferred securities	10,357	—	10,357	—
Equity securities	4,106	3,971	135	—
Total available-for-sale securities	\$639,185	\$4,652	\$634,533	\$—

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curves, credit spreads and prices from market makers and live trading systems (Level 2).

Certain financial assets and financial liabilities are measured at fair value on a non-recurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets measured at fair value on a non-recurring basis included the following:

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At March 31, 2013, impaired loans with an aggregate outstanding principal balance of \$3.1 million were measured and reported at a fair value of \$2.5 million. For the three months ended March 31, 2013, Peoples recognized losses of \$0.6 million on impaired loans through the allowance for loan losses.

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The following table presents the fair values of financial assets and liabilities carried on Peoples' consolidated balance sheets, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

(Dollars in thousands)	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$125,398	\$125,398	\$62,542	\$62,542
Investment securities	675,836	676,096	709,085	710,934
Loans	965,923	897,408	973,907	897,132
Financial liabilities:				
Deposits	\$1,528,926	\$1,538,430	\$1,492,303	\$1,503,098
Short-term borrowings	32,395	32,395	47,769	47,769
Long-term borrowings	127,074	138,688	128,823	141,691

The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include cash and cash equivalents, demand and other non-maturity deposits and overnight borrowings. Peoples used the following methods and assumptions in estimating the fair value of the following financial instruments:

Loans: The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 2 inputs). In the current whole loan market, financial investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the lack of market liquidity. This divergence accounts for the majority of the difference in carrying amount over fair value.

Deposits: The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation based on current rates offered for deposits of similar remaining maturities (Level 2 inputs).

Long-term Borrowings: The fair value of long-term borrowings is estimated using discounted cash flow analysis based on rates currently available to Peoples for borrowings with similar terms (Level 2 inputs).

Bank premises and equipment, customer relationships, deposit base, banking center networks, and other information required to compute Peoples' aggregate fair value are not included in the above information. Accordingly, the above fair values are not intended to represent the aggregate fair value of Peoples.

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Note 3. Investment Securities

Available-for-sale

The following table summarizes Peoples' available-for-sale investment securities:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013				
Obligations of:				
U.S. Treasury and government agencies	\$25	\$—	\$—	\$25
U.S. government sponsored agencies	435	24	—	459
States and political subdivisions	44,464	2,882	(181)	)47,165
Residential mortgage-backed securities	490,288	11,645	(6,798)	)495,135
Commercial mortgage-backed securities	47,084	1,055	(67)	)48,072
Bank-issued trust preferred securities	8,496	1	(618)	)7,879
Equity securities	1,213	2,783	(86)	)3,910
Total available-for-sale securities	\$592,005	\$18,390	\$(7,750)	)\$602,645
December 31, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$26	\$—	\$—	\$26
U.S. government sponsored agencies	486	30	—	516
States and political subdivisions	42,458	3,292	(82)	)45,668
Residential mortgage-backed securities	511,305	12,558	(9,767)	)514,096
Commercial mortgage-backed securities	62,129	2,330	(43)	)64,416
Bank-issued trust preferred securities	10,966	73	(682)	)10,357
Equity securities	1,214	2,977	(85)	)4,106
Total available-for-sale securities	\$628,584	\$21,260	\$(10,659)	)\$639,185

Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both March 31, 2013 and December 31, 2012. At March 31, 2013, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies, that exceeded 10% of stockholders' equity. In early April of 2013, Peoples increased its investments in mortgage-backed securities, mostly residential, by approximately \$60 million, funded from cash and cash equivalents.

The gross gains and gross losses realized by Peoples from sales of available-for-sale securities for the periods ended March 31 were as follows:

(Dollars in thousands)	Three Months Ended	
	March 31, 2013	2012
Gross gains realized	\$2,045	\$3,272
Gross losses realized	1,627	109
Net gain realized	\$418	\$3,163

The cost of investment securities sold, and any resulting gain or loss, was based on the specific identification method and recognized as of the trade date.

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The following table presents a summary of available-for-sale investment securities that had an unrealized loss:

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
March 31, 2013								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	9,120	181	15	—	—	—	9,120	181
Residential mortgage-backed securities	168,316	2,996	34	38,288	3,802	13	206,604	6,798
Commercial mortgage-backed securities	7,640	67	2	—	—	—	7,640	67
Bank-issued trust preferred securities	2,376	18	1	4,487	600	4	6,863	618
Equity securities	—	—	—	90	86	1	90	86
Total	\$187,452	\$3,262	52	\$42,865	\$4,488	18	\$230,317	\$7,750
December 31, 2012								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	4,558	82	8	—	—	—	4,558	82
Residential mortgage-backed securities	135,250	2,326	28	89,958	7,441	20	225,208	9,767
Commercial mortgage-backed securities	7,681	43	2	—	—	—	7,681	43
Bank-issued trust preferred securities	2,376	18	2	5,434	664	5	7,810	682
Equity securities	—	—	—	91	85	1	91	85
Total	\$149,865	\$2,469	40	\$95,483	\$8,190	26	\$245,348	\$10,659

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At March 31, 2013, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both March 31, 2013 and December 31, 2012, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At March 31, 2013, approximately 92% of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored enterprises. The remaining 8%, or six positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Three of the six positions had a fair value less than 90% of their book value, with an aggregate book and fair value of \$2.0 million and \$1.5 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, one of the four bank-issued trust preferred securities which were in an unrealized loss position were within 90% of book value, while the unrealized losses for the remaining three were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector. The remaining three securities had an aggregate book value of approximately \$3.0 million and fair value of \$2.4 million at March 31, 2013.

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The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at March 31, 2013. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	
Amortized cost						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$22	\$3	\$—	\$25	
U.S. government sponsored agencies	—	435	—	—	435	
States and political subdivisions	360	1,572	15,103	27,429	44,464	
Residential mortgage-backed securities	—	2,558	51,735	435,995	490,288	
Commercial mortgage-backed securities	—	5,324	26,783	14,977	47,084	
Bank-issued trust preferred securities	—	—	—	8,496	8,496	
Equity securities					1,213	
Total available-for-sale securities	\$360	\$9,911	\$93,624	\$486,897	\$592,005	
Fair value						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$22	\$3	\$—	\$25	
U.S. government sponsored agencies	—	459	—	—	459	
States and political subdivisions	367	1,699	16,342	28,757	47,165	
Residential mortgage-backed securities	—	2,690	52,925	439,520	495,135	
Commercial mortgage-backed securities	—	5,621	27,208	15,243	48,072	
Bank-issued trust preferred securities	—	—	—	7,879	7,879	
Equity securities					3,910	
Total available-for-sale securities	\$367	\$10,491	\$96,478	\$491,399	\$602,645	
Total average yield	5.88	%3.85	%3.17	%2.99	%3.03	%

Held-to-Maturity

The following table summarizes Peoples' held-to-maturity investment securities:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013				
Obligations of:				
States and political subdivisions	\$3,857	\$392	\$—	\$4,249
Residential mortgage-backed securities	36,547	556	(680)	36,423
Commercial mortgage-backed securities	7,903	53	(61)	7,895
Total held-to-maturity securities	\$48,307	\$1,001	\$(741)	\$48,567
December 31, 2012				
Obligations of:				
States and political subdivisions	\$3,860	\$390	\$—	\$4,250
Residential mortgage-backed securities	33,494	1,107	(41)	34,560
Commercial mortgage-backed securities	7,921	393	—	8,314
Total held-to-maturity securities	\$45,275	\$1,890	\$(41)	\$47,124

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three months ended March 31, 2013 and 2012.

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The following table presents a summary of held-to-maturity investment securities that had an unrealized loss:

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
March 31, 2013								
Residential mortgage-backed securities	\$ 18,903	\$ 680	5	\$—	\$—	—	\$ 18,903	\$ 680
Commercial mortgage-backed securities	6,741	61	1	—	—	—	6,741	61
Total	\$ 25,644	\$ 741	6	\$—	\$—	—	\$ 25,644	\$ 741
December 31, 2012								
Residential mortgage-backed securities	\$—	\$—	—	\$—	\$—	—	\$—	\$—
Commercial mortgage-backed securities	2,398	41	2	—	—	—	2,398	41
Total	\$ 2,398	\$ 41	2	\$—	\$—	—	\$ 2,398	\$ 41

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at March 31, 2013. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	
Amortized cost						
Obligations of:						
States and political subdivisions	\$—	\$—	\$ 338	\$ 3,519	\$ 3,857	
Residential mortgage-backed securities	—	—	541	36,006	36,547	
Commercial mortgage-backed securities	—	—	—	7,903	7,903	
Total held-to-maturity securities	\$—	\$—	\$ 879	\$ 47,428	\$ 48,307	
Fair value						
Obligations of:						
States and political subdivisions	\$—	\$—	\$ 339	\$ 3,910	\$ 4,249	
Residential mortgage-backed securities	—	—	548	35,875	36,423	
Commercial mortgage-backed securities	—	—	—	7,895	7,895	
Total held-to-maturity securities	\$—	\$—	\$ 887	\$ 47,680	\$ 48,567	
Total average yield	—	%—	% 2.61	% 2.79	% 2.79	%

Peoples had pledged available-for-sale investment securities with a carrying value of \$330.0 million and \$260.9 million at March 31, 2013 and December 31, 2012, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Additionally, Peoples had pledged held-to-maturity investment securities with a carrying value of \$18.4 million and \$45.3 million at March 31, 2013 and December 31, 2012, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of \$23.5 million and \$50.4 million at March 31, 2013 and December 31, 2012, respectively, and held-to-maturity securities with a carrying value of \$26.7 million at March 31, 2013 to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

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Note 4. Loans

Peoples' loan portfolio consists of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of central and southeastern Ohio, west central West Virginia, and northeastern Kentucky. The major classifications of loan balances, excluding loans held for sale, were as follows:

(Dollars in thousands)	March 31, 2013	December 31, 2012
Commercial real estate, construction	\$24,108	\$34,265
Commercial real estate, other	381,331	378,073
Commercial real estate	405,439	412,338
Commercial and industrial	174,982	180,131
Residential real estate	237,193	233,841
Home equity lines of credit	50,555	51,053
Consumer	108,353	101,246
Deposit account overdrafts	3,996	6,563
Total loans	\$980,518	\$985,172

Peoples has acquired various loans through business combinations for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected. The carrying amounts of these loans included in the loan balances above are summarized as follows:

(Dollars in thousands)	March 31, 2013	December 31, 2012
Commercial real estate	\$2,055	\$2,145
Commercial and industrial	64	74
Residential real estate	12,489	12,873
Consumer	62	84
Total outstanding balance	\$14,670	\$15,176
Net carrying amount	\$14,193	\$14,700

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$203.1 million and \$202.0 million at March 31, 2013 and December 31, 2012, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$159.8 million and \$123.8 million at March 31, 2013 and December 31, 2012, respectively.

Nonaccrual and Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. A loan may be placed on nonaccrual status regardless of whether or not such loan is considered past due. The recorded investments in loans on nonaccrual status and accruing loans delinquent for 90 days or more were as follows:

(Dollars in thousands)	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Commercial real estate, construction	\$—	\$—	\$—	\$—
Commercial real estate, other	7,947	9,831	—	—
Commercial real estate	7,947	9,831	—	—
Commercial and industrial	327	627	—	181
Residential real estate	3,442	3,136	—	—
Home equity lines of credit	78	24	—	—

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Consumer	9	20	3	4
Total	\$ 11,803	\$ 13,638	\$ 3	\$ 185

The following table presents the aging of the recorded investment in past due loans and leases:

(Dollars in thousands)	Loans Past Due				Current Loans	Total Loans
	30 - 59 days	60 - 89 days	90 + Days	Total		
March 31, 2013						
Commercial real estate, construction	\$—	\$—	\$—	\$—	\$24,108	\$24,108
Commercial real estate, other	4,320	237	4,481	9,038	372,293	381,331
Commercial real estate	4,320	237	4,481	9,038	396,401	405,439
Commercial and industrial	110	129	287	526	174,456	174,982
Residential real estate	2,126	238	1,685	4,049	233,144	237,193
Home equity lines of credit	82	49	9	140	50,415	50,555
Consumer	279	197	3	479	107,874	108,353
Deposit account overdrafts	46	—	—	46	3,950	3,996
Total	\$6,963	\$850	\$6,465	\$14,278	\$966,240	\$980,518
December 31, 2012						
Commercial real estate, construction	\$—	\$77	\$—	\$77	\$34,188	\$34,265
Commercial real estate, other	11,382	705	5,144	17,231	360,842	378,073
Commercial real estate	11,382	782	5,144	17,308	395,030	412,338
Commercial and industrial	3,841	116	294	4,251	175,880	180,131
Residential real estate	4,640	1,049	2,019	7,708	226,133	233,841
Home equity lines of credit	274	25	24	323	50,730	51,053
Consumer	926	127	10	1,063	100,183	101,246
Deposit account overdrafts	55	—	—	55	6,508	6,563
Total	\$21,118	\$2,099	\$7,491	\$30,708	\$954,464	\$985,172

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2012 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

“Pass” (grades 1 through 4): Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

“Watch” (grade 5): Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in Peoples' credit position.

“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that Peoples will sustain some loss if the deficiencies are not corrected.

“Doubtful” (grade 7): Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes

uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category. Consumer loans and other smaller-balance loans are evaluated and categorized as “substandard”, “doubtful” or “loss” based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually nor meeting the regulatory conditions to be categorized as described above would be considered as being “not rated”.

The following table summarizes the risk category of Peoples' loan portfolio based upon the most recent analysis performed:

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
March 31, 2013						
Commercial real estate, construction	\$18,858	\$1,013	\$73	\$—	\$4,164	\$24,108
Commercial real estate, other	342,106	13,638	24,723	—	864	381,331
Commercial real estate	360,964	14,651	24,796	—	5,028	405,439
Commercial and industrial	149,932	9,079	14,637	—	1,334	174,982
Residential real estate	22,186	1,835	7,412	5	205,755	237,193
Home equity lines of credit	1,018	—	1,090	—	48,447	50,555
Consumer	71	—	41	—	108,241	108,353
Deposit account overdrafts	—	—	—	—	3,996	3,996
Total	\$534,171	\$25,565				