PEOPLES BANCORP INC
Form 10-Q
April 24, 2013

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

FORM 10-Q

(Mark One)

x 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

o 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 x No o

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 x No o

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 x Non-accelerated filer o Smaller reporting company o

| | |
|---|---|
| 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 o 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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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands, except per share data) | 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 |

| | | |
|---|---|---|
| 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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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 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

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 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:

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| (Dollars in thousands) | 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 Fair Value | Unrealized Loss | No. of Securities | 12 Months or More Fair Value | Unrealized Loss | No. of Securities | Total 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 Fair Value | Unrealized Loss | No. of Securities | 12 Months or More Fair Value | Unrealized Loss | No. of Securities | Total 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% |

Pledged Securities

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:

| | Nonaccrual Loans | | Accruing Loans 90+ Days Past Due | |
|---|---|---|---|---|
| (Dollars in thousands) | 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 | — | — |

| | | | | |
|---|---|---|---|---|
| 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:

| | Loans Past Due | | | | Current | Total |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 30 - 59 days | 60 - 89 days | 90 + Days | Total | Loans | Loans |
| 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 | $47,976 | $5 | $372,801 | $980,518 |
| December 31, 2012 | | | | | | |
| Commercial real estate, construction | $29,738 | $— | $1,095 | $— | $3,432 | $34,265 |
| Commercial real estate, other | 328,435 | 18,940 | 29,573 | — | 1,125 | 378,073 |
| Commercial real estate | 358,173 | 18,940 | 30,668 | — | 4,557 | 412,338 |
| Commercial and industrial | 150,180 | 21,566 | 7,054 | — | 1,331 | 180,131 |
| Residential real estate | 22,392 | 1,768 | 7,597 | 10 | 202,074 | 233,841 |
| Home equity lines of credit | 1,051 | — | 1,094 | — | 48,908 | 51,053 |
| Consumer | 66 | — | 47 | — | 101,133 | 101,246 |
| Deposit account overdrafts | — | — | — | — | 6,563 | 6,563 |
| Total | $531,862 | $42,274 | $46,460 | $10 | $364,566 | $985,172 |

Impaired Loans

The following tables summarize loans classified as impaired:

| (Dollars in thousands) | Unpaid Principal Balance | Recorded Investment With Allowance | Recorded Investment Without Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|---|---|
| March 31, 2013 | | | | | | | |
| Commercial real estate, construction | $— | $— | $— | $— | $— | $— | $— |
| Commercial real estate, other | 16,460 | 3,458 | 4,448 | 7,906 | 1,226 | 7,970 | — |
| Commercial real estate | 16,460 | $3,458 | $4,448 | $7,906 | $1,226 | $7,970 | $— |
| Commercial and industrial | 696 | 315 | — | 315 | 315 | 467 | — |
| Residential real estate | 3,844 | 267 | 3,052 | 3,319 | 77 | 3,279 | 33 |
| Home equity lines of credit | 357 | — | 357 | 357 | — | 348 | 4 |
| Consumer | 162 | — | 162 | 162 | — | 134 | 4 |
| Total | $21,519 | $4,040 | $8,019 | $12,059 | $1,618 | $12,198 | $41 |
| December 31, 2012 | | | | | | | |
| Commercial real estate, construction | $— | $— | $— | $— | $— | $— | $— |
| Commercial real estate, other | 19,023 | 2,785 | 7,053 | 9,838 | 1,262 | 11,048 | — |
| Commercial real estate | 19,023 | $2,785 | $7,053 | $9,838 | $1,262 | $11,048 | $— |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Commercial and industrial | 696 | 182 | 437 | 619 | 36 | 518 | — |
| Residential real estate | 3,943 | 418 | 3,063 | 3,481 | 123 | 2,014 | 149 |
| Home equity lines of credit | 349 | — | 349 | 349 | — | 140 | 17 |
| Consumer | 114 | — | 114 | 114 | — | 49 | 14 |
| Total | $24,125 | $3,385 | $11,016 | $14,401 | $1,421 | $13,769 | $180 |

At March 31, 2013, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings.

In assessing whether or not a borrower is experiencing financial difficulties, Peoples considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is insufficient to satisfy contractual payments due under the original terms of the loan without a modification.

Peoples considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by Peoples include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to the unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by Peoples generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or the remaining term of the loan.

During 2013, in accordance with regulatory guidance regarding borrowers who were in Chapter 7 bankruptcy, Peoples identified $274,000 of loans that were TDRs. The regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged and the borrower has not reaffirmed the debt, regardless of the delinquency status of the loan. The filing of bankruptcy by the borrower is evidence of financial difficulty and the discharge of the obligation by the bankruptcy court is deemed to be a concession granted to the borrower. The $274,000 of loans were accruing as of March 31, 2013 since Peoples expects to collect all principal and interest payments.

The following table summarizes the loans that were modified as a TDR during the three months ended March 31, 2013. There were no loans modified as a TDR during the three months ended March 31, 2012.

| | | Recorded Investment (1) | | |
|---|---|---|---|---|
| | Number of Contracts | Pre-Modification | Post-Modification | At March 31, 2013 |
| Residential real estate | 6 | $180 | $ 180 | $180 |
| Home equity lines of credit | 1 | $25 | $ 25 | $25 |
| Consumer | 10 | $69 | $ 69 | $69 |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs. Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

The following table presents those loans for the three months ended March 31, 2012 that were modified as a TDR during the year that subsequently defaulted (i.e., 90 days or more past due following a modification). There were no such loans during the three months ended March 31, 2013.

| | March 31, 2012 | | |
|---|---|---|---|
| | Number of Contracts | Recorded Investment (1) | Impact on the Allowance for Loan Losses |
| Commercial real estate, other | 3 | 1,232 | — |
| Total | 3 | 1,232 | — |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs.
Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Peoples had no additional commitments to lend additional funds to the related debtors whose terms have been modified in a TDR.

Allowance for Loan Losses

Changes in the allowance for loan losses in the periods ended March 31, were as follows:

| (Dollars in thousands) | Commercial Real Estate | Commercial and Industrial | Residential Real Estate | Home Equity Lines of Credit | Consumer | Deposit Account Overdrafts | Total |
|---|---|---|---|---|---|---|---|
| Balance, January 1, 2013 | $14,215 | $1,733 | $801 | $479 | $438 | $145 | $17,811 |
| Charge-offs | (566) | — | (134) | (2) | (159) | (130) | (991) |
| Recoveries | 1,374 | 17 | 116 | 8 | 104 | 65 | 1,684 |
| Net recoveries (charge-offs) | 808 | 17 | (18) | 6 | (55) | (65) | 693 |
| Recovery of loan losses | (1,050) | — | — | — | — | (15) | (1,065) |
| Balance, March 31, 2013 | $13,973 | $1,750 | $783 | $485 | $383 | $65 | $17,439 |
| | | | | | | | |
| Period-end amount allocated to: | | | | | | | |
| Loans individually evaluated for impairment | $1,226 | $315 | $77 | $— | $— | $— | $1,618 |
| Loans collectively evaluated for impairment | 12,747 | 1,435 | 706 | 485 | 383 | 65 | 15,821 |
| Ending balance | $13,973 | $1,750 | $783 | $485 | $383 | $65 | $17,439 |
| | | | | | | | |
| Balance, January 1, 2012 | $18,947 | $2,434 | $1,119 | $541 | $449 | $227 | $23,717 |
| Charge-offs | (1,957) | — | (207) | (71) | (214) | (122) | (2,571) |
| Recoveries | 1,606 | 48 | 304 | 7 | 188 | 87 | 2,240 |
| Net (charge-offs) recoveries | (351) | 48 | 97 | (64) | (26) | (35) | (331) |
| Recovery of loan losses | (1,100) | (1,025) | — | — | — | (12) | (2,137) |
| Balance, March 31, 2012 | $17,496 | $1,457 | $1,216 | $477 | $423 | $180 | $21,249 |
| | | | | | | | |
| Period-end amount allocated to: | | | | | | | |
| Loans individually evaluated for impairment | $587 | $— | $350 | $— | $— | $— | $937 |
| Loans collectively evaluated for impairment | 16,909 | 1,457 | 866 | 477 | 423 | 180 | 20,312 |
| Ending balance | $17,496 | $1,457 | $1,216 | $477 | $423 | $180 | $21,249 |

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## Note 5. Stockholders' Equity

The following table details the progression in shares of Peoples' common and treasury stock during the periods presented:

| | Common Stock | Treasury Stock |
|---|---|---|
| Shares at December 31, 2012 | 11,155,648 | 607,688 |
| Changes related to stock-based compensation awards: | | |
| Release of restricted common shares | 7,611 | 704 |
| Changes related to deferred compensation plan: | | |
| Purchase of treasury stock | | 712 |
| Reissuance of treasury stock | | (7,703) |
| Common shares issued under dividend reinvestment plan | 4,462 | |
| Common shares issued under Board of Directors' compensation plan | — | (1,827) |
| Shares at March 31, 2013 | 11,167,721 | 599,574 |

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by the Board of Directors. At March 31, 2013, Peoples had no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income

The following details the change in the components of Peoples' accumulated other comprehensive income for the three months ended March 31, 2013:

| (Dollars in thousands) | Unrealized Gain on Securities | Unrecognized Net Pension and Postretirement Costs | Accumulated Other Comprehensive Income |
|---|---|---|---|
| Balance, December 31, 2012 | $6,892 | $(6,238) | $654 |
| Reclassification adjustments to net income: | | | |
| Realized gain on sale of securities, net of tax | (272) | — | (272) |
| Other comprehensive income, net of reclassifications and tax | 297 | 29 | 326 |
| Balance, March 31, 2013 | $6,917 | $(6,209) | $708 |

## Note 6. Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation pay over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. All retirees are eligible for health benefits; however, Peoples only pays 100% of the cost for those individuals who retired before January 1, 1993. For all others, the retiree is responsible for most, if not all, of the cost of health benefits. Peoples' policy is to fund the cost of the benefits as they arise.

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The following tables detail the components of the net periodic cost for the plans:

| | Pension Benefits Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Interest cost | $133 | $152 |
| Expected return on plan assets | (165) | (196) |
| Amortization of net loss | 52 | 39 |
| Net periodic cost | $20 | $(5) |

| | Postretirement Benefits Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Interest cost | $2 | $2 |
| Amortization of net gain | — | (2) |
| Net periodic cost | $2 | $— |

Note 7. Stock-Based Compensation

Under the Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan (the “2006 Equity Plan”), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights and unrestricted common share awards to employees and non-employee directors. Restricted and unrestricted awards are limited to 50% of the total number of common shares available under the 2006 Equity Plan. The total number of common shares available under the 2006 Equity Plan is 500,000. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights (“SARs”) to be settled in common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

Stock Options

Under the provisions of the 2006 Equity Plan and predecessor stock option plans, the exercise price per share of any stock option granted may not be less than the grant date fair market value of the underlying common shares. All stock options granted to both employees and non-employee directors expire ten years from the date of grant. The most recent stock option grants to employees and non-employee directors occurred in 2006. The stock options granted to employees vested three years after the grant date, while the stock options granted to non-employee directors vested six months after the grant date.

The following summarizes the changes to Peoples' stock options for the period ended March 31, 2013:

| | Number of Common Shares Subject to Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1 | 101,594 | $ 26.09 | | |
| Expired | 33,658 | 22.85 | | |
| Outstanding at March 31 | 67,936 | $ 27.69 | 1.9 years | $2,000 |
| Exercisable at March 31 | 67,936 | $ 27.69 | 1.9 years | $2,000 |

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The following table summarizes Peoples' stock options outstanding at March 31, 2013:

| Range of Exercise Prices | | | Options Outstanding & Exercisable<br>Common Shares Subject to Options Outstanding | Weighted-Average Remaining Contractual Life (1) | Weighted-Average Exercise Price |
|---|---|---|---|---|---|
| $21.70 | to | $21.71 | 2,888 | 0.0 years | $21.71 |
| $23.59 | to | $25.94 | 2,792 | 1.4 years | 25.41 |
| $26.01 | to | $27.74 | 23,400 | 1.5 years | 27.06 |
| $28.25 | to | $28.26 | 18,573 | 2.6 years | 28.25 |
| $28.57 | to | $30.00 | 20,283 | 2.1 years | 29.09 |
| Total | | | 67,936 | 1.9 years | $27.69 |

(1) The weighted-average remaining contractual life of the 2,888 common shares outstanding was less than 1 month.

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted vested three years after the grant date and expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes Peoples' SARs outstanding at March 31, 2013:

| Exercise Price | Number of Common Shares Subject to SARs Outstanding & Exercisable | Weighted-Average Remaining Contractual Life |
|---|---|---|
| $23.26 | 2,000 | 4.3 years |
| $23.77 | 11,509 | 4.5 years |
| $29.25 | 9,340 | 3.6 years |
| Total | 22,849 | 4.1 years |

Restricted Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on common shares awarded to non-employee directors expire after six months, while the restrictions on common shares awarded to employees expire after periods ranging from one to three years. In the first quarter of 2013, Peoples granted restricted common shares to non-employee directors with a six month time-based vesting period. Also during the first quarter of 2013, Peoples granted restricted common shares subject to performance-based vesting to officers and key employees with restrictions that will lapse one to three years after the grant date provided that Peoples has net income greater than zero and maintains a well-capitalized status by regulatory standards. The following summarizes the changes to Peoples' restricted common shares for the period ended March 31, 2013:

| | Time Vesting | | Performance Vesting | |
|---|---|---|---|---|
| | Number of Shares | Weighted-Average Grant Date Fair Value | Number of Shares | Weighted-Average Grant Date Fair Value |
| Outstanding at January 1 | 78,731 | $16.36 | 17,865 | $16.07 |
| Awarded | 5,500 | 21.67 | 72,706 | 21.82 |
| Released | 4,457 | 13.14 | 3,154 | 13.14 |
| Forfeited | 601 | 15.87 | 912 | 18.75 |
| Outstanding at March 31 | 79,173 | $16.91 | 86,505 | $20.98 |

For the three months ended March 31, 2013, the total intrinsic value of restricted common shares released was $166,000.

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Stock-Based Compensation

Peoples recognized stock-based compensation expense, which is included as a component of Peoples' salaries and employee benefit costs, based on the estimated fair value of the awards on the grant date. The following summarizes the amount of stock-based compensation expense and related tax benefit recognized:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2013 | 2012 |
| Total stock-based compensation | $297 | $226 |
| Recognized tax benefit | (104) | (79) |
| Net expense recognized | $193 | $147 |

Total unrecognized stock-based compensation expense related to unvested awards was $1.8 million at March 31, 2013, which will be recognized over a weighted-average period of 1.6 years.

Note 8. Earnings Per Share

The calculations of basic and diluted earnings per share were as follows:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands, except per share data) | 2013 | 2012 |
| Distributed earnings allocated to shareholders | $1,275 | $1,165 |
| Undistributed earnings allocated to shareholders | 3,702 | 5,458 |
| Net earnings allocated to shareholders | $4,977 | $6,623 |
| | | |
| Weighted-average shares outstanding | 10,556,261 | 10,513,388 |
| Effect of potentially dilutive shares | 15,122 | — |
| Total weighted-average diluted shares outstanding | 10,571,383 | 10,513,388 |
| | | |
| Earnings per share: | | |
| Basic | $0.47 | $0.63 |
| Diluted | $0.47 | $0.63 |

Stock options and SARs covering an aggregate of 116,566 and 188,212 common shares were excluded from the calculations for the three months ended March 31, 2013 and 2012, respectively, since they were anti-dilutive.

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Note 9. Acquisitions

On January 2, 2013, Peoples Insurance acquired a commercial insurance agency office and related customer accounts in the Pikeville, Kentucky area for total cash consideration of $1.5 million. The balances and operations related to the acquisition are included in Peoples' consolidated financial statements from the date of the acquisition, and did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.
On April 5, 2013, Peoples acquired all of the outstanding stock of an insurance agency located in the Jackson, Ohio area for cash consideration, and merged the insurance agency into Peoples' subsidiary Peoples Insurance Agency, LLC. This acquisition did not materially impact Peoples' financial position, results of operations or cash flows.
The following is a summary of preliminary changes in goodwill and intangible assets arising from the acquisition in the Pikeville, Kentucky area:

| (Dollars in thousands) | Goodwill | Gross Core Deposit | Gross Customer Relationships |
|---|---|---|---|
| Balance, December 31, 2012 | $64,881 | $8,853 | $7,190 |
| Acquired intangible assets | 520 | — | 1,003 |
| Balance, March 31, 2013 | $65,401 | $8,853 | $8,193 |

| (Dollars in thousands) | Gross Intangible Assets | Accumulated Amortization | Net Intangible Assets |
|---|---|---|---|
| March 31, 2013 | | | |
| Core deposits | $8,853 | $(8,269) | $584 |
| Customer relationships | 8,193 | (6,391) | 1,802 |
| Total acquired intangible assets | $17,046 | $(14,660) | $2,386 |
| Mortgage servicing rights | | | 2,190 |
| Total other intangible assets | | | $4,576 |

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

SELECTED FINANCIAL DATA

The following data should be read in conjunction with the Unaudited Consolidated Financial Statements and the Management’s Discussion and Analysis that follows:

| | At or For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| SIGNIFICANT RATIOS | | | | |
| Return on average stockholders' equity | 9.18 | % | 12.90 | % |
| Return on average assets | 1.06 | % | 1.48 | % |
| Net interest margin | 3.12 | % | 3.41 | % |
| Efficiency ratio (a) | 71.61 | % | 65.47 | % |
| Pre-provision net revenue to average assets (b) | 1.24 | % | 1.66 | % |
| Average stockholders' equity to average assets | 11.58 | % | 11.49 | % |
| Average loans to average deposits | 65.36 | % | 69.11 | % |
| Dividend payout ratio | 25.79 | % | 17.61 | % |
| ASSET QUALITY RATIOS | | | | |
| Nonperforming loans as a percent of total loans (c)(d) | 1.20 | % | 2.16 | % |
| Nonperforming assets as a percent of total assets (c)(d) | 0.65 | % | 1.18 | % |
| Nonperforming assets as a percent of total loans and other real estate owned (c)(d) | 1.28 | % | 2.25 | % |
| Allowance for loan losses to loans net of unearned interest (d) | 1.78 | % | 2.25 | % |
| Allowance for loan losses to nonperforming loans (c)(d) | 147.71 | % | 103.69 | % |
| Recovery of loan losses to average loans (annualized) | (0.44 | )% | (0.91 | )% |
| Net (recoveries) charge-offs as a percentage of average loans (annualized) | (0.29 | )% | 0.14 | % |
| CAPITAL INFORMATION (c) | | | | |
| Tier 1 common capital ratio | 14.68 | % | 13.82 | % |
| Tier 1 capital ratio | 14.68 | % | 15.86 | % |
| Total risk-based capital ratio | 16.04 | % | 17.20 | % |
| Leverage ratio | 8.90 | % | 10.05 | % |
| Tangible equity to tangible assets (e) | 8.35 | % | 8.28 | % |
| PER SHARE DATA | | | | |
| Earnings per share – Basic | $0.47 | | $0.63 | |
| Earnings per share – Diluted | 0.47 | | 0.63 | |
| Cash dividends declared per share | 0.12 | | 0.11 | |
| Book value per share (d) | 21.39 | | 19.83 | |
| Tangible book value per common share (d)(e) | $14.77 | | $13.71 | |
| Weighted-average shares outstanding – Basic | 10,556,261 | | 10,513,388 | |
| Weighted-average shares outstanding – Diluted | 10,571,383 | | 10,513,388 | |
| Common shares outstanding at end of period | 10,568,147 | | 10,521,548 | |

(a) Non-interest expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities and asset disposals).

(b) These amounts represent non-GAAP financial measures since they exclude the provision for loan losses and all gains and losses included in earnings. Additional information regarding the calculation of these measures can be found later in this section under the caption “Pre-Provision Net Revenue”.

(c)

Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans. Nonperforming assets include nonperforming loans and other real estate owned.

(d) Data presented as of the end of the period indicated.

(e) These amounts represent non-GAAP financial measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of these measures can be found later in this discussion under the caption "Capital/Stockholders' Equity".

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Forward-Looking Statements

Certain statements in this Form 10-Q which are not historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Words such as “anticipate”, “estimates”, “may”, “feels”, “expects”, “believes”, “plans”, “will”, “would”, “should”, “could” and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. Factors that might cause such a difference include, but are not limited to:

(1) the success, impact, and timing of Peoples' business strategies, including the integration of recently completed acquisitions, expansion of consumer lending activity and rebranding efforts;
(2) competitive pressures among financial institutions or from non-financial institutions may increase significantly, including product and pricing pressures and Peoples' ability to attract, develop and retain qualified professionals;
(3) changes in the interest rate environment due to economic conditions and/or the fiscal policies of the U.S. government and Federal Reserve Board, which may adversely impact interest margins;
(4) changes in prepayment speeds, loan originations and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
(5) adverse changes in the economic conditions and/or activities, including impacts from the implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, as well as continuing economic uncertainty in the U.S., the European Union, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults;
(6) legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations promulgated and to be promulgated thereunder, which may subject Peoples, its subsidiaries or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses;
(7) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;
(8) changes in accounting standards, policies, estimates or procedures which may adversely affect Peoples' reported financial condition or results of operations;
(9) adverse changes in the conditions and trends in the financial markets, which may adversely affect the fair value of securities within Peoples' investment portfolio and interest rate sensitivity of Peoples' consolidated balance sheet;
(10) Peoples' ability to receive dividends from its subsidiaries;
(11) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;
(12) the impact of larger or similar financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples' business generation and retention, funding and liquidity;
(13) the costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
(14) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks, including those of our third-party vendors and other service providers, may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;
(15) the overall adequacy of Peoples' risk management program; and
(16) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under “ITEM 1A. RISK FACTORS” of Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the “2012 Form 10-K”).

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All forward-looking statements speak only as of the execution date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the filing date for this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at www.sec.gov and/or from Peoples Bancorp Inc.'s website – www.peoplesbancorp.com under the "Investor Relations" section.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and notes thereto, contained in Peoples' 2012 Form 10-K, as well as the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

Business Overview

The following discussion and analysis of Peoples' Unaudited Consolidated Financial Statements is presented to provide insight into management's assessment of the financial condition and results of operations.

Peoples offers diversified financial products and services through 48 financial service locations and 44 ATMs in southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association ("Peoples Bank") and Peoples Insurance Agency, LLC ("Peoples Insurance"), a subsidiary of Peoples Bank. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

Peoples' products and services include traditional banking products, such as deposit accounts, lending products and trust services. Peoples provides services through traditional offices, ATMs and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary and wealth management services. Brokerage services are offered by Peoples' exclusively through an unaffiliated registered broker-dealer.

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to understanding Peoples' Unaudited Consolidated Financial Statements and Management's Discussion and Analysis at March 31, 2013, which were unchanged from the policies disclosed in Peoples' 2012 Form 10-K.

Summary of Recent Transactions and Events

The following is a summary of recent transactions and events that have impacted or are expected to impact Peoples' results of operations or financial condition:

On January 2, 2013, Peoples Insurance acquired a commercial insurance agency office and related customer accounts in the Pikeville, Kentucky area (the "Pikeville Acquisition"). On April 5, 2013, Peoples Insurance acquired McNelly Insurance and Consulting Agency, LLC and related customer accounts in Jackson, Ohio. The acquisitions help Peoples maintain the revenue diversity by continuing to grow the fee-based businesses.

Peoples periodically has taken actions to reduce interest rate exposure within the investment portfolio and entire balance sheet, which have included the sale of low yielding investment securities and repayment of high-cost borrowings. These actions included the sale of $68.8 million of investment securities, primarily low or volatile yielding residential mortgage-backed securities, during the first quarter of 2013. Some of the proceeds from these investment sales were reinvested in securities during the first quarter with the remaining reinvested early in the second quarter of 2013. In future quarters, Peoples intends to use the cash flow generated from the investment portfolio to fund loan growth.

On December 19, 2012, Peoples repaid the entire $30.9 million aggregate outstanding principal amount of its Series A and Series B Junior Subordinated Debentures and the proceeds were used by PEBO Capital Trust I to redeem 22,975

Series B 8.62% Capital Securities having an aggregate liquidation amount of $23.0 million, held by institutional investors as well as 928 outstanding Common Securities and 7,025 Series B 8.62% Capital Securities, having an aggregate liquidation amount of $8.0 million, held by Peoples (the "Trust Preferred Redemption"). This transaction resulted in Peoples incurring a pre-tax loss of $1.0 million for the redemption premium and unamortized

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issuance costs. Peoples funded $24.0 million of the repayment with a term note from an unaffiliated financial institution at a significantly lower interest rate, and the balance with cash on hand. As a result of the Trust Preferred Redemption, Peoples will realize an annual interest expense savings of $1.1 million beginning in 2013. Through the first three months of 2013, as a result of the Trust Preferred Redemption, Peoples realized interest expense savings of approximately $0.3 million.

On September 17, 2012, Peoples introduced its new brand as part of a company-wide brand revitalization. The brand is Peoples' promise, which is a guarantee of satisfaction and quality. Peoples will continue to incur costs throughout 2013 associated with the brand revitalization, including marketing due to advertisement, and depreciation for the revitalization of its branch network.

Since the second quarter of 2011, Peoples has experienced generally improving trends in several asset quality metrics, after a three-year trend of higher credit losses and nonperforming assets than Peoples' long-term historical levels. Additionally, the amount of criticized loans has decreased due in part to Peoples upgrading the loan quality ratings of various commercial loans. These conditions have resulted in recoveries of or lower provisions for loan losses.

Peoples' net interest income and margin are impacted by changes in market interest rates based upon actions taken by the Federal Reserve Board either directly or through its Open Market Committee. These actions include changing its target Federal Funds Rate (the interest rate at which banks lend money to each other), Discount Rate (the interest rate charged to banks for money borrowed from the Federal Reserve Bank) and longer-term market interest rates (primarily U.S. Treasury securities). Longer-term market interest rates also are affected by the demand for U.S. Treasury securities. The resulting changes in the yield curve slope have a direct impact on reinvestment rates for Peoples' earning assets.

The Federal Reserve Board has maintained its target Federal Funds Rate at a historically low level of 0% to 0.25% since December 2008 and has maintained the Discount Rate at 0.75% since December 2010. The Federal Reserve Board continues to indicate there is the potential for these short-term rates to remain unchanged until certain inflation and unemployment rates are achieved.

Since late 2008, the Federal Reserve Board has taken various actions to lower longer-term market interest rates as a means of stimulating the economy – a policy commonly referred to as “quantitative easing”. These actions have included the buying and selling of mortgage-backed and other debt securities through its open market operations. As a result, the slope of the U.S. Treasury yield curve has fluctuated significantly. Substantial flattening occurred in late 2008, in mid-2010 and since early third quarter of 2011, while moderate steepening occurred in the second half of 2009 and late 2010.

The impact of these transactions and events, where material, is discussed in the applicable sections of this Management’s Discussion and Analysis.

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## EXECUTIVE SUMMARY

Net income was $5.0 million, or $0.47 per diluted share for the first quarter of 2013, compared to $6.7 million and $0.63 a year ago and $3.9 million and $0.36 in the fourth quarter of 2012. The decrease in earnings compared to the first quarter of 2012 was largely attributable to higher non-interest expenses and a lower recovery of loan loss in 2013 than experienced in 2012.

In 2013, Peoples had a recovery of loan losses of $1.1 million as several asset quality metrics maintained favorable trends. In comparison, Peoples recorded recovery of loan losses of $0.5 million in the linked quarter, and $2.1 million in the first quarter of 2012. These recoveries represented amounts released from the reserves for loan losses in order to maintain the adequacy of the allowance for loan losses.

Net interest income and margin were $13.0 million and 3.12%, respectively, for the first quarter of 2013, a reduction when compared to the linked quarter and first quarter of 2012. Net interest income decreased 8% compared to the linked quarter and 3% compared to the first quarter of 2012, while margin decreased 9% compared to both periods. The downward pressure on asset yields due to the long-term interest rates remaining at historically low levels was the primary reason for the continued compression of net interest income and margin.

Total non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, totaled $9.1 million for the quarter ended March 31, 2013, 3% higher than the linked quarter and in line with the prior year quarter. The linked quarter improvement was largely due to recognition of annual performance-based insurance revenues. Year-over-year increases in trust and investment income, and property and casualty insurance commissions were offset by lower performance-based commissions.

Total non-interest expense was $16.2 million for the quarter ended March 31, 2013, a decrease of 5% from the linked quarter and an increase of 8% over the prior year. The decrease from the linked quarter is largely due to a decrease in marketing expenses related to donations and rebranding costs that were incurred in the fourth quarter of 2012. The increase over the prior year was due in part to the Sistersville acquisition, increased base salaries and wages for employees, and higher depreciation expense related to the new Vienna, WV office and rebranding.

At March 31, 2013, total assets were $1.94 billion versus $1.92 billion at year-end 2012, with the increase due mostly to higher cash balances, which grew $62.9 million. Gross loan balances were relatively flat during 2013. The allowance for loan losses was $17.4 million, or 1.78% of gross loans, compared to $17.8 million and 1.81% at December 31, 2012. Total investment securities decreased 5% to $675.8 million at March 31, 2013, compared to $709.1 million at year-end.

Total liabilities were $1.71 billion at March 31, 2013, up $16.3 million since December 31, 2012. Retail deposit balances experienced continued growth during 2013, increasing $39.6 million compared to year-end 2012. Non-interest-bearing deposits accounted for $23.8 million of the increase and comprised 23.1% of total retail deposits at March 31, 2013 versus 22.1% at year-end 2012. A portion of this growth in retail deposits was the result of normal seasonal increases in governmental/public funds and consumer deposit balances. At March 31, 2013, total borrowed funds were $159.5 million, down $17.1 million compared to year-end.

At March 31, 2013, total stockholders' equity was $226.1 million, up $4.4 million since December 31, 2012. Earnings exceeded dividends declared by $3.7 million. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio increased to 14.68% at March 31, 2013, versus 14.06% at December 31, 2012, while the Total Risk-Based Capital ratio was 16.04% versus 15.43% at December 31, 2012. In addition, Peoples' tangible equity to tangible asset ratio was 8.35% and tangible book value per common share was $14.77 at March 31, 2013, versus 8.28% and $14.52 at December 31, 2012, respectively.

## RESULTS OF OPERATIONS

### Net Interest Income

Net interest income, the amount by which interest income exceeds interest expense, remains Peoples' largest source of revenue. The amount of net interest income earned by Peoples each quarter is affected by various factors, including changes in market interest rates due to the Federal Reserve Board's monetary policy, the level and degree of pricing competition for both loans and deposits in Peoples' markets, and the amount and composition of Peoples' earning assets and interest-bearing liabilities.

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The following tables detail Peoples' average balance sheets for the periods presented:

| | For the Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | March 31, 2013 | | | December 31, 2012 | | | March 31, 2012 | | |
| (Dollars in thousands) | Average Balance | Income/ Expense | Yield/Cost | Average Balance | Income/ Expense | Yield/Cost | Average Balance | Income/ Expense | Yield/Cost |
| Short-term investments | $39,099 | $18 | 0.20 % | $13,014 | $7 | 0.21 % | $6,280 | $4 | 0.25 % |
| Investment Securities (1): | | | | | | | | | |
| Taxable | 657,319 | 4,262 | 2.59 % | 646,247 | 4,720 | 2.92 % | 646,847 | 5,553 | 3.40 % |
| Nontaxable (2) | 48,213 | 583 | 4.84 % | 43,648 | 569 | 5.22 % | 36,057 | 525 | 5.82 % |
| Total investment securities | 705,532 | 4,845 | 2.75 % | 689,895 | 5,289 | 3.07 % | 682,904 | 6,078 | 3.56 % |
| Loans (3): | | | | | | | | | |
| Commercial | 606,836 | 6,701 | 4.48 % | 619,762 | 7,541 | 4.84 % | 612,717 | 7,224 | 4.74 % |
| Real estate (4) | 271,128 | 3,359 | 4.96 % | 272,635 | 3,564 | 5.23 % | 243,972 | 3,140 | 5.09 % |
| Consumer | 104,347 | 1,435 | 5.58 % | 103,369 | 1,463 | 5.63 % | 89,541 | 1,425 | 6.40 % |
| Total loans | 982,311 | 11,495 | 4.73 % | 995,766 | 12,568 | 5.03 % | 946,230 | 11,789 | 5.00 % |
| Less: Allowance for loan losses | (18,783) | | | (19,865) | | | (24,429) | | |
| Net loans | 963,528 | 11,495 | 4.81 % | 975,901 | 12,568 | 5.13 % | 921,801 | 11,789 | 5.14 % |
| Total earning assets | 1,708,159 | 16,358 | 3.86 % | 1,678,810 | 17,864 | 4.24 % | 1,610,985 | 17,871 | 4.45 % |
| Intangible assets | 69,988 | | | 68,422 | | | 64,425 | | |
| Other assets | 136,572 | | | 140,092 | | | 131,331 | | |
| Total assets | $1,914,719 | | | $1,887,324 | | | $1,806,741 | | |
| Deposits: | | | | | | | | | |
| Savings accounts | $190,769 | $25 | 0.05 % | $178,200 | $23 | 0.05 % | $146,633 | $21 | 0.06 % |
| Governmental deposit accounts | 145,714 | 202 | 0.56 % | 145,240 | 201 | 0.55 % | 143,561 | 237 | 0.66 % |
| Interest-bearing demand accounts | 126,763 | 25 | 0.08 % | 118,039 | 23 | 0.08 % | 108,323 | 34 | 0.13 % |
| Money market accounts | 288,161 | 96 | 0.14 % | 265,181 | 91 | 0.14 % | 261,268 | 124 | 0.19 % |
| Brokered deposits | 54,134 | 476 | 3.57 % | 55,387 | 491 | 3.53 % | 61,443 | 528 | 3.46 % |
| Retail certificates of deposit | 381,650 | 1,115 | 1.18 % | 404,356 | 1,223 | 1.20 % | 400,444 | 1,603 | 1.61 % |
| Total interest-bearing deposits | 1,187,191 | 1,939 | 0.66 % | 1,166,403 | 2,052 | 0.70 % | 1,121,672 | 2,547 | 0.91 % |
| Borrowed Funds: | | | | | | | | | |
| Short-term FHLB advances | 2,000 | 1 | 0.20 % | 9,359 | 4 | 0.17 % | 15,267 | 4 | 0.09 % |
| Retail repurchase agreements | 31,975 | 12 | 0.15 % | 35,841 | 13 | 0.15 % | 42,242 | 15 | 0.15 % |
| Total short-term borrowings | 33,975 | 13 | 0.15 % | 45,200 | 17 | 0.15 % | 57,509 | 19 | 0.13 % |
| Long-term FHLB advances | 64,538 | 541 | 3.40 % | 65,750 | 560 | 3.39 % | 73,578 | 617 | 3.37 % |
| Wholesale repurchase agreements | 40,000 | 363 | 3.63 % | 40,000 | 370 | 3.70 % | 56,923 | 502 | 3.49 % |
| Other borrowings | 23,883 | 235 | 3.94 % | 23,072 | 466 | 8.06 % | 22,605 | 495 | 8.66 % |
| | 128,421 | 1,139 | 3.57 % | 128,822 | 1,396 | 4.16 % | 153,106 | 1,614 | 4.20 % |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total long-term borrowings | | | | | | | | | |
| Total borrowed funds | 162,396 | 1,152 | 2.86 % | 174,022 | 1,413 | 3.20 % | 210,615 | 1,633 | 3.09 % |
| Total interest-bearing liabilities | 1,349,587 | 3,091 | 0.93 % | 1,340,425 | 3,465 | 1.03 % | 1,332,287 | 4,180 | 1.26 % |
| Non-interest-bearing deposits | 319,994 | | | 298,210 | | | 247,487 | | |
| Other liabilities | 23,381 | | | 28,120 | | | 19,350 | | |
| Total liabilities | 1,692,962 | | | 1,666,755 | | | 1,599,124 | | |
| Total stockholders' equity | 221,757 | | | 220,569 | | | 207,617 | | |
| Total liabilities and stockholders' equity | $1,914,719 | | | $1,887,324 | | | $1,806,741 | | |
| Interest rate spread | | $13,267 | 2.93 % | | $14,399 | 3.21 % | | $13,691 | |