

PEOPLES BANCORP INC
Form 10-Q
April 23, 2014

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, 2014

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,

45750

Marietta, Ohio

(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.

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Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,899,941 common shares, without par value, at April 22, 2014.

Table of Contents

Table of Contents

<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS (Unaudited)</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)</u>	<u>5</u>
<u>CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u>	<u>6</u>
<u>NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u>	<u>21</u>
<u>SELECTED FINANCIAL DATA</u>	<u>21</u>
<u>EXECUTIVE SUMMARY</u>	<u>25</u>
<u>RESULTS OF OPERATIONS</u>	<u>26</u>
<u>FINANCIAL CONDITION</u>	<u>34</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>44</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>44</u>
<u>PART II – OTHER INFORMATION</u>	<u>45</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>45</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>45</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>45</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>45</u>
<u>ITEM 4. MINE SAFETY DISLCOSURES</u>	<u>45</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>45</u>
<u>ITEM 6. EXHIBITS</u>	<u>45</u>
<u>SIGNATURES</u>	<u>46</u>
<u>EXHIBIT INDEX</u>	<u>47</u>

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$41,279	\$36,016
Interest-bearing deposits in other banks	23,405	17,804
Total cash and cash equivalents	64,684	53,820
Available-for-sale investment securities, at fair value (amortized cost of \$598,445 at March 31, 2014 and \$621,126 at December 31, 2013)	592,097	606,108
Held-to-maturity investment securities, at amortized cost (fair value of \$47,599 at March 31, 2014 and \$46,094 at December 31, 2013)	48,803	49,222
Other investment securities, at cost	21,299	25,196
Total investment securities	662,199	680,526
Loans, net of deferred fees and costs	1,226,506	1,196,234
Allowance for loan losses	(16,870)	(17,065)
Net loans	1,209,636	1,179,169
Loans held for sale	2,947	1,688
Bank premises and equipment, net	30,551	29,809
Goodwill	70,520	70,520
Other intangible assets	6,768	7,083
Other assets	30,948	36,493
Total assets	\$2,078,253	\$2,059,108
Liabilities		
Deposits:		
Non-interest-bearing	\$417,629	\$409,891
Interest-bearing	1,215,436	1,170,867
Total deposits	1,633,065	1,580,758
Short-term borrowings	68,777	113,590
Long-term borrowings	120,164	121,826
Accrued expenses and other liabilities	25,671	21,381
Total liabilities	1,847,677	1,837,555
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at March 31, 2014 and December 31, 2013	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,260,232 shares issued at March 31, 2014 and 11,206,576 shares issued at December 31, 2013, including shares in treasury	169,503	168,869
Retained earnings	84,058	80,898
Accumulated other comprehensive loss, net of deferred income taxes	(7,956)	(13,244)
Treasury stock, at cost, 602,663 shares at March 31, 2014 and 600,794 shares at December 31, 2013	(15,029)	(14,970)
Total stockholders' equity	230,576	221,553
Total liabilities and stockholders' equity	\$2,078,253	\$2,059,108

See Notes to the Unaudited Consolidated Financial Statements

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended	
	March 31, 2014	2013
Interest Income:		
Interest and fees on loans	\$13,373	\$11,454
Interest and dividends on taxable investment securities	4,340	4,215
Interest on tax-exempt investment securities	416	379
Other interest income	23	18
Total interest income	18,152	16,066
Interest Expense:		
Interest on deposits	1,568	1,939
Interest on short-term borrowings	32	13
Interest on long-term borrowings	1,072	1,139
Total interest expense	2,672	3,091
Net interest income	15,480	12,975
Provision for (recovery of) loan losses	8	(1,065)
Net interest income after provision for (recovery of) loan losses	15,472	14,040
Other Income:		
Insurance income	4,116	2,878
Deposit account service charges	2,111	2,057
Trust and investment income	1,847	1,702
Electronic banking income	1,539	1,419
Mortgage banking income	227	718
Net (loss) gain on investment securities	(30)	)418
Net gain (loss) on asset disposals and other transactions	11	(5)
Other non-interest income	455	298
Total other income	10,276	9,485
Other Expenses:		
Salaries and employee benefit costs	10,792	8,717
Net occupancy and equipment	1,816	1,858
Electronic banking expense	1,082	840
Professional fees	854	894
Data processing and software	570	461
Marketing expense	459	450
Franchise tax	385	413
Communication expense	359	303
Amortization of other intangible assets	263	189
FDIC insurance	260	280
Foreclosed real estate and other loan expenses	215	217
Other non-interest expense	1,762	1,563
Total other expenses	18,817	16,185
Income before income taxes	6,931	7,340
Income tax expense	2,148	2,318
Net income	\$4,783	\$5,022
Earnings per share - basic	\$0.45	\$0.47
Earnings per share - diluted	\$0.44	\$0.47
Weighted-average number of shares outstanding - basic	10,636,089	10,556,261

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Weighted-average number of shares outstanding - diluted	10,740,884	10,571,383
Cash dividends declared	\$1,623	\$1,295
Cash dividends declared per share	\$0.15	\$0.12
See Notes to the Unaudited Consolidated Financial Statements		

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended	
	March 31, 2014	2013
Net income	\$4,783	\$5,022
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Gross unrealized holding gain arising in the period	8,640	457
Related tax expense	(3,024	)(160
Less: reclassification adjustment for net (loss) gain included in net income	(30	)418
Related tax benefit (expense)	11	(146
Net effect on other comprehensive income (loss)	5,635	25
Defined benefit plans:		
Net loss arising during the period	(1,053)—
Related tax benefit	370	—
Amortization of unrecognized loss and service cost on benefit plans	31	45
Related tax expense	(11	)(16
Recognition of loss due to settlement and curtailment	486	—
Related tax expense	(170)—
Net effect on other comprehensive income (loss)	(347	)29
Total other comprehensive income (loss), net of tax	5,288	54
Total comprehensive income	\$10,071	\$5,076

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	\$168,869	\$80,898	\$(13,244	)\$(14,970	)\$221,553
Net income		4,783			4,783
Other comprehensive income, net of tax			5,288		5,288
Cash dividends declared		(1,623	)		(1,623
Tax benefit from exercise of stock options	43				43
Reissuance of treasury stock for deferred compensation plan				148	148
Purchase of treasury stock				(266	)(266
Common shares issued under dividend reinvestment plan	108				108
Reissuance of treasury stock under Board of Directors' compensation plan	(7	)		59	52
Stock-based compensation expense	490				490
Balance, March 31, 2014	\$169,503	\$84,058	\$(7,956	)\$(15,029	)\$230,576

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,	
	2014	2013
Net cash provided by operating activities	\$10,331	\$10,757
Investing activities:		
Available-for-sale investment securities:		
Purchases	(33,014)	(67,397)
Proceeds from sales	41,565	69,114
Proceeds from principal payments, calls and prepayments	15,642	31,446
Held-to-maturity investment securities:		
Purchases	—	(3,231)
Proceeds from principal payments	312	116
Net (increase) decrease in loans	(29,981)	5,607
Net expenditures for premises and equipment	(1,674)	(1,776)
Proceeds from sales of other real estate owned	138	16
Proceeds from bank owned life insurance contracts	3,067	1,441
Business acquisitions, net of cash received	—	(1,524)
Investment in limited partnership and tax credit funds	358	—
Net cash (used in) provided by investing activities	(3,587)	33,812
Financing activities:		
Net increase in non-interest-bearing deposits	7,738	23,816
Net increase in interest-bearing deposits	44,601	12,805
Net decrease in short-term borrowings	(44,813)	(15,374)
Payments on long-term borrowings	(1,668)	(1,756)
Cash dividends paid	(1,517)	(1,201)
Purchase of treasury stock	(266)	(31)
Proceeds from issuance of shares	2	1
Excess tax benefit from share-based payments	43	27
Net cash provided by financing activities	4,120	18,287
Net increase in cash and cash equivalents	10,864	62,856
Cash and cash equivalents at beginning of period	53,820	62,542
Cash and cash equivalents at end of period	\$64,684	\$125,398

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. ("Peoples") 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, 2013 ("2013 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' 2013 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, 2014, 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, 2013, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2013 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, 2014 and 2013, the amount of contingent performance-based insurance commissions recognized totaled \$1.2 million and \$504,000, respectively.

New Accounting Pronouncements: In January 2014, the Financial Accounting Standards Board issued an accounting standards update allowing entities to make an accounting policy election with respect to using the proportional amortization method for investments in qualified affordable housing projects, if certain conditions are met. This standard will be effective for public companies for interim and annual periods beginning after December 15, 2014. Peoples will adopt this new guidance as required, and it is not expected to have a material impact on Peoples' Consolidated Financial Statements.

Also in January 2014, the Financial Accounting Standards Board issued an accounting standards update clarifying guidance for in substance repossessions and foreclosures, and requiring additional disclosures regarding foreclosed residential real estate property and recorded investments in consumer mortgage loans collateralized by residential real estate in the process of foreclosure. This standard will be effective for public companies for interim and annual periods beginning after December 15, 2014. Peoples will adopt this new guidance as required, and it is not expected to have a material impact on Peoples' Consolidated Financial Statements.

Table of Contents

Note 2. Fair Value of Financial Instruments

Available-for-sale securities measured at fair value on a recurring basis comprised the following at March 31, 2014:

(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, 2014				
Obligations of:				
U.S. Treasury and government agencies	\$19	\$—	\$19	\$—
U.S. government sponsored agencies	295	—	295	—
States and political subdivisions	51,668	—	51,668	—
Residential mortgage-backed securities	500,516	—	500,516	—
Commercial mortgage-backed securities	26,750	—	26,750	—
Bank-issued trust preferred securities	7,995	—	7,995	—
Equity securities	4,854	4,719	135	—
Total available-for-sale securities	\$592,097	\$4,719	\$587,378	\$—

December 31, 2013

Obligations of:				
U.S. Treasury and government agencies	\$20	\$—	\$20	\$—
U.S. government sponsored agencies	319	—	319	—
States and political subdivisions	50,962	—	50,962	—
Residential mortgage-backed securities	510,097	—	510,097	—
Commercial mortgage-backed securities	32,304	—	32,304	—
Bank-issued trust preferred securities	7,829	—	7,829	—
Equity securities	4,577	4,443	134	—
Total available-for-sale securities	\$606,108	\$4,443	\$601,665	\$—

Held-to-maturity securities reported at fair value comprised the following at March 31, 2014:

(Dollars in thousands)	Fair Value	Fair Value 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, 2014				
Obligations of:				
States and political subdivisions	\$4,037	\$—	\$4,037	\$—
Residential mortgage-backed securities	36,030	—	36,030	—
Commercial mortgage-backed securities	7,532	—	7,532	—
Total held-to-maturity securities	\$47,599	\$—	\$47,599	\$—
December 31, 2013				
Obligations of:				
States and political subdivisions	\$3,929	\$—	\$3,929	\$—
Residential mortgage-backed securities	34,530	—	34,530	—
Commercial mortgage-backed securities	7,635	—	7,635	—
Total held-to-maturity securities	\$46,094	\$—	\$46,094	\$—

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). Management reviews the valuation methodology and quality controls utilized by

Table of Contents

the pricing services in their overall assessment of the reasonableness of the fair values provided and challenges prices when it believes a material discrepancy in pricing exists.

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, 2014, impaired loans were measured and reported with an outstanding principal balance and fair value of \$1.3 million. For the three months ended March 31, 2014, Peoples recognized losses of \$28,000 on impaired loans through the allowance for loan losses.

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, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$64,684	\$64,684	\$53,820	\$53,820
Investment securities	662,199	660,995	680,526	677,398
Loans	1,212,583	1,193,525	1,180,857	1,165,560
Financial liabilities:				
Deposits	\$1,633,065	\$1,639,212	\$1,580,758	\$1,587,448
Short-term borrowings	68,777	68,777	113,590	113,590
Long-term borrowings	120,164	126,662	121,826	128,205

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 3 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.

Table of Contents

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, 2014				
Obligations of:				
U.S. Treasury and government agencies	\$ 19	\$—	\$—	\$ 19
U.S. government sponsored agencies	287	8	—	295
States and political subdivisions	50,365	1,814	(511)	) 51,668
Residential mortgage-backed securities	510,072	5,186	(14,742)	) 500,516
Commercial mortgage-backed securities	27,885	—	(1,135)	) 26,750
Bank-issued trust preferred securities	8,513	2	(520)	) 7,995
Equity securities	1,304	3,635	(85)	) 4,854
Total available-for-sale securities	\$598,445	\$ 10,645	\$(16,993)	) \$592,097
December 31, 2013				
Obligations of:				
U.S. Treasury and government agencies	\$ 20	\$—	\$—	\$ 20
U.S. government sponsored agencies	308	11	—	319
States and political subdivisions	50,509	1,480	(1,027)	) 50,962
Residential mortgage-backed securities	527,283	5,334	(22,520)	) 510,097
Commercial mortgage-backed securities	33,256	274	(1,226)	) 32,304
Bank-issued trust preferred securities	8,508	—	(679)	) 7,829
Equity securities	1,242	3,421	(86)	) 4,577
Total available-for-sale securities	\$621,126	\$ 10,520	\$(25,538)	) \$606,108

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both March 31, 2014 and December 31, 2013. During the third quarter of 2013, Peoples also classified certain mutual funds as equity securities, which are intended for the payment of benefits under a deferred compensation plan for certain key officers of Peoples. At March 31, 2014, 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.

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, 2014	2013
Gross gains realized	\$514	\$2,045
Gross losses realized	544	1,627
Net (loss) gain realized	\$(30)	)\$418

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.

Table of Contents

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, 2014								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	12,445	251	18	5,440	260	9	17,885	511
Residential mortgage-backed securities	279,545	9,400	60	83,715	5,342	26	363,260	14,742
Commercial mortgage-backed securities	19,556	696	4	7,194	439	2	26,750	1,135
Bank-issued trust preferred securities	2,103	7	1	3,485	513	4	5,588	520
Equity securities	—	—	—	90	85	1	90	85
Total	\$313,649	\$10,354	83	\$99,924	\$6,639	42	\$413,573	\$16,993
December 31, 2013								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	15,848	659	22	6,180	368	10	22,028	1,027
Residential mortgage-backed securities	310,315	16,709	75	57,440	5,811	20	367,755	22,520
Commercial mortgage-backed securities	19,560	779	4	7,205	447	2	26,765	1,226
Bank-issued trust preferred securities	2,013	90	1	4,803	589	4	6,816	679
Equity securities	—	—	—	97	86	2	97	86
Total	\$347,736	\$18,237	102	\$75,725	\$7,301	38	\$423,461	\$25,538

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At March 31, 2014, 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, 2014 and December 31, 2013, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At March 31, 2014, approximately 98% of the mortgage-backed securities that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 2%, or four positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the four positions had a fair value less than 90% of their book value, with an aggregate book and fair value of \$0.9 million and \$0.6 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, the four bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at March 31, 2014 were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector.

Table of Contents

The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at March 31, 2014. 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	\$—	\$19	\$—	\$—	\$19	
U.S. government sponsored agencies	287	—	—	—	287	
States and political subdivisions	350	4,232	20,099	25,684	50,365	
Residential mortgage-backed securities	18	7,384	35,814	466,856	510,072	
Commercial mortgage-backed securities	—	—	23,120	4,765	27,885	
Bank-issued trust preferred securities	—	—	—	8,513	8,513	
Equity securities					1,304	
Total available-for-sale securities	\$655	\$11,635	\$79,033	\$505,818	\$598,445	
Fair value						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$19	\$—	\$—	\$19	
U.S. government sponsored agencies	295	—	—	—	295	
States and political subdivisions	355	4,483	20,703	26,127	51,668	
Residential mortgage-backed securities	18	7,574	34,897	458,027	500,516	
Commercial mortgage-backed securities	—	—	22,063	4,687	26,750	
Bank-issued trust preferred securities	—	—	—	7,995	7,995	
Equity securities					4,854	
Total available-for-sale securities	\$668	\$12,076	\$77,663	\$496,836	\$592,097	
Total average yield	4.14	%4.78	%2.86	%2.74	%2.81	%

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, 2014				
Obligations of:				
States and political subdivisions	\$3,848	\$200	\$(11)	)\$4,037
Residential mortgage-backed securities	37,151	50	(1,171)	)36,030
Commercial mortgage-backed securities	7,804	—	(272)	)7,532
Total held-to-maturity securities	\$48,803	\$250	\$(1,454)	)\$47,599
December 31, 2013				
Obligations of:				
States and political subdivisions	\$3,850	\$91	\$(12)	)\$3,929
Residential mortgage-backed securities	37,536	35	(3,041)	)34,530
Commercial mortgage-backed securities	7,836	2	(203)	)7,635
Total held-to-maturity securities	\$49,222	\$128	\$(3,256)	)\$46,094

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, 2014 and 2013.

Table of Contents

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, 2014								
Obligations of:								
States and political subdivisions	\$322	\$11	1	\$—	\$—	—	\$322	\$11
Residential mortgage-backed securities	23,392	542	6	10,624	629	2	34,016	1,171
Commercial mortgage-backed securities	7,532	272	2	—	—	—	7,532	272
Total	\$31,246	\$825	9	\$10,624	\$629	2	\$41,870	\$1,454
December 31, 2013								
Obligations of:								
States and political subdivisions	\$321	\$12	1	\$—	\$—	—	\$321	\$12
Residential mortgage-backed securities	\$31,341	\$2,908	7	\$1,181	\$133	1	\$32,522	\$3,041
Commercial mortgage-backed securities	6,547	203	1	—	—	—	6,547	203
Total	\$38,209	\$3,123	9	\$1,181	\$133	1	\$39,390	\$3,256

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at March 31, 2014. 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	\$—	\$—	\$333	\$3,515	\$3,848
Residential mortgage-backed securities	—	—	522	36,629	37,151
Commercial mortgage-backed securities	—	—	—	7,804	7,804
Total held-to-maturity securities	\$—	\$—	\$855	\$47,948	\$48,803
Fair value					
Obligations of:					
States and political subdivisions	\$—	\$—	\$322		