

PEOPLES BANCORP INC  
Form 10-Q  
July 25, 2013

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934  
For the quarterly period ended June 30, 2013

OR

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

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of  
incorporation or organization)

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

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

45750

(Address of principal executive  
offices)

(Zip Code)

Registrant's telephone number,  
including area code:

(740) 373-3155

Not Applicable

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

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

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

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

Large accelerated  Accelerated filer  Non-accelerated filer

Smaller reporting company

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filer o

(Do not check if a smaller reporting  
company)

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

No  x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,804,591 common shares, without par value, at July 24, 2013.

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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>20</u> |
| <u>SELECTED FINANCIAL DATA</u>   | <u>20</u> |
| <u>EXECUTIVE SUMMARY</u>   | <u>24</u> |
| <u>RESULTS OF OPERATIONS</u>   | <u>25</u> |
| <u>FINANCIAL CONDITION</u>   | <u>33</u> |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | <u>43</u> |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>   | <u>43</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>46</u> |
| <u>SIGNATURES</u>  | <u>47</u> |
| <u>EXHIBIT INDEX</u>   | <u>48</u> |

Table of Contents

## PART I

## ITEM 1. FINANCIAL STATEMENTS

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (Unaudited)

| (Dollars in thousands)  | June 30,<br>2013 | December 31,<br>2012 |
|---|------------------|----------------------|
| Assets  |                  |                      |
| Cash and cash equivalents:  |                  |                      |
| Cash and due from banks   | \$32,486         | \$47,256             |
| Interest-bearing deposits in other banks  | 5,271            | 15,286               |
| Total cash and cash equivalents   | 37,757           | 62,542               |
| Available-for-sale investment securities, at fair value (amortized cost of \$606,441 at June 30, 2013 and \$628,584 at December 31, 2012)   | 600,328          | 639,185              |
| Held-to-maturity investment securities, at amortized cost (fair value of \$46,610 at June 30, 2013 and \$47,124 at December 31, 2012)   | 48,098           | 45,275               |
| Other investment securities, at cost  | 24,822           | 24,625               |
| Total investment securities   | 673,248          | 709,085              |
| Loans, net of deferred fees and costs   | 1,030,229        | 985,172              |
| Allowance for loan losses   | (17,113)         | (17,811)             |
| Net loans   | 1,013,116        | 967,361              |
| Loans held for sale   | 4,953            | 6,546                |
| Bank premises and equipment, net  | 28,544           | 27,013               |
| Bank owned life insurance   | 44,660           | 51,229               |
| Goodwill  | 65,786           | 64,881               |
| Other intangible assets   | 5,822            | 3,644                |
| Other assets  | 25,955           | 25,749               |
| Total assets  | \$1,899,841      | \$1,918,050          |
| Liabilities   |                  |                      |
| Deposits:   |                  |                      |
| Non-interest-bearing  | \$325,125        | \$317,071            |
| Interest-bearing  | 1,110,653        | 1,175,232            |
| Total deposits  | 1,435,778        | 1,492,303            |
| Short-term borrowings   | 92,521           | 47,769               |
| Long-term borrowings  | 125,714          | 128,823              |
| Accrued expenses and other liabilities  | 26,681           | 27,427               |
| Total liabilities   | 1,680,694        | 1,696,322            |
| Stockholders' Equity  |                  |                      |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at June 30, 2013 and December 31, 2012  | —                | —                    |
| Common stock, no par value, 24,000,000 shares authorized, 11,183,245 shares issued at June 30, 2013 and 11,155,648 shares issued at December 31, 2012, including shares in treasury | 167,964          | 167,039              |
| Retained earnings   | 76,294           | 69,158               |
| Accumulated other comprehensive (loss) income, net of deferred income taxes   | (10,148)         | )654                 |
| Treasury stock, at cost, 600,084 shares at June 30, 2013 and 607,688 shares at December 31, 2012  | (14,963)         | )(15,123)            |
| Total stockholders' equity  | 219,147          | 221,728              |
| Total liabilities and stockholders' equity  | \$1,899,841      | \$1,918,050          |

See Notes to the Unaudited Consolidated Financial Statements

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

|   | Three Months Ended |          | Six Months Ended |          |
|---|--------------------|----------|------------------|----------|
|   | June 30,           |          | June 30,         |          |
| (Dollars in thousands, except per share data)                       | 2013               | 2012     | 2013             | 2012     |
| Interest Income:  |                    |          |                  |          |
| Interest and fees on loans  | \$11,533           | \$12,043 | \$22,987         | \$23,803 |
| Interest and dividends on taxable investment securities             | 4,159              | 4,939    | 8,374            | 10,446   |
| Interest on tax-exempt investment securities                        | 394                | 355      | 773              | 696      |
| Other interest income   | 25                 | 4        | 43               | 8        |
| Total interest income   | 16,111             | 17,341   | 32,177           | 34,953   |
| Interest Expense:   |                    |          |                  |          |
| Interest on deposits  | 1,798              | 2,289    | 3,737            | 4,836    |
| Interest on short-term borrowings                                   | 22                 | 19       | 35               | 38       |
| Interest on long-term borrowings                                    | 1,136              | 929      | 2,275            | 2,048    |
| Interest on junior subordinated debentures held by subsidiary trust | —                  | 492      | —                | 987      |
| Total interest expense  | 2,956              | 3,729    | 6,047            | 7,909    |
| Net interest income   | 13,155             | 13,612   | 26,130           | 27,044   |
| Recovery of loan losses   | (1,462)            | (1,120)  | (2,527)          | (3,257)  |
| Net interest income after recovery of loan losses                   | 14,617             | 14,732   | 28,657           | 30,301   |
| Other Income:   |                    |          |                  |          |
| Insurance income  | 3,220              | 2,438    | 6,098            | 5,389    |
| Deposit account service charges                                     | 2,045              | 2,230    | 4,102            | 4,467    |
| Trust and investment income   | 1,772              | 1,449    | 3,474            | 2,945    |
| Electronic banking income   | 1,561              | 1,464    | 2,980            | 2,952    |
| Mortgage banking income   | 365                | 682      | 1,083            | 1,231    |
| Net gain on investment securities                                   | 26                 | —        | 444              | 3,163    |
| Net loss on asset disposals and other transactions                  | (6)                | (43)     | (11)             | (3,105)  |
| Other non-interest income   | 253                | 235      | 551              | 596      |
| Total other income  | 9,236              | 8,455    | 18,721           | 17,638   |
| Other Expenses:   |                    |          |                  |          |
| Salaries and employee benefit costs                                 | 8,934              | 8,415    | 17,651           | 16,660   |
| Net occupancy and equipment   | 1,626              | 1,503    | 3,484            | 2,935    |
| Professional fees   | 1,002              | 1,204    | 1,896            | 2,017    |
| Electronic banking expense  | 885                | 870      | 1,725            | 1,564    |
| Marketing expense   | 562                | 481      | 1,012            | 956      |
| Data processing and software  | 488                | 485      | 949              | 972      |
| Franchise tax   | 413                | 414      | 826              | 826      |
| Communication expense   | 361                | 288      | 664              | 636      |
| FDIC insurance  | 250                | 223      | 530              | 532      |
| Foreclosed real estate and other loan expenses                      | 223                | 255      | 440              | 476      |
| Amortization of other intangible assets                             | 164                | 109      | 353              | 216      |
| Other non-interest expense  | 1,514              | 1,439    | 3,077            | 2,912    |
| Total other expenses  | 16,422             | 15,686   | 32,607           | 30,702   |
| Income before income taxes  | 7,431              | 7,501    | 14,771           | 17,237   |
| Income tax expense  | 2,510              | 2,471    | 4,828            | 5,550    |
| Net income  | \$4,921            | \$5,030  | \$9,943          | \$11,687 |
| Earnings per share - basic  | \$0.46             | \$0.47   | \$0.93           | \$1.10   |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Earnings per share - diluted                            | \$0.46     | \$0.47     | \$0.93     | \$1.10     |
| Weighted-average number of shares outstanding - basic   | 10,576,643 | 10,524,429 | 10,566,508 | 10,518,909 |
| Weighted-average number of shares outstanding - diluted | 10,597,033 | 10,524,429 | 10,584,383 | 10,518,929 |
| Cash dividends declared                                 | \$1,512    | \$1,175    | \$2,807    | \$2,347    |
| Cash dividends declared per share                       | \$0.14     | \$0.11     | \$0.26     | \$0.22     |

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| (Dollars in thousands)  | Three Months Ended |           | Six Months Ended |            |
|---|--------------------|-----------|------------------|------------|
|   | June 30,<br>2013   | 2012      | June 30,<br>2013 | 2012       |
| Net income  | \$4,921            | \$5,030   | \$9,943          | \$11,687   |
| Other comprehensive (loss) income:                                    |                    |           |                  |            |
| Available-for-sale investment securities:                             |                    |           |                  |            |
| Gross unrealized holding (loss) gain arising in the period            | (16,727            | )2,638    | (16,270          | )1,575     |
| Related tax benefit (expense)   | 5,854              | (923      | ) 5,694          | (551       |
| Less: reclassification adjustment for net gain included in net income | 26                 | —         | 444              | 3,163      |
| Related tax expense   | (9                 | )—        | (155             | ) (1,107   |
| Net effect on other comprehensive (loss) income                       | (10,890            | )1,715    | (10,865          | ) (1,032   |
| Defined benefit plans:  |                    |           |                  |            |
| Net loss arising during the period                                    | —                  | (355      | ) —              | (355       |
| Related tax benefit   | —                  | 124       | —                | 124        |
| Amortization of unrecognized loss and service cost on benefit plans   | 52                 | 41        | 97               | 79         |
| Related tax expense   | (18                | ) (14     | ) (34            | ) (27      |
| Recognition of loss due to settlement and curtailment                 | —                  | 353       | —                | 353        |
| Related tax expense   | —                  | (124      | ) —              | (124       |
| Net effect on other comprehensive (loss) income                       | 34                 | 25        | 63               | 50         |
| Total other comprehensive (loss) income, net of tax                   | (10,856            | )1,740    | (10,802          | ) (982     |
| Total comprehensive (loss) income                                     | \$(5,935           | ) \$6,770 | \$(859           | ) \$10,705 |

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands)   | Common<br>Stock | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|--|-----------------|----------------------|---|-------------------|----------------------------------|
| Balance, December 31, 2012                                       | \$167,039       | \$69,158             | \$654   | \$(15,123)        | \$221,728                        |
| Net income   |                 | 9,943                |   |                   | 9,943                            |
| Other comprehensive loss, net of tax                             |                 |                      | (10,802   | )                 | (10,802                          |
| Common stock cash dividends declared                             |                 | (2,807               | )   |                   | (2,807                           |
| Tax benefit from exercise of stock options                       | 55              |                      |   |                   | 55                               |
| Reissuance of treasury stock for deferred compensation plan      |                 |                      |   | 142               | 142                              |
| Purchase of treasury stock                                       |                 |                      |   | (86               | ) (86                            |
| Common shares issued under dividend reinvestment plan            | 207             |                      |   |                   | 207                              |
| Common shares issued under Board of Directors' compensation plan | (20             | )                    |   | 104               | 84                               |
| Stock-based compensation expense                                 | 683             |                      |   |                   | 683                              |
| Balance, June 30, 2013   | \$167,964       | \$76,294             | \$(10,148   | ) \$(14,963       | ) \$219,147                      |

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)                                  | Six Months Ended |           |
|---|------------------|-----------|
|   | June 30,<br>2013 | 2012      |
| Net cash provided by operating activities               | \$20,343         | \$17,593  |
| Investing activities:                                   |                  |           |
| Available-for-sale investment securities:               |                  |           |
| Purchases   | (162,360)        | (135,031) |
| Proceeds from sales                                     | 120,974          | 63,650    |
| Proceeds from principal payments, calls and prepayments | 57,501           | 70,516    |
| Held-to-maturity investment securities:                 |                  |           |
| Purchases   | (3,231)          | (23,241)  |
| Proceeds from principal payments                        | 230              | 2,278     |
| Net increase in loans                                   | (42,855)         | (17,467)  |
| Net expenditures for premises and equipment             | (2,995)          | (1,146)   |
| Proceeds from sales of other real estate owned          | 912              | 1,387     |
| Proceeds from bank owned life insurance                 | 6,596            | —         |
| Business acquisitions, net of cash received             | (2,248)          | (125)     |
| Investment in limited partnership and tax credit funds  | (120)            | (187)     |
| Net cash used in investing activities                   | (27,596)         | (39,366)  |
| Financing activities:                                   |                  |           |
| Net increase in non-interest-bearing deposits           | 8,054            | 32,790    |
| Net (decrease) increase in interest-bearing deposits    | (64,583)         | 34,380    |
| Net increase (decrease) in short-term borrowings        | 44,752           | (8,296)   |
| Payments on long-term borrowings                        | (3,124)          | (38,951)  |
| Repurchase of preferred shares and common stock warrant | —                | (1,201)   |
| Cash dividends paid on common shares                    | (2,604)          | (2,171)   |
| Purchase of treasury stock                              | (86)             | (48)      |
| Proceeds from issuance of common shares                 | 4                | 3         |
| Excess tax benefit from share-based payments            | 55               | —         |
| Net cash (used in) provided by financing activities     | (17,532)         | 16,506    |
| Net decrease in cash and cash equivalents               | (24,785)         | (5,267)   |
| Cash and cash equivalents at beginning of period        | 62,542           | 38,950    |
| Cash and cash equivalents at end of period              | \$37,757         | \$33,683  |

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

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**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 June 30, 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.

**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.

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 June 30, 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) |
| June 30, 2013                          |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| U.S. Treasury and government agencies  | \$23       | \$—  | \$23  | \$—                                       |
| U.S. government sponsored agencies     | 400        | —  | 400   | —   |
| States and political subdivisions      | 50,579     | 1,893  | 48,686  | —   |
| Residential mortgage-backed securities | 503,574    | —  | 503,574                                       | —   |
| Commercial mortgage-backed securities  | 33,606     | —  | 33,606  | —   |
| Bank-issued trust preferred securities | 7,811      | —  | 7,811   | —   |
| Equity securities                      | 4,335      | 4,201  | 134   | —   |
| Total available-for-sale securities    | \$600,328  | \$6,094  | \$594,234                                     | \$—                                       |

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 | \$— |

Held-to-maturity securities reported at fair value comprised the following at June 30, 2013:

| (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) |
| June 30, 2013                          |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| States and political subdivisions      | \$4,059    | \$—  | \$4,059                                       | \$—                                       |
| Residential mortgage-backed securities | 34,921     | —  | 34,921  | —   |
| Commercial mortgage-backed securities  | 7,630      | —  | 7,630   | —   |
| Total held-to-maturity securities      | \$46,610   | \$—  | \$46,610                                      | \$—                                       |
| December 31, 2012                      |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| States and political subdivisions      | \$4,250    | \$—  | \$4,250                                       | \$—                                       |
| Residential mortgage-backed securities | 34,560     | —  | 34,560  | —   |
| Commercial mortgage-backed securities  | 8,314      | —  | 8,314   | —   |
| Total held-to-maturity securities      | \$47,124   | \$—  | \$47,124                                      | \$—                                       |

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).

Table of Contents

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 June 30, 2013, impaired loans with an aggregate outstanding principal balance of \$3.3 million were measured and reported at a fair value of \$2.7 million. For the three months ended June 30, 2013, Peoples recognized no losses and for the six months ended June 30, 2013, Peoples recognized losses of \$0.6 million, 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)        | June 30, 2013   |             | December 31, 2012 |             |
|-------------------------------|-----------------|-------------|-------------------|-------------|
|                               | Carrying Amount | Fair Value  | Carrying Amount   | Fair Value  |
| <b>Financial assets:</b>      |                 |             |                   |             |
| Cash and cash equivalents     | \$37,757        | \$37,757    | \$62,542          | \$62,542    |
| Investment securities         | 673,248         | 671,760     | 709,085           | 710,934     |
| Loans                         | 1,018,069       | 950,544     | 973,907           | 897,132     |
| <b>Financial liabilities:</b> |                 |             |                   |             |
| Deposits                      | \$1,435,778     | \$1,443,797 | \$1,492,303       | \$1,503,098 |
| Short-term borrowings         | 92,521          | 92,521      | 47,769            | 47,769      |
| Long-term borrowings          | 125,714         | 132,932     | 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.



Table of Contents

## Note 3. Investment Securities

## Available-for-sale

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

| (Dollars in thousands)                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value  |
|--|-------------------|------------------------------|-------------------------------|-------------|
| June 30, 2013                          |                   |                              |                               |             |
| Obligations of:                        |                   |                              |                               |             |
| U.S. Treasury and government agencies  | \$23              | \$—                          | \$—                           | \$23        |
| U.S. government sponsored agencies     | 382               | 18                           | —                             | 400         |
| States and political subdivisions      | 49,785            | 1,838                        | (1,044)                       | ) 50,579    |
| Residential mortgage-backed securities | 512,492           | 6,481                        | (15,399)                      | ) 503,574   |
| Commercial mortgage-backed securities  | 34,046            | 203                          | (643)                         | ) 33,606    |
| Bank-issued trust preferred securities | 8,500             | —                            | (689)                         | ) 7,811     |
| Equity securities                      | 1,213             | 3,208                        | (86)                          | ) 4,335     |
| Total available-for-sale securities    | \$606,441         | \$11,748                     | \$(17,861)                    | ) \$600,328 |
| 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 June 30, 2013 and December 31, 2012. At June 30, 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.

The gross gains and gross losses realized by Peoples from sales of available-for-sale securities for the periods ended June 30 were as follows:

| (Dollars in thousands) | Three Months Ended |      | Six Months Ended |         |
|------------------------|--------------------|------|------------------|---------|
|                        | June 30,<br>2013   | 2012 | June 30,<br>2013 | 2012    |
| Gross gains realized   | \$1,267            | \$—  | \$3,312          | \$3,272 |
| Gross losses realized  | 1,241              | —    | 2,868            | 109     |
| Net gain realized      | \$26               | \$—  | \$444            | \$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.



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 |
| June 30, 2013                          |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| U.S. Treasury and government agencies  | \$—                 | \$—             | —                 | \$—               | \$—             | —                 | \$—        | \$—             |
| U.S. government sponsored agencies     | —                   | —               | —                 | —                 | —               | —                 | —          | —               |
| States and political subdivisions      | 20,244              | 1,044           | 30                | —                 | —               | —                 | 20,244     | 1,044           |
| Residential mortgage-backed securities | 316,939             | 12,779          | 71                | 22,945            | 2,620           | 9                 | 339,884    | 15,399          |
| Commercial mortgage-backed securities  | 22,996              | 579             | 5                 | 5,103             | 64              | 1                 | 28,099     | 643             |
| Bank-issued trust preferred securities | 4,374               | 113             | 2                 | 2,421             | 576             | 3                 | 6,795      | 689             |
| Equity securities                      | —                   | —               | —                 | 90                | 86              | 1                 | 90         | 86              |
| Total                                  | \$364,553           | \$14,515        | 108               | \$30,559          | \$3,346         | 14                | \$395,112  | \$17,861        |
| 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 June 30, 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 June 30, 2013 and December 31, 2012, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At June 30, 2013, approximately 89% 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 agencies. The remaining 11%, or five positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Three of the five positions had a fair value less than 90% of their book value, with an aggregate book and fair value of \$1.9 million and \$1.7 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 three bank-issued trust preferred securities which were in an unrealized loss position were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector. The three securities had an aggregate book value of approximately \$3.0 million and fair value of \$2.4 million at June 30, 2013.

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 June 30, 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  | \$—           | \$20         | \$3           | \$—           | \$23      |   |
| U.S. government sponsored agencies     | —             | 382          | —             | —             | 382       |   |
| States and political subdivisions      | 467           | 1,718        | 17,346        | 30,254        | 49,785    |   |
| Residential mortgage-backed securities | —             | 3,573        | 46,468        | 462,451       | 512,492   |   |
| Commercial mortgage-backed securities  | —             | 5,305        | 23,203        | 5,538         | 34,046    |   |
| Bank-issued trust preferred securities | —             | —            | —             | 8,500         | 8,500     |   |
| Equity securities                      |               |              |               |               | 1,213     |   |
| Total available-for-sale securities    | \$467         | \$10,998     | \$87,020      | \$506,743     | \$606,441 |   |
| Fair value                             |               |              |               |               |           |   |
| Obligations of:                        |               |              |               |               |           |   |
| U.S. Treasury and government agencies  | \$—           | \$20         | \$3           | \$—           | \$23      |   |
| U.S. government sponsored agencies     | —             | 400          | —             | —             | 400       |   |
| States and political subdivisions      | 471           | 1,828        | 18,183        | 30,097        | 50,579    |   |
| Residential mortgage-backed securities | —             | 3,729        | 45,370        | 454,475       | 503,574   |   |
| Commercial mortgage-backed securities  | —             | 5,507        | 22,719        | 5,380         | 33,606    |   |
| Bank-issued trust preferred securities | —             | —            | —             | 7,811         | 7,811     |   |
| Equity securities                      |               |              |               |               | 4,335     |   |
| Total available-for-sale securities    | \$471         | \$11,484     | \$86,275      | \$497,763     | \$600,328 |   |
| Total average yield                    | 4.73          | %4.05        | %3.01         | %2.70         | %2.79     | % |

## 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 |
|--|----------------|------------------------|-------------------------|------------|
| June 30, 2013                          |                |                        |                         |            |
| Obligations of:                        |                |                        |                         |            |
| States and political subdivisions      | \$3,855        | \$216                  | \$(11)                  | )\$4,060   |
| Residential mortgage-backed securities | 36,361         | —                      | (1,441)                 | )34,920    |
| Commercial mortgage-backed securities  | 7,882          | 25                     | (277)                   | )7,630     |
| Total held-to-maturity securities      | \$48,098       | \$241                  | \$(1,729)               | )\$46,610  |
| 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 and six months ended June 30, 2013 and 2012.



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 |
| June 30, 2013                          |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$326               | \$11            | 1                 | \$—               | \$—             | —                 | \$326      | \$11            |
| Residential mortgage-backed securities | 34,920              | 1,441           | 8                 | —                 | —               | —                 | 34,920     | 1,441           |
| Commercial mortgage-backed securities  | 6,508               | 277             | 1                 | —                 | —               | —                 | 6,508      | 277             |
| Total                                  | \$41,754            | \$1,729         | 10                | \$—               | \$—             | —                 | \$41,754   | \$1,729         |
| 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 June 30, 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      | \$—           | \$—          | \$337         | \$3,518       | \$3,855  |   |
| Residential mortgage-backed securities | —             | —            | 536           | 35,825        | 36,361   |   |
| Commercial mortgage-backed securities  | —             | —            | —             | 7,882         | 7,882    |   |
| Total held-to-maturity securities      | \$—           | \$—          | \$873         | \$47,225      | \$48,098 |   |
| Fair value                             |               |              |               |               |          |   |
| Obligations of:                        |               |              |               |               |          |   |
| States and political subdivisions      | \$—           | \$—          | \$326         | \$3,734       | \$4,060  |   |
| Residential mortgage-backed securities | —             | —            | 513           | 34,407        | 34,920   |   |
| Commercial mortgage-backed securities  | —             | —            | —             | 7,630         | 7,630    |   |
| Total held-to-maturity securities      | \$—           | \$—          | \$839         | \$45,771      | \$46,610 |   |
| Total average yield                    | —             | %—           | %2.57         | %2.74         | %2.73    | % |
| Pledged Securities                     |               |              |               |               |          |   |

Peoples had pledged available-for-sale investment securities with a carrying value of \$286.7 million and \$260.9 million at June 30, 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 \$21.5 million and \$45.3 million at June 30, 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 \$19.6 million and \$50.4 million at June 30, 2013 and December 31, 2012, respectively, and held-to-maturity securities with a carrying value of \$26.6 million at June 30, 2013 to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").



Table of Contents

## 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)               | June 30,<br>2013 | December 31, 2012 |
|--------------------------------------|------------------|-------------------|
| Commercial real estate, construction | \$30,770         | \$34,265          |
| Commercial real estate, other        | 389,281          | 378,073           |
| Commercial real estate               | 420,051          | 412,338           |
| Commercial and industrial            | 184,981          | 180,131           |
| Residential real estate              | 252,282          | 233,841           |
| Home equity lines of credit          | 52,212           | 51,053            |
| Consumer                             | 119,029          | 101,246           |
| Deposit account overdrafts           | 1,674            | 6,563             |
| Total loans                          | \$1,030,229      | \$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)    | June 30,<br>2013 | December 31,<br>2012 |
|---------------------------|------------------|----------------------|
| Commercial real estate    | \$1,890          | \$2,145              |
| Commercial and industrial | 58               | 74                   |
| Residential real estate   | 12,084           | 12,873               |
| Consumer                  | 53               | 84                   |
| Total outstanding balance | \$14,085         | \$15,176             |
| Net carrying amount       | \$13,607         | \$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 \$216.4 million and \$202.0 million at June 30, 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 \$158.7 million and \$123.8 million at June 30, 2013 and December 31, 2012, respectively.

## Nonaccrual and Past Due Loans

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

| (Dollars in thousands)               | Nonaccrual Loans |                      | Accruing Loans<br>90+ Days Past Due |                      |
|--------------------------------------|------------------|----------------------|-------------------------------------|----------------------|
|                                      | June 30,<br>2013 | December 31,<br>2012 | June 30,<br>2013                    | December 31,<br>2012 |
| Commercial real estate, construction | \$80             | \$—                  | \$—                                 | \$—                  |
| Commercial real estate, other        | 6,801            | 9,831                | 36                                  | —                    |
| Commercial real estate               | 6,881            | 9,831                | 36                                  | —                    |
| Commercial and industrial            | 297              | 627                  | —                                   | 181                  |
| Residential real estate              | 3,311            | 3,136                | —                                   | —                    |
| Home equity lines of credit          | 56               | 24                   | —                                   | —                    |

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|          |          |          |      |       |
|----------|----------|----------|------|-------|
| Consumer | 62       | 20       | —    | 4     |
| Total    | \$10,607 | \$13,638 | \$36 | \$185 |

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

| (Dollars in thousands)               | Loans Past Due |              |           |          | Current Loans | Total Loans |
|--------------------------------------|----------------|--------------|-----------|----------|---------------|-------------|
|                                      | 30 - 59 days   | 60 - 89 days | 90 + Days | Total    |               |             |
| June 30, 2013                        |                |              |           |          |               |             |
| Commercial real estate, construction | \$—            | \$80         | \$—       | \$80     | \$30,690      | \$30,770    |
| Commercial real estate, other        | 328            | 306          | 3,870     | 4,504    | 384,777       | 389,281     |
| Commercial real estate               | 328            | 386          | 3,870     | 4,584    | 415,467       | 420,051     |
| Commercial and industrial            | 134            | 65           | 263       | 462      | 184,519       | 184,981     |
| Residential real estate              | 2,874          | 278          | 1,641     | 4,793    | 247,489       | 252,282     |
| Home equity lines of credit          | 482            | —            | 48        | 530      | 51,682        | 52,212      |
| Consumer                             | 571            | 95           | 61        | 727      | 118,302       | 119,029     |
| Deposit account overdrafts           | 61             | —            | —         | 61       | 1,613         | 1,674       |
| Total                                | \$4,450        | \$824        | \$5,883   | \$11,157 | \$1,019,072   | \$1,030,229 |
| 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



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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<br>(Grades 1 - 4) | Watch<br>(Grade 5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade 7) | Not<br>Rated | Total<br>Loans |
|--------------------------------------|------------------------------|--------------------|--------------------------|-----------------------|--------------|----------------|
| June 30, 2013                        |                              |                    |                          |                       |              |                |
| Commercial real estate, construction | \$26,531                     | \$—                | \$71                     | \$—                   | \$4,168      | \$30,770       |
| Commercial real estate, other        | 354,212                      | 12,290             | 22,350                   | —                     | 429          | 389,281        |
| Commercial real estate               | 380,743                      | 12,290             | 22,421                   | —                     | 4,597        | 420,051        |
| Commercial and industrial            | 165,285                      | 3,914              | 15,782                   | —                     | —            | 184,981        |
| Residential real estate              | 22,814                       | 1,740              | 7,481                    | 1                     | 220,246      | 252,282        |
| Home equity lines of credit          | 948                          | —                  | 1,086                    | —                     | 50,178       | 52,212         |
| Consumer                             | 66                           | —                  | 35                       | —                     | 118,928      | 119,029        |
| Deposit account overdrafts           | —                            | —                  | —                        | —                     | 1,674        | 1,674          |
| Total                                | \$569,856                    | \$17,944           | \$46,805                 | \$1                   | \$395,623    | \$1,030,229    |
| 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<br>Principal<br>Balance | Recorded Investment<br>With<br>Allowance | Recorded Investment<br>Without<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|--------------------------------------|--------------------------------|--|---|---------------------------------|----------------------|-----------------------------------|----------------------------------|
| June 30, 2013                        |                                |  |   |                                 |                      |                                   |                                  |
| Commercial real estate, construction | \$—                            | \$—                                      | \$—   | \$—                             | \$—                  | \$—                               | \$—                              |
| Commercial real estate, other        | 14,483                         | 3,379                                    | 3,398                                       | 6,777                           | 1,180                | 7,609                             | —                                |
| Commercial real estate               | 14,483                         | \$3,379                                  | \$3,398                                     | \$6,777                         | \$1,180              | \$7,609                           | \$—                              |
| Commercial and industrial            | 270                            | 266                                      | —   | 266                             | 266                  | 254                               | —                                |
| Residential real estate              | 3,758                          | 229                                      | 2,975                                       | 3,204                           | 95                   | 2,372                             | 64                               |
| Home equity lines of credit          | 348                            | —  | 348   | 348                             | —                    | 296                               | 8                                |
| Consumer                             | 245                            | —  | 245   | 245                             | —                    | 167                               | 10                               |
| Total                                | \$19,104                       | \$3,874                                  | \$6,966                                     | \$10,840                        | \$1,541              | \$10,698                          | \$82                             |
| 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                          | \$—                              |

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|                             |          |         |          |          |         |          |       |
|-----------------------------|----------|---------|----------|----------|---------|----------|-------|
| 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 June 30, 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 \$560,000 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. As of June 30, 2013, a total of \$540,000 of these loans were accruing 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 and six months ended June 30, 2013 and 2012.

|                             | Number of Contracts | Three Months Ended Recorded Investment (1) |                   |                  | Number of Contracts | Six Months Ended Recorded Investment (1) |                   |                  |
|-----------------------------|---------------------|--|-------------------|------------------|---------------------|--|-------------------|------------------|
|                             |                     | Pre-Modification                           | Post-Modification | At June 30, 2013 |                     | Pre-Modification                         | Post-Modification | At June 30, 2013 |
| Residential real estate     | 4                   | \$ 174                                     | \$ 174            | \$ 174           | 10                  | \$ 343                                   | \$ 343            | \$ 343           |
| Home equity lines of credit | 1                   | \$ 30                                      | \$ 30             | \$ 30            | 2                   | \$ 53                                    | \$ 53             | \$ 53            |
| Consumer                    | 12                  | \$ 109                                     | \$ 109            | \$ 109           | 22                  | \$ 164                                   | \$ 164            | \$ 164           |

|                               | Number of Contracts | Three Months Ended Recorded Investment (1) |                   |                  | Number of Contracts | Six Months Ended Recorded Investment (1) |                   |                  |
|-------------------------------|---------------------|--|-------------------|------------------|---------------------|--|-------------------|------------------|
|                               |                     | Pre-Modification                           | Post-Modification | At June 30, 2012 |                     | Pre-Modification                         | Post-Modification | At June 30, 2012 |
| Commercial real estate, other | 3                   | \$ 1,291                                   | \$ 1,291          | \$ 1,261         | 3                   | \$ 1,291                                 | \$ 1,291          | \$ 1,261         |
|                               | 1                   | \$ 50                                      | \$ 50             | \$ 49            | 1                   | \$ 50                                    | \$ 50             | \$ 49            |

Residential  
real estate

(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 six months ended June 30, 2013 that were modified as a TDR during the last twelve months that subsequently defaulted (i.e., 90 days or more past due following a modification). There were no such loans during the six months ended June 30, 2012.

June 30, 2013

|                               | Number of<br>Contracts | Recorded<br>Investment (1) | Impact on the<br>Allowance for Loan<br>Losses |
|-------------------------------|------------------------|----------------------------|---|
| Commercial real estate, other | 1                      | \$251                      | \$—   |
| Residential Real Estate       | 2                      | 70                         | —   |
| Home equity lines of credit   | 1                      | 24                         | —   |
| Total                         | 4                      | \$345                      | \$—   |

(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 June 30, were as follows:

| (Dollars in thousands)          | Commercial<br>Real Estate | Commercial<br>and Industrial | Residential<br>Real Estate | Home<br>Equity<br>Lines of<br>Credit | Consumer | Deposit<br>Account<br>Overdrafts | Total      |
|---------------------------------|---------------------------|------------------------------|----------------------------|--------------------------------------|----------|----------------------------------|------------|
| Balance, January 1, 2013        | \$14,215                  | \$1,733                      | \$801                      | \$479                                | \$438    | \$145                            | \$17,811   |
| Charge-offs                     | (783)                     | ) (11)                       | ) (222)                    | ) (2)                                | ) (344)  | ) (245)                          | ) (1,607 ) |
| Recoveries                      | 2,806                     | 21                           | 261                        | 13                                   | 236      | 99                               | 3,436      |
| Net recoveries<br>(charge-offs) | 2,023                     | 10                           | 39                         | 11                                   | (108)    | ) (146)                          | ) 1,829    |
| Recovery of loan losses         | (3,670)                   | ) 445                        | 165                        | —                                    | 410      | 123                              | (2,527 )   |
| Balance, June 30, 2013          | \$12,568                  | \$2,188                      | \$1,005                    | \$490                                | \$740    | \$122                            | \$17,113   |

## Period-end amount allocated to:

|  |          |         |         |       |       |       |          |
|--|----------|---------|---------|-------|-------|-------|----------|
| Loans individually<br>evaluated for impairment | \$1,180  | \$266   | \$95    | \$—   | \$—   | \$—   | \$1,541  |
| Loans collectively<br>evaluated for impairment | 11,388   | 1,922   | 910     | 490   | 740   | 122   | 15,572   |
| Ending balance                                 | \$12,568 | \$2,188 | \$1,005 | \$490 | \$740 | \$122 | \$17,113 |

|                                 |          |           |         |        |         |         |            |
|---------------------------------|----------|-----------|---------|--------|---------|---------|------------|
| Balance, January 1, 2012        | \$18,947 | \$2,434   | \$1,119 | \$541  | \$449   | \$227   | \$23,717   |
| Charge-offs                     | (2,846)  | ) (33)    | ) (561) | ) (77) | ) (345) | ) (254) | ) (4,116 ) |
| Recoveries                      | 2,411    | 148       | 532     | 14     | 352     | 124     | 3,581      |
| Net (charge-offs)<br>recoveries | (435)    | ) 115     | (29)    | ) (63) | ) 7     | (130)   | ) (535 )   |
| Recovery of loan losses         | (2,300)  | ) (1,025) | ) —     | —      | —       | 68      | (3,257 )   |
| Balance, June 30, 2012          | \$16,212 | \$1,524   | \$1,090 | \$478  | \$456   | \$165   | \$19,925   |

## Period-end amount allocated to:

|  |       |      |       |     |     |     |         |
|--|-------|------|-------|-----|-----|-----|---------|
| Loans individually<br>evaluated for impairment | \$973 | \$22 | \$289 | \$— | \$— | \$— | \$1,284 |
|--|-------|------|-------|-----|-----|-----|---------|

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|  |          |         |         |       |       |       |          |
|--|----------|---------|---------|-------|-------|-------|----------|
| Loans collectively<br>evaluated for impairment | 15,239   | 1,502   | 801     | 478   | 456   | 165   | 18,641   |
| Ending balance                                 | \$16,212 | \$1,524 | \$1,090 | \$478 | \$456 | \$165 | \$19,925 |

14

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Table of Contents

## Note 5. Stockholders' Equity

The following table details the progression in shares of Peoples' common and treasury stock during the period 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                              | 17,666       | 3,429          |
| Changes related to deferred compensation plan:                   |              |                |
| Purchase of treasury stock                                       |              | 712            |
| Reissuance of treasury stock                                     |              | (7,703)        |
| Common shares issued under dividend reinvestment plan            | 9,931        |                |
| Common shares issued under Board of Directors' compensation plan | —            | (4,042)        |
| Shares at June 30, 2013  | 11,183,245   | 600,084        |

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 June 30, 2013, Peoples had no preferred shares issued or outstanding.

## Accumulated Other Comprehensive Income (Loss)

The following details the change in the components of Peoples' accumulated other comprehensive income (loss) for the six months ended June 30, 2013:

| (Dollars in thousands)  | Unrealized Gain<br>on Securities | Unrecognized Net<br>Pension and<br>Postretirement<br>Costs | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---|----------------------------------|--|--|
| Balance, December 31, 2012  | \$ 6,892                         | \$(6,238)  | )\$ 654  |
| Reclassification adjustments to net income:                         |                                  |  |  |
| Realized gain on sale of securities, net of tax                     | (289)                            | )—   | (289)  |
| Other comprehensive (loss) income, net of reclassifications and tax | (10,576)                         | )63  | (10,513)   |
| Balance, June 30, 2013  | \$(3,973)                        | )\$ (6,175)  | )\$ (10,148)   |

## 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.



Table of Contents

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

| (Dollars in thousands)           | Pension Benefits        |       |                  |       |
|----------------------------------|-------------------------|-------|------------------|-------|
|                                  | Three Months Ended      |       | Six Months Ended |       |
|                                  | June 30,                |       | June 30,         |       |
|                                  | 2013                    | 2012  | 2013             | 2012  |
| Interest cost                    | \$133                   | \$152 | \$266            | \$304 |
| Expected return on plan assets   | (165                    | )(196 | )(330            | )(392 |
| Amortization of net loss         | 51                      | 40    | 103              | 79    |
| Settlement of benefit obligation | —                       | 353   | —                | 353   |
| Net periodic cost                | \$19                    | \$349 | \$39             | \$344 |
| (Dollars in thousands)           | Postretirement Benefits |       |                  |       |
|                                  | Three Months Ended      |       | Six Months Ended |       |
|                                  | June 30,                |       | June 30,         |       |
|                                  | 2013                    | 2012  | 2013             | 2012  |
| Interest cost                    | \$1                     | \$3   | \$3              | \$5   |
| Amortization of net (loss) gain  | (4                      | )1    | (4               | )(1   |
| Net periodic cost                | \$(3                    | )\$4  | \$(1             | )\$4  |

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Note 7. Stock-Based Compensation

Under the Peoples Bancorp Inc. Second 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. The total number of common shares available under the 2006 Equity Plan is 1,081,260. The maximum number of shares that can be issued for incentive stock options is 800,000 shares. 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 June 30, 2013:

|                          | Number of<br>Common<br>Shares Subject<br>to Options | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic Value |
|--------------------------|---|------------------------------------|---|------------------------------|
| Outstanding at January 1 | 101,594   | \$ 26.09                           |   |                              |
| Expired                  | 38,990  | 23.09                              |   |                              |
| Outstanding at June 30   | 62,604  | \$ 27.95                           | 1.8 years   | \$—                          |
| Exercisable at June 30   | 62,604  | \$ 27.95                           | 1.8 years   | \$—                          |





Table of Contents

The following table summarizes Peoples' stock options outstanding at June 30, 2013:

| Range of Exercise Prices |    |         | Options Outstanding & Exercisable            |   |                                 |
|--------------------------|----|---------|--|---|---------------------------------|
|                          |    |         | Common Shares Subject to Options Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price |
| \$23.59                  | to | \$25.94 | 2,792  | 1.1 years                                   | 25.41                           |
| \$26.01                  | to | \$27.74 | 22,644                                       | 1.3 years                                   | 27.05                           |
| \$28.25                  | to | \$28.26 | 17,632                                       | 2.5 years                                   | 28.25                           |
| \$28.57                  | to | \$30.00 | 19,536                                       | 1.9 years                                   | 29.10                           |
| Total                    |    |         | 62,604                                       | 1.8 years                                   | \$27.95                         |

## 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 summarizes the changes to Peoples' SARs for the period ended June 30, 2013:

|                          | Number of Common Shares Subject to SARs | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|--------------------------|---|---------------------------------|---|---------------------------|
| Outstanding at January 1 | 22,849                                  | \$25.85                         |   |                           |
| Forfeited                | 1,557                                   | 25.99                           |   |                           |
| Outstanding at June 30   | 21,292                                  | \$25.96                         | 4.2 years                                   | \$—                       |
| Exercisable at June 30   | 21,292                                  | \$25.96                         | 4.2 years                                   | \$—                       |

The following table summarizes Peoples' SARs outstanding at June 30, 2013:

| Exercise Price | Number of Common Shares Subject to SARs Outstanding & Exercisable | Weighted-Average Remaining Contractual Life |
|----------------|---|---|
| \$23.26        | 2,000   | 4.1 years                                   |
| \$23.77        | 10,582  | 4.6 years                                   |
| \$29.25        | 8,710   | 3.6 years                                   |
| Total          | 21,292  | 4.2 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.

Table of Contents

The following summarizes the changes to Peoples' restricted common shares for the period ended June 30, 2013:

|                          | Time-Based Vesting |  | Performance-Based 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                 | 14,512             | 13.93                                  | 3,154                     | 13.14                                  |
| Forfeited                | 601                | 15.87                                  | 912                       | 18.75                                  |
| Outstanding at June 30   | 69,118             | \$17.29                                | 86,505                    | \$20.98                                |

For the six months ended June 30, 2013, the total intrinsic value of restricted common shares released was \$369,000.

**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 |               | Six Months Ended |               |
|--------------------------------|--------------------|---------------|------------------|---------------|
|                                | June 30, 2013      | June 30, 2012 | June 30, 2013    | June 30, 2012 |
| (Dollars in thousands)         |                    |               |                  |               |
| Total stock-based compensation | \$386              | \$259         | \$683            | \$485         |
| Recognized tax benefit         | (135)              | (91)          | (239)            | (170)         |
| Net expense recognized         | \$251              | \$168         | \$444            | \$315         |

Total unrecognized stock-based compensation expense related to unvested awards was \$1.4 million at June 30, 2013, which will be recognized over a weighted-average period of 1.5 years.

**Note 8. Earnings Per Share**

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

|   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | June 30, 2013      | June 30, 2012 | June 30, 2013    | June 30, 2012 |
| (Dollars in thousands, except per share data)     |                    |               |                  |               |
| Distributed earnings allocated to shareholders    | \$1,490            | \$1,165       | \$2,764          | \$2,330       |
| Undistributed earnings allocated to shareholders  | 3,388              | 3,826         | 7,094            | 9,278         |
| Net earnings allocated to shareholders            | \$4,878            | \$4,991       | \$9,858          | \$11,608      |
| Weighted-average shares outstanding               | 10,576,643         | 10,524,429    | 10,566,508       | 10,518,909    |
| Effect of potentially dilutive shares             | 20,390             | —             | 17,875           | 20            |
| Total weighted-average diluted shares outstanding | 10,597,033         | 10,524,429    | 10,584,383       | 10,518,929    |

Earnings per share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | \$0.46 | \$0.47 | \$0.93 | \$1.10 |
| Diluted | \$0.46 | \$0.47 | \$0.93 | \$1.10 |

Anti-dilutive common shares excluded from calculation:

|                        |        |         |         |         |
|------------------------|--------|---------|---------|---------|
| Stock options and SARs | 86,986 | 141,776 | 103,438 | 157,995 |
|------------------------|--------|---------|---------|---------|



Table of Contents

## 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.

On April 5, 2013, Peoples Insurance acquired an insurance agency office and related customer accounts in the Jackson, Ohio area for total cash consideration of \$0.7 million, and merged the insurance agency into Peoples' subsidiary Peoples Insurance Agency, LLC. A portion of the consideration is contingent upon revenue metrics being achieved.

On May 15, 2013, Peoples Insurance acquired two insurance agency offices and related customer accounts in the Jackson, Ohio area for total cash consideration of \$1.1 million. A portion of the consideration is contingent upon revenue metrics being achieved.

The balances and operations related to these acquisitions are included in Peoples' consolidated financial statements from the date of the acquisition. These acquisitions, individually and collectively, did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.

On July 2, 2013, Peoples announced that it had signed a definitive agreement to acquire Ohio Commerce Bank ("Ohio Commerce") for total cash consideration of \$16.5 million. Ohio Commerce operates one full-service office in Beachwood, Ohio, and the agreement calls for Ohio Commerce to merge into Peoples' wholly-owned subsidiary, Peoples Bank, National Association. The transaction, which is subject to regulatory approval and Ohio Commerce shareholder approval, is anticipated to be completed during the fourth quarter of 2013.

The following is a summary of changes in goodwill and intangible assets during the period ended June 30, 2013:

| (Dollars in thousands)     | Goodwill  | Gross Core<br>Deposit | Gross Customer<br>Relationships |
|----------------------------|-----------|-----------------------|---------------------------------|
| Balance, December 31, 2012 | \$ 64,881 | \$ 8,853              | \$ 7,190                        |
| Acquired intangible assets | 905       | —                     | 2,458                           |
| Balance, June 30, 2013     | \$ 65,786 | \$ 8,853              | \$ 9,648                        |

| (Dollars in thousands)           | Gross Intangible<br>Assets | Accumulated<br>Amortization | Net Intangible<br>Assets |
|----------------------------------|----------------------------|-----------------------------|--------------------------|
| June 30, 2013                    |                            |                             |                          |
| Core deposits                    | \$ 8,853                   | \$ (8,306                   | ) \$ 547                 |
| Customer relationships           | 9,648                      | (6,519                      | ) 3,129                  |
| Total acquired intangible assets | \$ 18,501                  | \$ (14,825                  | ) \$ 3,676               |
| Mortgage servicing rights        |                            |                             | 2,146                    |
| Total other intangible assets    |                            |                             | \$ 5,822                 |

## Note 10. Subsequent Events

In July 2013, Peoples began taking steps to surrender bank owned life insurance reported at approximately \$43 million, at a cost basis of \$36.5 million. This process could take up to six months, and if completed, would result in Peoples incurring a related tax liability.

Table of Contents

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<br>Months Ended<br>June 30, |            | At or For the Six Months<br>Ended<br>June 30, |            |      |
|---|---|------------|---|------------|------|
|   | 2013  | 2012       | 2013  | 2012       |      |
| <b>SIGNIFICANT RATIOS</b>   |   |            |   |            |      |
| Return on average stockholders' equity  | 8.74  | % 9.57     | % 8.96  | % 11.22    | %    |
| Return on average assets  | 1.03  | % 1.11     | % 1.05  | % 1.30     | %    |
| Net interest margin   | 3.15  | % 3.43     | % 3.14  | % 3.42     | %    |
| Efficiency ratio (a)  | 71.71   | % 69.61    | % 71.66                                       | % 67.52    | %    |
| Pre-provision net revenue to average assets (b)                                     | 1.25  | % 1.42     | % 1.25  | % 1.54     | %    |
| Average stockholders' equity to average assets                                      | 11.82   | % 11.60    | % 11.70                                       | % 11.55    | %    |
| Average loans to average deposits   | 68.87   | % 68.22    | % 67.10                                       | % 68.66    | %    |
| Dividend payout ratio   | 30.73   | % 23.36    | % 28.23                                       | % 20.08    | %    |
| <b>ASSET QUALITY RATIOS</b>   |   |            |   |            |      |
| Nonperforming loans as a percent of total loans (c)(d)                              | 1.03  | % 1.73     | % 1.03  | % 1.73     | %    |
| Nonperforming assets as a percent of total assets (c)(d)                            | 0.57  | % 0.97     | % 0.57  | % 0.97     | %    |
| Nonperforming assets as a percent of total loans and other real estate owned (c)(d) | 1.04  | % 1.85     | % 1.04  | % 1.85     | %    |
| Allowance for loan losses to loans net of unearned interest (d)                     | 1.66  | % 2.09     | % 1.66  | % 2.09     | %    |
| Allowance for loan losses to nonperforming loans (c)(d)                             | 160.80  | % 119.90   | % 160.80                                      | % 119.90   | %    |
| Recovery of loan losses to average loans (annualized)                               | (0.58)  | )(0.47)    | )(0.51)                                       | )(0.69)    | )(%) |
| Net (recoveries) charge-offs as a percentage of average loans (annualized)          | (0.45)  | )(0.09)    | % (0.37)                                      | )(0.11)    | %    |
| <b>CAPITAL INFORMATION (d)</b>  |   |            |   |            |      |
| Tier 1 common capital ratio   | 14.17   | % 13.92    | % 14.17                                       | % 13.92    | %    |
| Tier 1 capital ratio  | 14.17   | % 15.93    | % 14.17                                       | % 15.93    | %    |
| Total risk-based capital ratio  | 15.54   | % 17.27    | % 15.54                                       | % 17.27    | %    |
| Leverage ratio  | 9.04  | % 10.18    | % 9.04  | % 10.18    | %    |
| Tangible equity to tangible assets (e)  | 8.07  | % 8.45     | % 8.07  | % 8.45     | %    |
| <b>PER SHARE DATA</b>   |   |            |   |            |      |
| Earnings per share – Basic  | \$0.46  | \$0.47     | \$0.93  | \$1.10     |      |
| Earnings per share – Diluted  | 0.46  | 0.47       | 0.93  | 1.10       |      |
| Cash dividends declared per share   | 0.14  | 0.11       | 0.26  | 0.22       |      |
| Book value per share (d)  | 20.71   | 20.39      | 20.71   | 20.39      |      |
| Tangible book value per common share (d)(e)   | \$13.94   | \$14.18    | \$13.94                                       | \$14.18    |      |
| Weighted-average shares outstanding – Basic   | 10,576,643                                      | 10,524,429 | 10,566,508                                    | 10,518,909 |      |
| Weighted-average shares outstanding – Diluted                                       | 10,597,033                                      | 10,524,429 | 10,584,383                                    | 10,518,929 |      |
| Common shares outstanding at end of period  | 10,583,161                                      | 10,526,954 | 10,583,161                                    | 10,526,954 |      |

(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).

These amounts represent non-GAAP financial measures since they exclude the provision for loan losses and all (b) 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.

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

(e) regarding the calculation of these measures can be found later in this discussion under the caption "Capital/Stockholders' Equity".

Table of Contents

## 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:

- the success, impact, and timing of Peoples' business strategies, including the successful completion of the Ohio
- (1) Commerce acquisition, integration of recently completed insurance business 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”).

## Table of Contents

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](http://www.sec.gov) and/or from Peoples Bancorp Inc.'s website – [www.peoplesbancorp.com](http://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 49 financial service locations and 47 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 June 30, 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 July 2, 2013, Peoples announced that Peoples Bank had signed a definitive agreement to acquire Ohio Commerce Bank ("Ohio Commerce"), which operates one full-service office in Beachwood, Ohio. Under the terms of the agreement, Peoples Bank has agreed to pay \$13.75 in cash for each share of Ohio Commerce common stock for a total cash consideration of approximately \$16.5 million. The transaction, which is subject to regulatory approval and Ohio Commerce shareholder approval, is anticipated to be completed during the fourth quarter of 2013.

In May 2013, Peoples received a \$5.2 million principal payout to reduce its bank owned life insurance principal. In July 2013, Peoples began taking steps to surrender bank owned life insurance reported at approximately \$43 million, at a cost basis of \$36.5 million. This process could take up to six months, and if completed, would result in Peoples incurring a related tax liability.

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. On May 15, 2013, Peoples Insurance acquired two additional insurance agency offices and related customer accounts in Jackson, Ohio. These



acquisitions help Peoples maintain revenue diversity by continuing to grow the fee-based businesses.

Table of Contents

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 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 six months of 2013, as a result of the Trust Preferred Redemption, Peoples realized interest expense savings of approximately \$0.5 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, late 2010 and mid 2013.

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

Table of Contents

## EXECUTIVE SUMMARY

Net income for the three months ended June 30, 2013 was \$4.9 million, or \$0.46 per diluted share, compared to \$5.0 million and \$0.47 a year ago. On a year-to-date basis, net income was \$9.9 million through June 30, 2013, compared to \$11.7 million a year ago, representing earnings per diluted common share of \$0.93 and \$1.10, respectively. The decrease in earnings compared to the first six months of 2012 was largely attributable to higher non-interest expenses and a lower recovery of loan loss in 2013 than experienced in 2012.

Peoples had a recovery of loan losses of \$1.5 million and \$2.5 million for the three and six months ended through June 30, 2013, respectively, as several asset quality metrics maintained favorable trends. In comparison, Peoples recorded recovery of loan losses of \$1.1 million and \$3.3 million for the three and six months ended June 30, 2012, respectively.

Net interest income was \$13.2 million in the second quarter of 2013, compared to \$13.0 million for the linked quarter and \$13.6 million for the second quarter of 2012. The slight improvement over the linked quarter occurred as a result of the investment strategy enacted late in the first quarter and higher average loan balances. On a year-to-date basis, net interest income of \$26.1 million was down 3% from \$27.0 million in 2012. The decrease from prior year, for both the quarter and year-to-date, was a result of declining asset yields due to the reinvestment of funds at lower interest rates.

Non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, for the second quarter of 2013 was up 2% compared to the linked quarter, 8% compared to the prior year quarter, and 4% on a year-to-date basis. These increases were largely due to acquisitions completed during the last year within Peoples' insurance and investment businesses. The growth was partially offset by lower mortgage banking income and service charges on deposit accounts.

Total non-interest expense was \$16.4 million for the quarter ended June 30, 2013, consistent with the linked quarter, an increase of 5% over the prior year, and 6% higher on a year-to-date basis. The increase over the prior year was due in part to the acquisitions completed, and costs associated with strategic investments to add new talent and re-brand the company. Salaries and benefits increased 6% compared to prior year for the quarter and year-to-date. Net occupancy and equipment was up 8% compared to the prior year quarter and 19% on a year-to-date basis.

At June 30, 2013, total assets were \$1.90 billion versus \$1.92 billion at year-end 2012, with the decrease due mostly to the lower market value of the available-for-sale investment portfolio. Total investment securities decreased 5% to \$673.2 million at June 30, 2013, compared to \$709.1 million at year-end. Gross loan balances grew \$45.1 million during the first half of 2013. The allowance for loan losses was \$17.1 million, or 1.66% of gross loans, compared to \$17.8 million and 1.81% at December 31, 2012.

Total liabilities were \$1.68 billion at June 30, 2013, down \$15.6 million since December 31, 2012. Retail deposit balances experienced a \$51.3 million decline compared to year-end 2012. Non-interest-bearing deposits increased \$8.1 million, partially offsetting the decline in interest-bearing deposits, and comprised 23.5% of total retail deposits at June 30, 2013 versus 22.1% at year-end 2012. A portion of the decline in retail interest-bearing deposits was attributable to a reduction in money market balances maintained by Peoples' trust department. Since late 2008, Peoples' trust department has maintained larger than historical amounts of funds in money market deposit accounts as the ultra-low rate environment limited short-term investment options. At June 30, 2013, total borrowed funds were \$218.2 million, up \$41.6 million compared to year-end due to higher short-term borrowings that were used to fund loan growth.

At June 30, 2013, total stockholders' equity was \$219.1 million, down \$2.6 million since December 31, 2012. During 2013, the market value of Peoples' available-for-sale investment portfolio declined \$10.9 million, while earnings exceeded dividends declared by \$7.1 million. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio remained stable at 14.17% at June 30, 2013, versus 14.06% at December 31, 2012, while the Total Risk-Based Capital ratio was 15.54% versus 15.43% at December 31, 2012. In addition, Peoples' tangible equity to tangible asset ratio was 8.07% and tangible book value per common share was \$13.94 at June 30, 2013, versus 8.28% and \$14.52 at December 31, 2012, respectively.



Table of Contents

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.

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

Table of Contents

| (Dollars in thousands)           | For the Three Months Ended |                |            |                 |                |            |                 |                |            |
|----------------------------------|----------------------------|----------------|------------|-----------------|----------------|------------|-----------------|----------------|------------|
|                                  | June 30, 2013              |                |            | March 31, 2013  |                |            | June 30, 2012   |                |            |
|                                  | Average Balance            | Income/Expense | Yield/Cost | Average Balance | Income/Expense | Yield/Cost | Average Balance | Income/Expense | Yield/Cost |
| Short-term investments           | \$11,399                   | \$25           | 0.88 %     | \$39,099        | \$18           | 0.20 %     | \$9,336         | \$4            | 0.19 %     |
| Investment Securities            |                            |                |            |                 |                |            |                 |                |            |
| (1):                             |                            |                |            |                 |                |            |                 |                |            |
| Taxable                          | 657,644                    | 4,202          | 2.56 %     | 657,319         | 4,262          | 2.59 %     | 638,538         | 4,984          | 3.09 %     |
| Nontaxable (2)                   | 50,978                     | 607            | 4.76 %     | 48,213          | 583            | 4.84 %     | 39,000          | 546            | 5.61 %     |
| Total investment securities      | 708,622                    | 4,809          | 2.71 %     | 705,532         | 4,845          | 2.75 %     | 677,538         | 5,530          | 3.27 %     |
| Loans (3):                       |                            |                |            |                 |                |            |                 |                |            |
| Commercial                       | 611,631                    | 6,785          | 4.45 %     | 606,836         | 6,701          | 4.48 %     | 623,492         | 7,571          | 4.88 %     |
| Real estate (4)                  | 280,889                    | 3,263          | 4.65 %     | 271,128         | 3,359          | 4.96 %     | 244,131         | 3,101          | 5.03 %     |
| Consumer                         | 116,995                    | 1,528          | 5.24 %     | 107,092         | 1,435          | 5.58 %     | 91,976          | 1,400          | 6.12 %     |
| Total loans                      | 1,009,515                  | 11,576         | 4.61 %     | 985,056         | 11,495         | 4.73 %     | 959,599         | 12,072         | 5.05 %     |
| Less: Allowance for loan losses  | (17,866 )                  |                |            | (18,783 )       |                |            | (21,650 )       |                |            |
| Net loans                        | 991,649                    | 11,576         | 4.68 %     | 966,273         | 11,495         | 4.81 %     | 937,949         | 12,072         | 5.17 %     |
| Total earning assets             | 1,711,670                  | 16,410         | 3.85 %     | 1,710,904       | 16,358         | 3.86 %     | 1,624,823       | 17,606         | 4.35 %     |
| Intangible assets                | 71,081                     |                |            | 69,988          |                |            | 64,737          |                |            |
| Other assets                     | 128,237                    |                |            | 133,827         |                |            | 133,991         |                |            |
| Total assets                     | \$1,910,988                |                |            | \$1,914,719     |                |            | \$1,823,551     |                |            |
| Deposits:                        |                            |                |            |                 |                |            |                 |                |            |
| Savings accounts                 | \$199,065                  | \$27           | 0.05 %     | \$190,769       | \$25           | 0.05 %     | \$158,408       | \$23           | 0.06 %     |
| Governmental deposit accounts    | 147,824                    | 168            | 0.46 %     | 145,714         | 202            | 0.56 %     | 155,888         | 251            | 0.65 %     |
| Interest-bearing demand accounts | 124,199                    | 25             | 0.08 %     | 126,763         | 25             | 0.08 %     | 111,627         | 37             | 0.13 %     |
| Money market accounts            | 266,602                    | 93             | 0.14 %     | 288,161         | 96             | 0.14 %     | 250,080         | 111            | 0.18 %     |
| Brokered deposits                | 51,952                     | 468            | 3.61 %     | 54,134          | 476            | 3.57 %     | 53,843          | 487            | 3.64 %     |
| Retail certificates of deposit   | 350,141                    | 1,017          | 1.17 %     | 381,650         | 1,115          | 1.18 %     | 407,413         | 1,380          | 1.36 %     |
| Total interest-bearing deposits  | 1,139,783                  | 1,798          | 0.63 %     | 1,187,191       | 1,939          | 0.66 %     | 1,137,259       | 2,289          | 0.81 %     |
| Borrowed Funds:                  |                            |                |            |                 |                |            |                 |                |            |
| Short-term FHLB advances         | 35,462                     | 9              | 0.10 %     | 2,000           | 1              | 0.20 %     | 16,000          | 5              | 0.12 %     |
| Retail repurchase agreements     | 33,340                     | 13             | 0.16 %     | 31,975          | 12             | 0.15 %     | 36,172          | 14             | 0.15 %     |
| Total short-term borrowings      | 68,802                     | 22             | 0.13 %     | 33,975          | 13             | 0.15 %     | 52,172          | 19             | 0.14 %     |
| Long-term FHLB advances          | 64,237                     | 543            | 3.39 %     | 64,538          | 541            | 3.40 %     | 66,531          | 562            | 3.40 %     |
| Wholesale repurchase agreements  | 40,000                     | 367            | 3.67 %     | 40,000          | 363            | 3.63 %     | 40,000          | 367            | 3.63 %     |
| Other borrowings                 | 22,690                     | 226            | 3.94 %     | 23,883          | 235            | 3.94 %     | 22,614          | 492            | 8.60 %     |
| Total long-term borrowings       | 126,927                    | 1,136          | 3.58 %     | 128,421         | 1,139          | 3.57 %     | 129,145         | 1,421          | 4.38 %     |

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|  |              |           |        |              |           |        |              |           |        |
|--|--------------|-----------|--------|--------------|-----------|--------|--------------|-----------|--------|
| Total borrowed funds                       | 195,729      | 1,158     | 2.36 % | 162,396      | 1,152     | 2.86 % | 181,317      | 1,440     | 3.16 % |
| Total interest-bearing liabilities         | 1,335,512    | 2,956     | 0.89 % | 1,349,587    | 3,091     | 0.93 % | 1,318,576    | 3,729     | 1.14 % |
| Non-interest-bearing deposits              | 326,020      |           |        | 319,994      |           |        | 269,316      |           |        |
| Other liabilities                          | 23,568       |           |        | 23,381       |           |        | 24,191       |           |        |
| Total liabilities                          | 1,685,100    |           |        | 1,692,962    |           |        | 1,612,083    |           |        |
| Total stockholders' equity                 | 225,888      |           |        | 221,757      |           |        | 211,468      |           |        |
| Total liabilities and stockholders' equity | \$ 1,910,988 |           |        | \$ 1,914,719 |           |        | \$ 1,823,551 |           |        |
| Interest rate spread                       |              | \$ 13,454 | 2.96 % |              | \$ 13,267 | 2.93 % |              | \$ 13,877 | 3.21 % |
| Net interest margin                        |              |           | 3.15 % |              |           | 3.12 % |              |           | 3.43 % |

(1) Average balances are based on carrying value.

(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal statutory tax rate.

Average balances include nonaccrual and impaired loans. Interest income includes interest earned on nonaccrual

(3) loans prior to the loans being placed on nonaccrual status. Loan fees included in interest income were immaterial for all periods presented.

(4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

Table of Contents

| (Dollars in thousands)                     | For the Six Months Ended |                |            |               |                 |                |            |   |
|--|--------------------------|----------------|------------|---------------|-----------------|----------------|------------|---|
|  | June 30, 2013            |                |            | June 30, 2012 |                 |                |            |   |
|  | Average Balance          | Income/Expense | Yield/Cost |               | Average Balance | Income/Expense | Yield/Cost |   |
| Short-term investments                     | \$25,172                 | \$44           | 0.35       | %             | \$7,808         | \$8            | 0.21       | % |
| Investment Securities (1):                 |                          |                |            |               |                 |                |            |   |
| Taxable                                    | 657,482                  | 8,463          | 2.57       | %             | 642,693         | 10,537         | 3.28       | % |
| Nontaxable (2)                             | 49,602                   | 1,189          | 4.79       | %             | 37,528          | 1,071          | 5.71       | % |
| Total investment securities                | 707,084                  | 9,652          | 2.73       | %             | 680,221         | 11,608         | 3.41       | % |
| Loans (3):                                 |                          |                |            |               |                 |                |            |   |
| Commercial                                 | 609,247                  | 13,486         | 4.46       | %             | 618,105         | 14,795         | 4.81       | % |
| Real estate (4)                            | 276,036                  | 6,622          | 4.80       | %             | 244,051         | 6,241          | 5.14       | % |
| Consumer                                   | 112,071                  | 2,963          | 5.46       | %             | 90,759          | 2,825          | 6.26       | % |
| Total loans                                | 997,354                  | 23,071         | 4.67       | %             | 952,915         | 23,861         | 5.03       | % |
| Less: Allowance for loan losses            | (18,322)                 | )              |            |               | (23,039)        | )              |            |   |
| Net loans                                  | 979,032                  | 23,071         | 4.74       | %             | 929,876         | 23,861         | 5.15       | % |
| Total earning assets                       | 1,711,288                | 32,767         | 3.85       | %             | 1,617,905       | 35,477         | 4.40       | % |
| Intangible assets                          | 70,538                   |                |            |               | 64,581          |                |            |   |
| Other assets                               | 130,794                  |                |            |               | 132,348         |                |            |   |
| Total assets                               | \$1,912,620              |                |            |               | \$1,814,834     |                |            |   |
| Deposits:                                  |                          |                |            |               |                 |                |            |   |
| Savings accounts                           | \$194,940                | \$51           | 0.05       | %             | \$152,520       | \$44           | 0.06       | % |
| Governmental deposit accounts              | 146,775                  | 370            | 0.51       | %             | 149,725         | 488            | 0.66       | % |
| Interest-bearing demand accounts           | 125,474                  | 50             | 0.08       | %             | 109,975         | 71             | 0.13       | % |
| Money market accounts                      | 277,322                  | 189            | 0.14       | %             | 255,674         | 236            | 0.19       | % |
| Brokered deposits                          | 53,037                   | 944            | 3.59       | %             | 57,643          | 1,014          | 3.54       | % |
| Retail certificates of deposit             | 365,808                  | 2,132          | 1.18       | %             | 403,929         | 2,983          | 1.49       | % |
| Total interest-bearing deposits            | 1,163,356                | 3,736          | 0.65       | %             | 1,129,466       | 4,836          | 0.86       | % |
| Borrowed Funds:                            |                          |                |            |               |                 |                |            |   |
| Short-term FHLB advances                   | 18,823                   | 10             | 0.11       | %             | 15,634          | 8              | 0.11       | % |
| Retail repurchase agreements               | 32,661                   | 25             | 0.15       | %             | 39,207          | 30             | 0.15       | % |
| Total short-term borrowings                | 51,484                   | 35             | 0.14       | %             | 54,841          | 38             | 0.14       | % |
| Long-term FHLB advances                    | 64,387                   | 1,084          | 3.40       | %             | 70,055          | 1,180          | 3.39       | % |
| Wholesale repurchase agreements            | 40,000                   | 729            | 3.65       | %             | 48,462          | 868            | 3.54       | % |
| Other borrowings                           | 23,283                   | 461            | 3.94       | %             | 22,609          | 987            | 8.63       | % |
| Total long-term borrowings                 | 127,670                  | 2,274          | 3.57       | %             | 141,126         | 3,035          | 4.28       | % |
| Total borrowed funds                       | 179,154                  | 2,309          | 2.58       | %             | 195,967         | 3,073          | 3.12       | % |
| Total interest-bearing liabilities         | 1,342,510                | 6,045          | 0.91       | %             | 1,325,433       | 7,909          | 1.20       | % |
| Non-interest-bearing deposits              | 323,024                  |                |            |               | 258,401         |                |            |   |
| Other liabilities                          | 23,252                   |                |            |               | 21,458          |                |            |   |
| Total liabilities                          | 1,688,786                |                |            |               | 1,605,292       |                |            |   |
| Total stockholders' equity                 | 223,834                  |                |            |               | 209,542         |                |            |   |
| Total liabilities and stockholders' equity | \$1,912,620              |                |            |               | \$1,814,834     |                |            |   |
| Interest rate spread                       |                          | \$26,722       | 2.94       | %             |                 | \$27,568       | 3.20       | % |
| Net interest margin                        |                          |                | 3.14       | %             |                 |                | 3.42       | % |

(1) Average balances are based on carrying value.

(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal statutory tax rate.

(3)



Average balances include nonaccrual and impaired loans. Interest income includes interest earned on nonaccrual loans prior to the loans being placed on nonaccrual status. Loan fees included in interest income were immaterial for all periods presented.

- (4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

Table of Contents

Net interest margin, which is calculated by dividing fully tax-equivalent (“FTE”) net interest income by average interest-earning assets, serves as an important measurement of the net revenue stream generated by the volume, mix and pricing of earning assets and interest-bearing liabilities. FTE net interest income is calculated by increasing interest income to convert tax-exempt income earned on obligations of states and political subdivisions to the pre-tax equivalent of taxable income using a 35% federal statutory tax rate. The following table details the calculation of FTE net interest income:

| (Dollars in thousands)                   | Three Months Ended |                   |                  | Six Months Ended |           |
|--|--------------------|-------------------|------------------|------------------|-----------|
|  | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012      |
| Net interest income, as reported         | \$ 13,155          | \$ 12,975         | \$ 13,612        | \$ 26,130        | \$ 27,044 |
| Taxable equivalent adjustments           | 299                | 292               | 265              | 592              | 524       |
| Fully tax-equivalent net interest income | \$ 13,454          | \$ 13,267         | \$ 13,877        | \$ 26,722        | \$ 27,568 |

The following table provides an analysis of the changes in FTE net interest income:

| (Dollars in thousands)                | Three Months Ended June 30, 2013 Compared to |        |                      |               |          |                      | Six Months Ended                              |          |                      |
|---------------------------------------|--|--------|----------------------|---------------|----------|----------------------|---|----------|----------------------|
|                                       | March 31, 2013                               |        |                      | June 30, 2012 |          |                      | June 30, 2013<br>Compared to<br>June 30, 2012 |          |                      |
| Increase (decrease) in:               | Rate   | Volume | Total <sup>(1)</sup> | Rate          | Volume   | Total <sup>(1)</sup> | Rate  | Volume   | Total <sup>(1)</sup> |
| <b>INTEREST INCOME:</b>               |  |        |                      |               |          |                      |   |          |                      |
| Short-term investments                | \$96   | \$(89) | \$7                  | \$20          | \$1      | \$21                 | \$8   | \$28     | \$36                 |
| Investment Securities: <sup>(2)</sup> |  |        |                      |               |          |                      |   |          |                      |
| Taxable                               | (74)   | )14    | (60)                 | (1,673)       | )891     | (782)                | (2,749)                                       | )675     | (2,074)              |
| Nontaxable                            | (55)   | )79    | 24                   | (423)         | )484     | 61                   | (419)   | )537     | 118                  |
| Total investment income               | (129)  | )93    | (36)                 | (2,096)       | )1,375   | (721)                | (3,168)                                       | )1,212   | (1,956)              |
| Loans:                                |  |        |                      |               |          |                      |   |          |                      |
| Commercial                            | (155)  | )239   | 84                   | (647)         | )139     | (786)                | (1,094)                                       | )215     | (1,309)              |
| Real estate                           | (682)  | )586   | (96)                 | (1,186)       | )1,348   | 162                  | (984)   | )1,365   | 381                  |
| Consumer                              | (440)  | )533   | 93                   | (1,017)       | )1,145   | 128                  | (895)   | )1,033   | 138                  |
| Total loan income                     | (1,277)                                      | )1,358 | 81                   | (2,850)       | )2,354   | (496)                | (2,973)                                       | )2,183   | (790)                |
| Total interest income                 | (1,310)                                      | )1,362 | 52                   | (4,926)       | )3,730   | (1,196)              | (6,133)                                       | )3,423   | (2,710)              |
| <b>INTEREST EXPENSE:</b>              |  |        |                      |               |          |                      |   |          |                      |
| Deposits:                             |  |        |                      |               |          |                      |   |          |                      |
| Savings accounts                      | 1  | 1      | 2                    | (9)           | )13      | 4                    | (10)  | )17      | 7                    |
| Government deposit accounts           | (698)  | )589   | (109)                | (835)         | )677     | (158)                | (949)   | )650     | (299)                |
| Interest-bearing demand accounts      | 138  | 5      | 143                  | 116           | 15       | 131                  | 268   | 31       | 299                  |
| Money market accounts                 | (29)   | )42    | (71)                 | (45)          | )41      | (86)                 | (98)  | )88      | (186)                |
| Brokered certificates of deposit      | 36   | (44)   | (8)                  | (3)           | )16      | (19)                 | 40  | (110)    | (70)                 |
| Retail certificates of deposit        | (17)   | )81    | (98)                 | (184)         | )179     | (363)                | (586)   | )265     | (851)                |
| Total deposit cost                    | (569)  | )428   | (141)                | (960)         | )469     | (491)                | (1,335)                                       | )235     | (1,100)              |
| Borrowed funds:                       |  |        |                      |               |          |                      |   |          |                      |
| Short-term borrowings                 | (3)  | )12    | 9                    | (3)           | )6       | 3                    | (1)   | )2       | (3)                  |
| Long-term borrowings                  | 7  | (10)   | (3)                  | (279)         | )6       | (285)                | (536)   | )225     | (761)                |
| Total borrowed funds cost             | 4  | 2      | 6                    | (282)         | —        | (282)                | (537)   | )227     | (764)                |
| Total interest expense                | (565)  | )430   | (135)                | (1,242)       | )469     | (773)                | (1,872)                                       | )8       | (1,864)              |
| Net interest income                   | \$(745)                                      | )\$932 | \$ 187               | \$(3,684)     | )\$3,261 | \$(423)              | \$(4,261)                                     | )\$3,415 | \$(846)              |



Table of Contents

(1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the

relationship of the dollar amounts of the changes in each.

(2) Presented on a fully tax-equivalent basis.

Net interest income for the second quarter of 2013 was 3% lower than the prior year second quarter and 1% higher than the linked quarter. The investment strategy enacted late in the first quarter of 2013 and loan growth during the second quarter provided stability to Peoples' net interest income and net interest margin. The yield on investment securities declined modestly in the first quarter of 2013, as the impact of slightly higher reinvestment rates was offset by the continued high levels of principal prepayments within mortgage-backed securities. During the second quarter of 2013, the average monthly principal cash flow received by Peoples from its investment portfolio was approximately \$8.7 million, compared to a monthly average of approximately \$12.4 million during the same period in 2012. The cash flow received from the investment portfolio in the second quarter of 2013 had an average yield of 2.61% and was reinvested in securities with a yield in the range of 2.50% to 3.00%.

Peoples' funding costs benefited from the strategy of replacing higher-cost funding with low-cost deposits. During the second quarter of 2013, Peoples realized a decrease of 23 basis points in total funding costs compared to the prior year, due largely to the Trust Preferred Redemption during the fourth quarter of 2012. Peoples expects to realize an annual interest expense savings of \$1.1 million in 2013 attributable to the Trust Preferred Redemption. Peoples remains diligent in minimizing the impact of margin compression on net interest income, with earning asset growth to be the key driver. During the third quarter of 2013, management expects to receive positive benefits from the recent steepening of the yield curve,

Detailed information regarding changes in the Consolidated Balance Sheets can be found under appropriate captions of the "FINANCIAL CONDITION" section of this discussion. Additional information regarding Peoples' interest rate risk and the potential impact of interest rate changes on Peoples' results of operations and financial condition can be found later in this discussion under the caption "Interest Rate Sensitivity and Liquidity".

(Recovery of) Provision for Loan Losses

The following table details Peoples' recovery of, or provision for, loan losses:

| (Dollars in thousands)                                  | Three Months Ended |                   |                  | Six Months Ended |            |
|---|--------------------|-------------------|------------------|------------------|------------|
|   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012       |
| Provision for (recovery of) checking account overdrafts | \$ 138             | \$(15 )           | \$ 80            | \$ 123           | \$ 68      |
| Recovery of other loan losses                           | (1,600 )           | (1,050 )          | (1,200 )         | (2,650 )         | (3,325 )   |
| Net recovery of loan losses                             | \$(1,462 )         | \$(1,065 )        | \$(1,120 )       | \$(2,527 )       | \$(3,257 ) |
| As a percentage of average gross loans (a)              | (0.58 )%           | (0.44 )%          | (0.47 )%         | (0.51 )%         | (0.69 )%   |

(a) Presented on an annualized basis

The recovery of, or provision for, loan losses recorded represents the amount needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions. The recovery of loan losses recorded during 2013 was driven mostly by recoveries on commercial real estate loans that had previously incurred charge-offs. During 2013, recoveries on loans exceeded charge-offs by \$1.1 million for the second quarter and \$1.8 million on a year-to-date basis. Peoples also experienced continued improving trends in various credit quality metrics, including historical loss trends and the level of criticized loans.

Additional information regarding changes in the allowance for loan losses and loan credit quality can be found later in this discussion under the caption "Allowance for Loan Losses".

Table of Contents

## Net Other (Losses) Gains

The following table details the other gains and losses recognized by Peoples:

| (Dollars in thousands)                         | Three Months Ended |                   |                  | Six Months Ended |          |
|--|--------------------|-------------------|------------------|------------------|----------|
|  | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012     |
| Net gain (loss) on OREO                        | \$81               | \$(5)             | \$(48)           | ) \$76           | \$8      |
| Loss on debt extinguishment                    | —                  | —                 | —                | —                | (3,111)  |
| Net (loss) gain on bank premises and equipment | (87)               | )—                | 5                | (87)             | )(2)     |
| Net other losses                               | \$(6)              | )(5)              | )(43)            | ) \$(11)         | )(3,105) |

The net gain on OREO for the second quarter of 2013 was the result of the sale of two commercial properties. The net loss on bank premises and equipment for the second quarter of 2012 was due to the write-downs of \$89,000 related to closed office locations that are available for sale. The net loss on OREO for the second quarter of 2012 was due mostly to write-downs on commercial properties whose fair value had declined. The loss on debt extinguishment for the six months of 2012 was a result of the prepayment of \$35.0 million of wholesale borrowings.

## Non-Interest Income

Insurance income comprised the largest portion of second quarter 2013 non-interest income. The following table details Peoples' insurance income:

| (Dollars in thousands)                      | Three Months Ended |                   |                  | Six Months Ended |         |
|---|--------------------|-------------------|------------------|------------------|---------|
|   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012    |
| Property and casualty insurance commissions | \$2,705            | \$2,171           | \$2,145          | \$4,876          | \$3,968 |
| Performance-based commissions               | 81                 | 504               | 63               | 585              | 982     |
| Life and health insurance commissions       | 309                | 146               | 133              | 455              | 260     |
| Credit life and A&H insurance commissions   | 34                 | 23                | 40               | 57               | 63      |
| Other fees and charges                      | 91                 | 34                | 57               | 125              | 116     |
| Total insurance income                      | \$3,220            | \$2,878           | \$2,438          | \$6,098          | \$5,389 |

The growth in Peoples' property and casualty insurance commission income compared to the prior year benefited from the Pikeville Acquisition. The increase over the linked quarter in property and casualty insurance commission income was a result of a high retention rate for existing insurance customers and higher premiums within the industry. Life and health insurance commissions increased over prior periods due to acquisitions completed during 2013. The bulk of performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers. The decrease in 2013 in performance-based commissions was largely attributable to a major storm that hit the region in June 2012.

Deposit account service charges continued to comprise a sizable portion of Peoples' non-interest income. The following table details Peoples' deposit account service charges:

| (Dollars in thousands)                  | Three Months Ended |                   |                  | Six Months Ended |         |
|---|--------------------|-------------------|------------------|------------------|---------|
|   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012    |
| Overdraft and non-sufficient funds fees | \$1,732            | \$1,605           | \$1,894          | \$3,337          | \$3,634 |
| Account maintenance fees                | 311                | 290               | 315              | 601              | 636     |
| Other fees and charges                  | 2                  | 162               | 21               | 164              | 197     |
| Total deposit account service charges   | \$2,045            | \$2,057           | \$2,230          | \$4,102          | \$4,467 |

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and



Table of Contents

non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season.

Peoples' fiduciary and brokerage revenues continue to be based primarily upon the value of assets under management, with additional income generated from transaction commissions. The following tables detail Peoples' trust and investment income and related assets under management:

|                                   | Three Months Ended |                   |                  | Six Months Ended |                  |
|-----------------------------------|--------------------|-------------------|------------------|------------------|------------------|
|                                   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | June 30,<br>2012 |
| (Dollars in thousands)            |                    |                   |                  |                  |                  |
| Fiduciary                         | \$1,293            | \$1,189           | \$1,137          | \$2,482          | \$2,206          |
| Brokerage                         | 479                | 513               | 312              | 992              | 739              |
| Total trust and investment income | \$1,772            | \$1,702           | \$1,449          | \$3,474          | \$2,945          |

|                                   | June 30,    | March 31,   | December 31, | September 30, | June 30,    |
|-----------------------------------|-------------|-------------|--------------|---------------|-------------|
|                                   | 2013        | 2013        | 2012         | 2012          | 2012        |
| (Dollars in thousands)            |             |             |              |               |             |
| Trust assets under management     | \$939,292   | \$927,675   | \$888,134    | \$874,293     | \$847,962   |
| Brokerage assets under management | 433,651     | 433,217     | 404,320      | 398,875       | 309,852     |
| Total managed assets              | \$1,372,943 | \$1,360,892 | \$1,292,454  | \$1,273,168   | \$1,157,814 |
| Quarterly average                 | \$1,373,135 | \$1,332,353 | \$1,277,452  | \$1,203,285   | \$1,138,261 |

Over the last several quarters, Peoples has continued to attract new managed funds, due in part to the addition of experienced financial advisors in previously underserved market areas. In addition, Peoples had added new business related to the retirement plans for which it manages the assets and provides services. The U.S. financial markets experienced a general increase in market value during the first six months of 2013, which also contributed to the increase in managed assets. Peoples also added approximately \$80 million in brokerage assets during the third quarter of 2012 and \$20 million in the second quarter of 2012 due to acquisitions completed during the quarters.

Mortgage banking income was down compared to the linked quarter, the prior year quarter and on a year-to-date basis. The fluctuations correspond with changes in refinancing activity, which are driven by mortgage interest rates available in the secondary market and customers' preference for long-term, fixed rate loans. In addition, Peoples retained a larger percentage of the loans originated during 2013 than in 2012. In the second quarter of 2013, Peoples sold approximately \$14 million of loans to the secondary market compared to \$32 million in the linked quarter and \$55 million for the second quarter of 2012.

**Non-Interest Expense**

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for more than half of total non-interest expense. The following table details Peoples' salaries and employee benefit costs:

|   | Three Months Ended |                   |                  | Six Months Ended |                  |
|---|--------------------|-------------------|------------------|------------------|------------------|
|   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30, 2013    | June 30,<br>2012 |
| (Dollars in thousands)                    |                    |                   |                  |                  |                  |
| Base salaries and wages                   | \$5,866            | \$5,632           | \$5,261          | \$11,498         | \$10,409         |
| Sales-based and incentive compensation    | 1,874              | 1,525             | 1,527            | 3,399            | 2,872            |
| Employee benefits                         | 771                | 982               | 1,306            | 1,753            | 2,539            |
| Stock-based compensation                  | 386                | 297               | 259              | 683              | 485              |
| Deferred personnel costs                  | (589)              | (494)             | (463)            | (1,083)          | (898)            |
| Payroll taxes and other employment costs  | 626                | 775               | 525              | 1,401            | 1,253            |
| Total salaries and employee benefit costs | \$8,934            | \$8,717           | \$8,415          | \$17,651         | \$16,660         |
| Full-time equivalent employees:           |                    |                   |                  |                  |                  |
| Actual at end of period                   | 545                | 517               | 494              | 545              | 494              |
| Average during the period                 | 531                | 509               | 498              | 521              | 503              |

For the three and six months ended June 30, 2013, base salaries and wages were higher than prior periods due to the strategic initiative of adding new talent, which caused part of the increase in full-time equivalent employees. The





Table of Contents

acquisitions completed during the last twelve months also contributed to the increase in full-time equivalent employees. Sales-based and incentive compensation was impacted by higher sales production within insurance and wealth management activities, as well as a higher expense accrual associated with corporate incentive plans, which are tied in part to Peoples' performance. Compared to the prior periods, employee benefit costs have benefited from lower employee medical benefit plan expenses, which are tied to claims activity, and lower pension costs due to the timing of pension settlement charges. In the second quarter of 2012, Peoples recorded a pension settlement charge of \$353,000 with no charge recorded in the second quarter of 2013. Given the nature, it is inherently difficult to estimate the amount or exact timing of pension settlement charges. Management expects pension settlement charges in third quarter of 2013 based on year-to-date distributions. The amount is projected to be in the range of \$350,000 and \$400,000.

Peoples' net occupancy and equipment expense was comprised of the following:

| (Dollars in thousands)                    | Three Months Ended |                   |                  | Six Months Ended |         |
|---|--------------------|-------------------|------------------|------------------|---------|
|   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012    |
| Depreciation                              | \$590              | \$767             | \$510            | \$1,357          | \$1,006 |
| Repairs and maintenance costs             | 460                | 446               | 434              | 907              | 747     |
| Net rent expense                          | 200                | 221               | 227              | 421              | 467     |
| Property taxes, utilities and other costs | 376                | 424               | 332              | 799              | 715     |
| Total net occupancy and equipment expense | \$1,626            | \$1,858           | \$1,503          | \$3,484          | \$2,935 |

Depreciation expense increased over the prior year periods due to strategic investments made during 2012, including the new Vienna, West Virginia office and the new signage resulting from the introduction of the new brand.

Professional fees were \$202,000 lower compared to the second quarter of 2012 due largely to the non-recurrence of consulting costs incurred associated with acquisition opportunities.

Marketing expense, which includes advertising, donation and other public relations costs, increased \$112,000 compared to the linked quarter. The variance was largely the result of a contribution made in the second quarter of 2013 to Peoples Bancorp Foundation Inc., a private foundation established by Peoples in 2004 to make charitable contributions to organizations within Peoples' primary market area. Future contributions to Peoples Bancorp Foundation Inc. will be evaluated on a quarterly basis, with the amount of any contribution determined based largely on the level of need within the communities Peoples serves.

Management expects Peoples' total non-interest expenses to be approximately \$16.7 million for the third quarter of 2013, without any new acquisition-related costs. The Ohio Commerce acquisition is expected to add \$400,000 to \$500,000 to Peoples' operating expenses beginning in the fourth quarter of 2013. One-time costs associated with this acquisition also are estimated to be \$1.0 million. Peoples' efficiency ratio, calculated as non-interest expense less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 71.71% for the second quarter of 2013, up slightly from the linked quarter of 71.61% and the prior year of 69.61%. Management continues to target an efficiency ratio in the range of 68% to 70% for 2013.

**Income Tax Expense**

For the six months ended June 30, 2013, Peoples recorded income tax expense of \$4.8 million, for an effective tax rate of 32.7%. This effective tax rate represents management's current estimate of the rate for the entire year. In comparison, Peoples recorded income tax expense of \$5.6 million for the same period in 2012, for an effective tax rate of 32.2%.

**Pre-Provision Net Revenue**

Pre-provision net revenue ("PPNR") has become a key financial measure used by federal bank regulatory agencies when assessing the capital adequacy of financial institutions. PPNR is defined as net interest income plus non-interest income minus non-interest expense and therefore excludes the provision for loan losses and all gains and losses included in earnings. As a result, PPNR represents the earnings capacity that can be either retained in order to build capital or used to absorb unexpected losses and preserve existing capital.



Table of Contents

The following table provides a reconciliation of this non-GAAP financial measure to the amounts reported in Peoples' consolidated financial statements for the periods presented:

| (Dollars in thousands)                                | Three Months Ended |                   |                  | Six Months Ended |           |   |
|---|--------------------|-------------------|------------------|------------------|-----------|---|
|   | June 30,<br>2013   | March 31,<br>2013 | June 30,<br>2012 | June 30,<br>2013 | 2012      |   |
| Pre-Provision Net Revenue:                            |                    |                   |                  |                  |           |   |
| Income before income taxes                            | \$7,431            | \$7,340           | \$7,501          | \$14,771         | \$17,237  |   |
| Add: loss on debt extinguishment                      | —                  | —                 | —                | —                | 3,111     |   |
| Add: loss on loans held-for-sale and OREO             | —                  | 5                 | 48               | —                | —         |   |
| Add: loss on other assets                             | 89                 | —                 | —                | 89               | 2         |   |
| Less: recovery of loan losses                         | 1,462              | 1,065             | 1,120            | 2,527            | 3,257     |   |
| Less: gain on loans held-for-sale and OREO            | 81                 | —                 | —                | 76               | 8         |   |
| Less: net gain on securities transactions             | 26                 | 418               | —                | 444              | 3,163     |   |
| Less: gain on other assets                            | 2                  | —                 | 5                | 2                | —         |   |
| Pre-provision net revenue                             | \$5,949            | \$5,862           | \$6,424          | \$11,811         | \$13,922  |   |
| Pre-provision net revenue                             | \$5,949            | \$5,862           | \$6,424          | \$11,811         | \$13,922  |   |
| Total average assets                                  | 1,910,988          | 1,914,719         | 1,823,551        | 1,912,620        | 1,814,834 |   |
| Pre-provision net revenue to total average assets (a) | 1.25               | % 1.24            | % 1.42           | % 1.25           | % 1.54    | % |

(a) Presented on an annualized basis

PPNR decreased compared to the prior year periods due mostly to the increase in total expenses over the prior year. The decrease in net interest income also contributed to the decrease.

**FINANCIAL CONDITION****Cash and Cash Equivalents**

At June 30, 2013, Peoples' interest-bearing deposits in other banks were down compared to both the linked quarter-end and prior year-end. These decreases were largely the result of \$0.3 million of excess cash reserves being maintained at the Federal Reserve Bank, compared to \$92.1 million at March 31, 2013 and \$11.6 million at December 31, 2012. The higher balance at March 31, 2013 was due to the timing of the investment sales late in the first quarter of 2013. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

Through six months of 2013, Peoples' total cash and cash equivalents decreased \$24.8 million, as cash used in Peoples' investing and financing activities exceeded the \$20.3 million of cash generated by operating activities. Investing activities used \$27.6 million of cash to fund the \$42.9 million net loan growth, while proceeds from sales and principal payments of investment securities exceeded purchases by \$12.8 million. Within Peoples' financing activities, the decrease in deposits of \$56.5 million caused increased borrowed funds of \$41.6 million.

In comparison, through six months of 2012, Peoples' total cash and cash equivalents decreased \$5.3 million, as cash used in Peoples' investing activities exceeded the \$17.6 million of cash generated by operating activities and \$16.5 million of cash generated by financing activities. Investing activities used \$39.4 million of cash to fund the \$17.5 million net loan growth, while purchases of investment securities exceeded the proceeds from sales and principal payments by \$21.8 million. Within Peoples' financing activities, deposit growth generated \$67.2 million of cash which was used primarily to reduce borrowed funds by \$47.2 million and to repurchase the warrant held by the U.S Treasury.

Further information regarding the management of Peoples' liquidity position can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."



Table of Contents

## Investment Securities

The following table provides information regarding Peoples' investment portfolio:

| (Dollars in thousands)                        | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|
| Available-for-sale securities, at fair value: |                  |                   |                      |                       |                  |
| Obligations of:                               |                  |                   |                      |                       |                  |
| U.S. Treasury and government agencies         | \$ 23            | \$ 25             | \$ 26                | \$ 28                 | \$ 30            |
| U.S. government sponsored agencies            | 400              | 459               | 516                  | 575                   | 648              |
| States and political subdivisions             | 50,579           | 47,165            | 45,668               | 42,154                | 39,351           |
| Residential mortgage-backed securities        | 503,574          | 495,135           | 514,096              | 472,439               | 525,391          |
| Commercial mortgage-backed securities         | 33,606           | 48,072            | 64,416               | 61,345                | 42,410           |
| Bank-issued trust preferred securities        | 7,811            | 7,879             | 10,357               | 10,105                | 12,744           |
| Equity securities                             | 4,335            | 3,910             | 4,106                | 2,714                 | 3,412            |
| Total fair value                              | \$ 600,328       | \$ 602,645        | \$ 639,185           | \$ 589,360            | \$ 623,986       |
| Total amortized cost                          | \$ 606,441       | \$ 592,005        | \$ 628,584           | \$ 579,722            | \$ 614,131       |
| Net unrealized (loss) gain                    | \$(6,113)        | \$ 10,640         | \$ 10,601            | \$ 9,638              | \$ 9,855         |

Held-to-maturity securities, at amortized cost:

|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Obligations of:                        |           |           |           |           |           |
| States and political subdivisions      | \$ 3,855  | \$ 3,857  | \$ 3,860  | \$ 3,862  | \$ 3,864  |
| Residential mortgage-backed securities | 36,361    | 36,547    | 33,494    | 20,770    | 25,344    |
| Commercial mortgage-backed securities  | 7,882     | 7,903     | 7,921     | 7,940     | 7,964     |
| Total amortized cost                   | \$ 48,098 | \$ 48,307 | \$ 45,275 | \$ 32,572 | \$ 37,172 |

Total investment portfolio:

|                |            |            |            |            |            |
|----------------|------------|------------|------------|------------|------------|
| Amortized cost | \$ 654,539 | \$ 640,312 | \$ 673,859 | \$ 612,294 | \$ 651,303 |
| Carrying value | \$ 648,426 | \$ 650,952 | \$ 684,460 | \$ 621,932 | \$ 661,158 |

The 5% decrease in the investment portfolio since year-end was due to the timing of the sales and subsequent reinvestment of the first quarter repositioning of the investment portfolio. In 2013 and throughout 2012, Peoples continued to designate additional securities as "held-to-maturity" at the time of their purchase, for which management has made the determination Peoples would hold these securities until maturity and concluded Peoples had the ability to do so.

Peoples' investment in residential and commercial mortgage-backed securities largely consists of securities either guaranteed by the U.S. government or issued by U.S. government sponsored agencies, such as Fannie Mae and Freddie Mac. The remaining portion of Peoples' mortgage-backed securities consists of securities issued by other entities, including other financial institutions, which are not guaranteed by the U.S. government. The amount of these "non-agency" securities included in the residential and commercial mortgage-backed securities totals above was as follows:

| (Dollars in thousands) | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Residential            | \$ 30,065        | \$ 32,748         | \$ 37,267            | \$ 40,827             | \$ 46,161        |
| Commercial             | —                | —                 | —                    | —                     | 997              |
| Total fair value       | \$ 30,065        | \$ 32,748         | \$ 37,267            | \$ 40,827             | \$ 47,158        |
| Total amortized cost   | \$ 28,820        | \$ 31,915         | \$ 36,395            | \$ 38,681             | \$ 45,512        |
| Net unrealized gain    | \$ 1,245         | \$ 833            | \$ 872               | \$ 2,146              | \$ 1,646         |

Management continues to reinvest the principal runoff from the non-agency securities into U.S agency investments, which accounted for the decline experienced in the second quarter of 2013 and prior quarters. At June 30, 2013, Peoples' non-agency portfolio consisted entirely of first lien residential and commercial mortgages, with nearly all of

the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

Table of Contents

## Loans

The following table provides information regarding outstanding loan balances:

| (Dollars in thousands)                                  | June 30,<br>2013    | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012  |          |
|---|---------------------|-------------------|----------------------|-----------------------|-------------------|----------|
| <b>Gross portfolio loans:</b>                           |                     |                   |                      |                       |                   |          |
| Commercial real estate, construction                    | \$ 30,770           | \$ 24,108         | \$ 34,265            | \$ 50,804             | \$ 43,775         |          |
| Commercial real estate, other                           | 389,281             | 381,331           | 378,073              | 379,561               | 394,323           |          |
| Commercial real estate                                  | 420,051             | 405,439           | 412,338              | 430,365               | 438,098           |          |
| Commercial and industrial                               | 184,981             | 174,982           | 180,131              | 172,068               | 161,893           |          |
| Residential real estate                                 | 252,282             | 237,193           | 233,841              | 233,501               | 212,813           |          |
| Home equity lines of credit                             | 52,212              | 50,555            | 51,053               | 51,137                | 48,414            |          |
| Consumer  | 119,029             | 108,353           | 101,246              | 100,116               | 92,334            |          |
| Deposit account overdrafts                              | 1,674               | 3,996             | 6,563                | 1,580                 | 1,726             |          |
| <b>Total portfolio loans</b>                            | <b>\$ 1,030,229</b> | <b>\$ 980,518</b> | <b>\$ 985,172</b>    | <b>\$ 988,767</b>     | <b>\$ 955,278</b> |          |
| <b>Percent of loans to total loans:</b>                 |                     |                   |                      |                       |                   |          |
| Commercial real estate, construction                    | 3.0                 | %2.4              | %3.5                 | %5.1                  | %4.6              | %        |
| Commercial real estate, other                           | 37.8                | %38.9             | %38.4                | %38.4                 | %41.2             | %        |
| Commercial real estate                                  | 40.8                | %41.3             | %41.9                | %43.5                 | %45.8             | %        |
| Commercial and industrial                               | 17.9                | %17.8             | %18.3                | %17.4                 | %16.9             | %        |
| Residential real estate                                 | 24.5                | %24.2             | %23.7                | %23.6                 | %22.3             | %        |
| Home equity lines of credit                             | 5.1                 | %5.2              | %5.2                 | %5.2                  | %5.1              | %        |
| Consumer  | 11.5                | %11.1             | %10.3                | %10.1                 | %9.7              | %        |
| Deposit account overdrafts                              | 0.2                 | %0.4              | %0.6                 | %0.2                  | %0.2              | %        |
| <b>Total percentage</b>                                 | <b>100.0</b>        | <b>%100.0</b>     | <b>%100.0</b>        | <b>%100.0</b>         | <b>%100.0</b>     | <b>%</b> |
| Residential real estate loans being serviced for others | \$ 338,854          | \$ 343,769        | \$ 330,721           | \$ 307,052            | \$ 296,025        |          |

The increase in construction loans was largely due to advances on loans with current relationships. The growth in commercial real estate loans during the second quarter of 2013 occurred as a result of lending opportunities within Peoples' primary market area. During the first two quarters of 2013, Peoples retained a larger percentage of residential mortgage loans originated than in prior quarters which caused the increase in residential real estate loans over the prior periods. Consumer loan balances, which consist mostly of loans to finance automobile purchases, continued to increase in 2013 due largely to Peoples placing greater emphasis on its consumer lending activity in recent quarters.

**Loan Concentration**

Peoples categorizes its commercial loans according to standard industry classifications and monitors for concentrations in a single industry or multiple industries that could be impacted by changes in economic conditions in a similar manner. Peoples' commercial lending activities continue to be spread over a diverse range of businesses from all sectors of the economy, with no single industry comprising over 10% of Peoples' total loan portfolio.

Loans secured by commercial real estate, including commercial construction loans, continue to comprise the largest portion of Peoples' loan portfolio.

Table of Contents

The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at June 30, 2013:

| (Dollars in thousands)                               | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of Total |   |
|--|------------------------|---------------------|-------------------|------------|---|
| Commercial real estate, other:                       |                        |                     |                   |            |   |
| Lodging and lodging related                          | \$60,267               | \$25                | \$60,292          | 15.1       | % |
| Apartment complexes                                  | 53,197                 | 828                 | 54,025            | 13.5       | % |
| Office buildings and complexes:                      |                        |                     |                   |            |   |
| Owner occupied                                       | 9,638                  | 142                 | 9,780             | 2.5        | % |
| Non-owner occupied                                   | 24,200                 | 238                 | 24,438            | 6.1        | % |
| Total office buildings and complexes                 | 33,838                 | 380                 | 34,218            | 8.6        | % |
| Light industrial facilities:                         |                        |                     |                   |            |   |
| Owner occupied                                       | 25,229                 | 1,674               | 26,903            | 6.7        | % |
| Non-owner occupied                                   | 8,185                  | —                   | 8,185             | 2.1        | % |
| Total light industrial facilities                    | 33,414                 | 1,674               | 35,088            | 8.8        | % |
| Retail facilities:                                   |                        |                     |                   |            |   |
| Owner occupied                                       | 10,483                 | 248                 | 10,731            | 2.7        | % |
| Non-owner occupied                                   | 18,523                 | 417                 | 18,940            | 4.7        | % |
| Total retail facilities                              | 29,006                 | 665                 | 29,671            | 7.4        | % |
| Assisted living facilities and nursing homes         | 22,290                 | 288                 | 22,578            | 5.7        | % |
| Mixed commercial use facilities:                     |                        |                     |                   |            |   |
| Owner occupied                                       | 12,568                 | 502                 | 13,070            | 3.3        | % |
| Non-owner occupied                                   | 14,701                 | 17                  | 14,718            | 3.7        | % |
| Total mixed commercial use facilities                | 27,269                 | 519                 | 27,788            | 7.0        | % |
| Day care facilities:                                 |                        |                     |                   |            |   |
| Owner occupied                                       | 12,643                 | —                   | 12,643            | 3.2        | % |
| Non-owner occupied                                   | 4,518                  | —                   | 4,518             | 1.1        | % |
| Total day care facilities                            | 17,161                 | —                   | 17,161            | 4.3        | % |
| Health care facilities:                              |                        |                     |                   |            |   |
| Owner occupied                                       | 7,220                  | 9                   | 7,229             | 1.8        | % |
| Non-owner occupied                                   | 16,852                 | —                   | 16,852            | 4.2        | % |
| Total health care facilities                         | 24,072                 | 9                   | 24,081            | 6.0        | % |
| Restaurant facilities:                               |                        |                     |                   |            |   |
| Owner occupied                                       | 10,120                 | 118                 | 10,238            | 2.6        | % |
| Non-owner occupied                                   | 1,899                  | —                   | 1,899             | 0.5        | % |
| Total restaurant facilities                          | 12,019                 | 118                 | 12,137            | 3.1        | % |
| Other  | 76,748                 | 5,174               | 81,922            | 20.5       | % |
| Total commercial real estate, other                  | \$389,281              | \$9,680             | \$398,961         | 100.0      | % |
| (Dollars in thousands)                               | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of Total |   |
| Commercial real estate, construction:                |                        |                     |                   |            |   |
| Assisted living facilities and nursing homes         | \$5,607                | \$6,386             | \$11,993          | 21.4       | % |
| Residential property                                 | 1,290                  | 1,058               | 2,348             | 4.2        | % |
| Apartment complexes                                  | 11,639                 | 17,013              | 28,652            | 51.1       | % |
| Restaurant facilities                                | 3,801                  | —                   | 3,801             | 6.8        | % |
| Mixed commercial use facilities - non-owner occupied | 2,918                  | 27                  | 2,945             | 5.3        | % |
| Other  | 5,515                  | 783                 | 6,298             | 11.2       | % |
| Total commercial real estate, construction           | \$30,770               | \$25,267            | \$56,037          | 100.0      | % |





Table of Contents

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balances of commercial loans in each state were less than \$4.0 million at both June 30, 2013 and December 31, 2012.

Allowance for Loan Losses

The amount of the allowance for loan losses at the end of each period represents management's estimate of expected losses from existing loans based upon its formal quarterly analysis of the loan portfolio. While this process involves allocations being made to specific loans and pools of loans, the entire allowance is available for all losses incurred within the loan portfolio. The following details management's allocation of the allowance for loan losses:

| (Dollars in thousands)          | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |   |
|---------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|---|
| Commercial real estate          | \$12,568         | \$13,973          | \$14,215             | \$14,973              | \$16,212         |   |
| Commercial and industrial       | 2,188            | 1,750             | 1,733                | 1,667                 | 1,524            |   |
| Residential real estate         | 1,005            | 783               | 801                  | 837                   | 1,090            |   |
| Home equity lines of credit     | 490              | 485               | 479                  | 470                   | 478              |   |
| Consumer                        | 740              | 383               | 438                  | 480                   | 456              |   |
| Deposit account overdrafts      | 122              | 65                | 145                  | 180                   | 165              |   |
| Total allowance for loan losses | \$17,113         | \$17,439          | \$17,811             | \$18,607              | \$19,925         |   |
| As a percentage of total loans  | 1.66             | % 1.78            | % 1.81               | % 1.88                | % 2.09           | % |

The significant allocations to commercial loans reflect the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. In the second quarter of 2013, the allowance for loan losses continued to be reduced as a result of sustained improvement in several credit quality metrics.

Specifically, Peoples has experienced a steady decrease in criticized loans, which are those classified as watch, substandard or doubtful, due to principal paydowns and improvements in borrowers' financial conditions. Total criticized loans decreased \$24.0 million or 27% since year-end 2012, reflecting \$9.3 million in principal paydowns. Peoples upgraded \$15.6 million in loans during 2013 based upon the financial condition of the borrowers. Net charge-offs also remained at or below Peoples' long-term historical rate for the ninth consecutive quarter. Both of these factors had a direct impact on the estimated loss rates used to determine the appropriate allocations for commercial loans.

The allowance allocated to the residential real estate and consumer loan categories is based upon Peoples' allowance methodology for homogeneous pools of loans. The fluctuations in these allocations have been directionally consistent with the changes in loan quality, loss experience and loan balances in these categories.

Table of Contents

The following table summarizes Peoples' net recoveries and charge-offs:

| (Dollars in thousands)  | Three Months Ended |                   |                      |                       |                  |    |
|---|--------------------|-------------------|----------------------|-----------------------|------------------|----|
|   | June 30,<br>2013   | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |    |
| <b>Gross charge-offs:</b>   |                    |                   |                      |                       |                  |    |
| Commercial real estate, construction  | \$—                | \$—               | \$—                  | \$—                   | \$—              |    |
| Commercial real estate, other   | 217                | 566               | 2,034                | 266                   | 889              |    |
| Commercial real estate  | 217                | 566               | 2,034                | 266                   | 889              |    |
| Commercial and industrial   | 11                 | —                 | 1                    | —                     | 33               |    |
| Residential real estate   | 88                 | 134               | 201                  | 329                   | 354              |    |
| Home equity lines of credit   | —                  | 2                 | —                    | 17                    | 6                |    |
| Consumer  | 185                | 159               | 144                  | 83                    | 131              |    |
| Deposit account overdrafts  | 115                | 130               | 157                  | 163                   | 132              |    |
| Total gross charge-offs   | 616                | 991               | 2,537                | 858                   | 1,545            |    |
| <b>Recoveries:</b>  |                    |                   |                      |                       |                  |    |
| Commercial real estate, construction  | —                  | —                 | —                    | —                     | —                |    |
| Commercial real estate, other   | 1,432              | 1,374             | 1,861                | 127                   | 805              |    |
| Commercial real estate  | 1,432              | 1,374             | 1,861                | 127                   | 805              |    |
| Commercial and industrial   | 4                  | 17                | 67                   | 143                   | 100              |    |
| Residential real estate   | 145                | 116               | 165                  | 76                    | 228              |    |
| Home equity lines of credit   | 5                  | 8                 | 9                    | 9                     | 7                |    |
| Consumer  | 132                | 104               | 102                  | 107                   | 164              |    |
| Deposit account overdrafts  | 34                 | 65                | 40                   | 34                    | 37               |    |
| Total recoveries  | 1,752              | 1,684             | 2,244                | 496                   | 1,341            |    |
| <b>Net (recoveries) charge-offs:</b>  |                    |                   |                      |                       |                  |    |
| Commercial real estate, construction  | —                  | —                 | —                    | —                     | —                |    |
| Commercial real estate, other   | (1,215 )           | (808 )            | 173                  | 139                   | 84               |    |
| Commercial real estate  | (1,215 )           | (808 )            | 173                  | 139                   | 84               |    |
| Commercial and industrial   | 7                  | (17 )             | (66 )                | (143 )                | (67 )            |    |
| Residential real estate   | (57 )              | 18                | 36                   | 253                   | 126              |    |
| Home equity lines of credit   | (5 )               | (6 )              | (9 )                 | 8                     | (1 )             |    |
| Consumer  | 53                 | 55                | 42                   | (24 )                 | (33 )            |    |
| Deposit account overdrafts  | 81                 | 65                | 117                  | 129                   | 95               |    |
| Total net (recoveries) charge-offs  | \$(1,136 )         | \$(693 )          | \$293                | \$362                 | \$204            |    |
| <b>Ratio of net (recoveries) charge-offs to average loans (annualized):</b> |                    |                   |                      |                       |                  |    |
| Commercial real estate, construction  | —                  | % —               | % —                  | % —                   | % —              | %  |
| Commercial real estate, other   | (0.48 )            | %(0.33 )          | %0.07                | %0.06                 | %0.04            | %  |
| Commercial real estate  | (0.48 )            | %(0.33 )          | %0.07                | %0.06                 | %0.04            | %  |
| Commercial and industrial   | —                  | %(0.01 )          | %(0.03 )             | %(0.06 )              | %(0.03 )         | )% |
| Residential real estate   | (0.02 )            | )%0.01            | %0.01                | %0.11                 | %0.05            | %  |
| Home equity lines of credit   | —                  | % —               | % —                  | % —                   | % —              | %  |
| Consumer  | 0.03               | %0.02             | %0.02                | %(0.01 )              | %(0.01 )         | )% |
| Deposit account overdrafts  | 0.02               | %0.02             | %0.05                | %0.05                 | %0.04            | %  |
| Total   | (0.45 )            | %(0.29 )          | )%0.12               | %0.15                 | %0.09            | %  |

Table of Contents

The following table details Peoples' nonperforming assets:

| (Dollars in thousands)                         | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |   |
|--|------------------|-------------------|----------------------|-----------------------|------------------|---|
| Loans 90+ days past due and accruing:          |                  |                   |                      |                       |                  |   |
| Commercial real estate                         | \$ 36            | \$—               | \$—                  | \$—                   | \$37             |   |
| Commercial and industrial                      | —                | —                 | 181                  | 27                    | —                |   |
| Residential real estate                        | —                | —                 | —                    | —                     | —                |   |
| Consumer                                       | —                | 3                 | 4                    | —                     | 14               |   |
| Total  | 36               | 3                 | 185                  | 27                    | 51               |   |
| Nonaccrual loans:                              |                  |                   |                      |                       |                  |   |
| Commercial real estate, construction           | 80               | —                 | —                    | —                     | —                |   |
| Commercial real estate                         | 4,922            | 5,739             | 7,259                | 9,846                 | 9,720            |   |
| Commercial and industrial                      | 297              | 327               | 627                  | 408                   | 474              |   |
| Residential real estate                        | 3,136            | 3,166             | 2,786                | 2,884                 | 3,693            |   |
| Home equity                                    | 32               | 78                | 24                   | 15                    | 215              |   |
| Consumer                                       | 62               | 9                 | 20                   | 10                    | —                |   |
| Total  | 8,529            | 9,319             | 10,716               | 13,163                | 14,102           |   |
| Troubled debt restructurings:                  |                  |                   |                      |                       |                  |   |
| Commercial real estate                         | 1,879            | 2,208             | 2,572                | 1,891                 | 2,416            |   |
| Commercial and industrial                      | —                | —                 | —                    | 8                     | —                |   |
| Residential real estate                        | 175              | 276               | 350                  | 419                   | 49               |   |
| Home equity                                    | 24               | —                 | —                    | —                     | —                |   |
| Total  | 2,078            | 2,484             | 2,922                | 2,318                 | 2,465            |   |
| Total nonperforming loans (NPLs)               | 10,643           | 11,806            | 13,823               | 15,508                | 16,618           |   |
| Other real estate owned (OREO)                 |                  |                   |                      |                       |                  |   |
| Commercial                                     | —                | 815               | 815                  | 815                   | 815              |   |
| Residential                                    | 120              | —                 | 21                   | 358                   | 325              |   |
| Total  | 120              | 815               | 836                  | 1,173                 | 1,140            |   |
| Total nonperforming assets (NPAs)              | \$ 10,763        | \$ 12,621         | \$ 14,659            | \$ 16,681             | \$ 17,758        |   |
| NPLs as a percent of total loans               | 1.03             | % 1.20            | % 1.39               | % 1.55                | % 1.73           | % |
| NPAs as a percent of total assets              | 0.57             | % 0.65            | % 0.76               | % 0.89                | % 0.97           | % |
| NPAs as a percent of gross loans and OREO      | 1.04             | % 1.28            | % 1.48               | % 1.66                | % 1.85           | % |
| Allowance for loan losses as a percent of NPLs | 160.80           | % 147.71          | % 128.86             | % 119.98              | % 119.90         | % |

The decrease in nonperforming assets during the second quarter of 2013 was due largely to two commercial real estate loans being paid-off, each was approximately \$0.3 million, and the sale of two OREO properties. During the first quarter of 2013, the decrease was due to two commercial real estate loans, with one borrower, paid-off. The relationship had an aggregate outstanding principal balance of \$1.4 million at December 31, 2012. The reduction contributed to the decrease in total criticized loans, which were down 27% at June 30, 2013 versus year-end 2012. The majority of Peoples' nonaccrual commercial real estate loans continues to consist of non-owner occupied commercial properties and real estate development projects. In general, management believes repayment of these loans is dependent on the sale of the underlying collateral. As such, the carrying values of these loans are ultimately supported by management's estimate of the net proceeds Peoples would receive upon the sale of the collateral. These estimates are based in part on market values provided by independent, licensed or certified appraisers periodically, but no less frequently than annually. Given the sustained weakness in commercial real estate values, management continues to monitor changes in real estate values from quarter-to-quarter and updates its estimates as needed based on observable changes in market prices and/or updated appraisals for similar properties.



Table of Contents

## Deposits

The following table details Peoples' deposit balances:

| (Dollars in thousands)                 | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|--|------------------|-------------------|----------------------|-----------------------|------------------|
| Interest-bearing deposits:             |                  |                   |                      |                       |                  |
| Retail certificates of deposit         | \$349,511        | \$353,894         | \$392,313            | \$413,837             | \$411,401        |
| Money market deposit accounts          | 238,554          | 288,538           | 288,404              | 251,735               | 246,657          |
| Governmental deposit accounts          | 146,817          | 167,441           | 130,630              | 157,802               | 158,832          |
| Savings accounts                       | 199,503          | 200,549           | 183,499              | 172,715               | 161,664          |
| Interest-bearing demand accounts       | 125,875          | 124,969           | 124,787              | 112,854               | 112,476          |
| Total retail interest-bearing deposits | 1,060,260        | 1,135,391         | 1,119,633            | 1,108,943             | 1,091,030        |
| Brokered certificates of deposits      | 50,393           | 52,648            | 55,599               | 55,168                | 54,639           |
| Total interest-bearing deposits        | 1,110,653        | 1,188,039         | 1,175,232            | 1,164,111             | 1,145,669        |
| Non-interest-bearing deposits          | 325,125          | 340,887           | 317,071              | 288,376               | 272,627          |
| Total deposits                         | \$1,435,778      | \$1,528,926       | \$1,492,303          | \$1,452,487           | \$1,418,296      |

During 2013, Peoples maintained its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as certificates of deposit ("CDs") and brokered deposits. This strategy has included more selective pricing of long-term CDs, governmental deposits and similar non-core deposits, as well as non-renewal of maturing brokered deposits. These actions accounted for much of the changes in deposit balances over the last several quarters. The decrease in money market deposit accounts was also due to a reduction in balances from Peoples' trust department. Since late 2008, Peoples' trust department has maintained larger than historical amounts of funds in money market deposit accounts as the ultra-low rate environment limited short-term investment options. The decrease in governmental deposit accounts during the second quarter was due to normal seasonal declines, as the balances typically increase annually during the first quarter. The decrease in non-interest-bearing deposits was the result of a commercial customer maintaining an abnormally high balance as of March 31, 2013.

## Borrowed Funds

The following table details Peoples' short-term and long-term borrowings:

| (Dollars in thousands)                           | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|--|------------------|-------------------|----------------------|-----------------------|------------------|
| Short-term borrowings:                           |                  |                   |                      |                       |                  |
| FHLB advances                                    | \$59,000         | \$—               | \$15,000             | \$—                   | \$7,500          |
| Retail repurchase agreements                     | 33,521           | 32,395            | 32,769               | 37,651                | 35,847           |
| Total short-term borrowings                      | 92,521           | 32,395            | 47,769               | 37,651                | 43,347           |
| Long-term borrowings:                            |                  |                   |                      |                       |                  |
| FHLB advances                                    | 64,180           | 64,348            | 64,904               | 66,270                | 66,471           |
| National market repurchase agreements            | 40,000           | 40,000            | 40,000               | 40,000                | 40,000           |
| Other long-term borrowings                       | 21,534           | 22,726            | 23,919               | —                     | —                |
| Total long-term borrowings                       | 125,714          | 127,074           | 128,823              | 106,270               | 106,471          |
| Subordinated debentures held by subsidiary trust | —                | —                 | —                    | 22,627                | 22,618           |
| Total borrowed funds                             | \$218,235        | \$159,469         | \$176,592            | \$166,548             | \$172,436        |

Any short-term FHLB advances would consist of overnight borrowings by Peoples being maintained in connection with the management of Peoples' daily liquidity position.

As disclosed in Peoples' 2012 Form 10-K, Peoples entered into a loan agreement on December 18, 2012, and is subject to certain covenants. At June 30, 2013, Peoples was in compliance with the applicable material covenants imposed by this agreement.



Table of Contents

## Capital/Stockholders' Equity

During the second quarter of 2013, Peoples' total stockholders' equity benefited from earnings exceeding dividends declared, which was more than offset by the decline in the market value of available-for-sale investment securities. At June 30, 2013, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered "well capitalized" institutions under banking regulations. These higher capital levels reflect Peoples' desire to maintain strong capital positions to provide greater flexibility to grow the company.

The following table details Peoples' actual risk-based capital levels and corresponding ratios:

| (Dollars in thousands)    | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |   |
|---------------------------|------------------|-------------------|----------------------|-----------------------|------------------|---|
| <b>Capital Amounts:</b>   |                  |                   |                      |                       |                  |   |
| Tier 1 common             | \$166,576        | \$164,329         | \$160,604            | \$157,520             | \$156,565        |   |
| Tier 1                    | 166,576          | 164,329           | 160,604              | 180,147               | 179,183          |   |
| Total (Tier 1 and Tier 2) | 182,706          | 179,569           | 176,224              | 195,083               | 194,307          |   |
| Net risk-weighted assets  | \$1,175,647      | \$1,118,644       | \$1,141,938          | \$1,136,532           | \$1,124,982      |   |
| <b>Capital Ratios:</b>    |                  |                   |                      |                       |                  |   |
| Tier 1 common             | 14.17            | % 14.69           | % 14.06              | % 13.86               | % 13.92          | % |
| Tier 1                    | 14.17            | % 14.69           | % 14.06              | % 15.85               | % 15.93          | % |
| Total (Tier 1 and Tier 2) | 15.54            | % 16.05           | % 15.43              | % 17.16               | % 17.27          | % |
| Leverage ratio            | 9.04             | % 8.90            | % 8.83               | % 10.13               | % 10.18          | % |

In addition to traditional capital measurements, management uses tangible capital measures to evaluate the adequacy of Peoples' stockholders' equity. Such ratios represent non-GAAP financial information since their calculation removes the impact of intangible assets acquired through acquisitions on the Consolidated Balance Sheets.

Management believes this information is useful to investors since it facilitates the comparison of Peoples' operating performance, financial condition and trends to peers, especially those without a similar level of intangible assets to that of Peoples. Further, intangible assets generally are difficult to convert into cash, especially during a financial crisis, and could decrease substantially in value should there be deterioration in the overall franchise value. As a result, tangible equity represents a conservative measure of the capacity for a company to incur losses but remain solvent.

The following table reconciles the calculation of these non-GAAP financial measures to amounts reported in Peoples' Consolidated Financial Statements:

| (Dollars in thousands)                     | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|--|------------------|-------------------|----------------------|-----------------------|------------------|
| <b>Tangible Equity:</b>                    |                  |                   |                      |                       |                  |
| Total stockholders' equity, as reported    | \$219,147        | \$226,079         | \$221,728            | \$218,835             | \$214,623        |
| Less: goodwill and other intangible assets | 71,608           | 69,977            | 68,525               | 68,422                | 65,383           |
| Tangible equity                            | \$147,539        | \$156,102         | \$153,203            | \$150,413             | \$149,240        |
| <b>Tangible Assets:</b>                    |                  |                   |                      |                       |                  |
| Total assets, as reported                  | \$1,899,841      | \$1,938,722       | \$1,918,050          | \$1,866,510           | \$1,831,359      |
| Less: goodwill and other intangible assets | 71,608           | 69,977            | 68,525               | 68,422                | 65,383           |
| Tangible assets                            | \$1,828,233      | \$1,868,745       | \$1,849,525          | \$1,798,088           | \$1,765,976      |



Table of Contents

| (Dollars in thousands)                    | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |   |
|---|------------------|-------------------|----------------------|-----------------------|------------------|---|
| Tangible Book Value per Common Share:     |                  |                   |                      |                       |                  |   |
| Tangible equity                           | \$147,539        | \$156,102         | \$153,203            | \$150,413             | \$149,240        |   |
| Common shares outstanding                 | 10,583,161       | 10,568,147        | 10,547,960           | 10,534,445            | 10,526,954       |   |
| Tangible book value per common share      | \$13.94          | \$14.77           | \$14.52              | \$14.28               | \$14.18          |   |
| Tangible Equity to Tangible Assets Ratio: |                  |                   |                      |                       |                  |   |
| Tangible equity                           | \$147,539        | \$156,102         | \$153,203            | \$150,413             | \$149,240        |   |
| Tangible assets                           | \$1,828,233      | \$1,868,745       | \$1,849,525          | \$1,798,088           | \$1,765,976      |   |
| Tangible equity to tangible assets        | 8.07             | %8.35             | %8.28                | %8.37                 | %8.45            | % |

The decrease in tangible equity, which was the main contributor to the decrease in tangible book value and tangible equity to tangible assets ratio, was due to the decline in the market value of Peoples' available-for-sale investment portfolio.

**Interest Rate Sensitivity and Liquidity**

While Peoples is exposed to various business risks, the risks relating to interest rate sensitivity and liquidity are major risks that can materially impact future results of operations and financial condition due to their complexity and dynamic nature. The objective of Peoples' asset/liability management ("ALM") function is to measure and manage these risks in order to optimize net interest income within the constraints of prudent capital adequacy, liquidity and safety. This objective requires Peoples to focus on interest rate risk exposure and adequate liquidity through its management of the mix of assets and liabilities, their related cash flows and the rates earned and paid on those assets and liabilities. Ultimately, the ALM function is intended to guide management in the acquisition and disposition of earning assets and selection of appropriate funding sources.

**Interest Rate Risk**

Interest rate risk ("IRR") is one of the most significant risks arising in the normal course of business of financial services companies like Peoples. IRR is the potential for economic loss due to future interest rate changes that can impact both the earnings stream as well as market values of financial assets and liabilities. Peoples' exposure to IRR is due primarily to differences in the maturity or repricing of earning assets and interest-bearing liabilities. In addition, other factors, such as prepayments of loans and investment securities or early withdrawal of deposits, can expose Peoples to IRR and increase interest costs or reduce revenue streams.

Peoples has assigned overall management of IRR to its Asset-Liability Committee (the "ALCO"), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. The methods used by the ALCO to assess IRR remain unchanged from those disclosed in Peoples' 2012 Form 10-K.

The following table shows the estimated changes in net interest income and the economic value of equity based upon a standard, parallel shock analysis (dollars in thousands):

| Increase in Interest Rate (in Basis Points) | Estimated Increase in Net Interest Income |                   |   | Estimated (Decrease) Increase in Economic Value of Equity |                   |   |            |        |   |            |       |   |
|---|---|-------------------|---|---|-------------------|---|------------|--------|---|------------|-------|---|
|   | June 30, 2013                             | December 31, 2012 |   | June 30, 2013   | December 31, 2012 |   |            |        |   |            |       |   |
| 300   | \$3,741                                   | 7.2               | % | \$9,688   | 19.6              | % | \$(60,243) | (24.6) | % | \$(20,348) | (8.5) | % |
| 200   | 3,890                                     | 7.5               | % | 8,627   | 17.5              | % | (39,619)   | (16.2) | % | (3,888)    | (1.6) | % |
| 100   | 2,997                                     | 5.8               | % | 6,311   | 12.8              | % | (17,609)   | (7.2)  | % | 7,344      | 3.1   | % |

At June 30, 2013, Peoples' Consolidated Balance Sheets remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. The benefit of the actions taken

late in the first quarter of 2013 within the investment portfolio to reduce interest rate exposure were fully reflected in the analysis above. While parallel interest rate shock scenarios are useful in assessing the level of IRR inherent in Peoples' Consolidated Balance Sheets, interest rates typically move in a non-parallel manner, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve Board increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates.

Table of Contents**Liquidity**

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity. The methods used by the ALCO to monitor and evaluate the adequacy of Peoples' liquidity position remain unchanged from those disclosed in Peoples' 2012 Form 10-K.

At June 30, 2013, Peoples had liquid assets of \$234.6 million, which represented 11.6% of total assets and unfunded commitments. This amount exceeded the minimal level of \$40.5 million, or 2% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional \$45.5 million of unpledged securities not included in the measurement of liquid assets.

Management believes the current balance of cash and cash equivalents and anticipated cash flows from the investment portfolio, along with the availability of other funding sources, will allow Peoples to meet anticipated cash obligations, as well as special needs and off-balance sheet commitments.

**Off-Balance Sheet Activities and Contractual Obligations**

Peoples routinely engages in activities that involve, to varying degrees, elements of risk that are not reflected in whole or in part in the Consolidated Financial Statements. These activities are part of Peoples' normal course of business and include traditional off-balance sheet credit-related financial instruments, interest rate contracts and commitments to make additional capital contributions in low-income housing tax credit investments. Traditional off-balance sheet credit-related financial instruments continue to represent the most significant off-balance sheet exposure.

The following table details the total contractual amount of loan commitments and standby letters of credit:

| (Dollars in thousands)        | June 30,<br>2013 | March 31,<br>2013 | December 31,<br>2012 | September 30,<br>2012 | June 30,<br>2012 |
|-------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Home equity lines of credit   | \$43,956         | \$44,124          | \$43,818             | \$43,719              | \$42,043         |
| Unadvanced construction loans | 25,646           | 19,092            | 11,839               | 14,261                | 17,578           |
| Other loan commitments        | 138,783          | 127,665           | 113,868              | 142,269               | 112,604          |
| Loan commitments              | 208,385          | 190,881           | 169,525              | 200,249               | 172,225          |
| Standby letters of credit     | \$35,845         | \$34,771          | \$35,373             | \$36,218              | \$40,330         |

Management does not anticipate Peoples' current off-balance sheet activities will have a material impact on its future results of operations and financial condition based on historical experience and recent trends.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this Item 3 is provided under the caption "Interest Rate Sensitivity and Liquidity" under "ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" in this Form 10-Q, and is incorporated herein by reference.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of Disclosure Controls and Procedures**

Peoples' management, with the participation of Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2013. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

- (a) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be accumulated and communicated to Peoples' management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and



Table of Contents

(c) Peoples' disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples' fiscal quarter ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

Table of Contents

## PART II

## ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of their respective businesses or operations, Peoples or one of its subsidiaries may be named as a plaintiff, a defendant, or a party to a legal proceeding or any of their respective properties may be subject to various pending and threatened legal proceedings and various actual and potential claims. In view of the inherent difficulty of predicting the outcome of such matters, Peoples cannot state what the eventual outcome of any such matters will be; however, based on current knowledge and after consultation with legal counsel, management believes these proceedings will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of Peoples.

## ITEM 1A. RISK FACTORS

There have been no material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2012 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial condition and/or operating results.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended June 30, 2013:

| Period             | (a)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased | (b)<br>Average Price<br>Paid per Share | (c)<br>Total Number of<br>Common Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs <sup>(1)</sup> | (d)<br>Maximum<br>Number of Common<br>Shares that May Yet Be<br>Purchased Under the<br>Plans or Programs <sup>(1)</sup> |
|--------------------|--|--|---|---|
| April 1 - 30, 2013 | —  | (2) \$ —                               | (2) —   | —   |
| May 1 - 31, 2013   | —  | (2) \$ —                               | (2) —   | —   |
| June 1 - 30, 2013  | —  | \$ —                                   | —   | —   |
| Total              | —  | \$ —                                   | —   | —   |

(1) Peoples’ Board of Directors has not authorized any stock repurchase plans or programs for 2013.

Information reflects solely common shares purchased in open market transactions by Peoples Bank under the Rabbi Trust Agreement establishing a rabbi trust holding assets to provide funds for the payment of the benefits (2) under the Peoples Bancorp Inc. Second Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

## Item 5.02(e) Compensation Arrangements for Certain Officers

On July 25, 2013, the Board of Directors of Peoples approved the Peoples Bancorp Inc. Nonqualified Deferred Compensation Plan (the “Plan”). Participation in the Plan is limited to a select group of management and highly compensated employees designated by the Compensation Committee of the Peoples Board of Directors, including the executive officers of Peoples. The following summary and description of the Plan is qualified in its entirety by reference to the Plan, a copy of which is filed with this Quarterly Report on Form 10-Q as Exhibit 10.4.

Deferrals of Compensation. Pursuant to the terms of the Plan, participants may elect to defer base salary, annual bonus and other compensation such as commissions, excluding equity awards. After the applicable deadline, a deferral election is



Table of Contents

irrevocable for that Plan year unless otherwise permitted under the Plan. Generally, a participant must submit a deferral election by December 31 of the year before the services are to be performed. The deferred compensation, if any, is credited to a bookkeeping account maintained on behalf of the participant. The participant is fully vested in the bookkeeping account which will be credited with earnings and losses based on the performance of the investment selections made by the participant for the account. The Compensation Committee will determine the deemed investments which participants may direct that their bookkeeping accounts be credited with.

**Company Contributions.** Peoples or one of its affiliates, as applicable, may make discretionary contributions to participants' bookkeeping accounts in such amount that would have been made pursuant to the Peoples Bancorp Inc. Retirement Savings Plan (the "Qualified Plan") as matching contributions if all amounts elected to be deferred under the Plan had been deferred under the Qualified Plan. Any such contributions will be credited to the participants' bookkeeping accounts and will vest in accordance with the vesting schedule under the Qualified Plan, provided that the amounts will become fully vested in the event of a participant's retirement or death and will be forfeited if a participant is terminated for cause.

**Distributions.** The amount reflected in a participant's bookkeeping account will be distributed on the January 1 immediately following the participant's termination of employment in a single lump sum payment; provided, however, that, at the time a participant makes an initial deferral election under the Plan, the participant may elect to receive distribution of the participant's account in up to ten substantially equal annual installments beginning on the January 1 immediately following the participant's termination and on each January 1 thereafter. If a participant dies before distribution of the amount reflected in the participant's bookkeeping account or complete distribution of the participant's account, then the participant's account will be distributed to the participant's beneficiary within 90 days after the participant's death.

**Plan Funding.** The Plan is an unfunded, unsecured promise by Peoples to pay the amounts credited to participants' bookkeeping accounts under the Plan at a later date. Participants have only the rights of general unsecured creditors of Peoples and do not have any interest in or right to any specific asset of Peoples.

**Administration.** The Plan is administered by the Compensation Committee who will serve as the administrator of the Plan without additional compensation. The Compensation Committee may interpret the Plan, determine all questions arising in the administration, interpretation and application of the Plan, employ actuaries, accountants, legal counsel and other individuals in connection with the administration of the Plan, request any information that it deems necessary to determine the solvency of Peoples or any affiliate, and take all other necessary and proper actions to fulfill the Compensation Committee's duties under the Plan.

**Plan Amendment and Termination.** Peoples may amend, modify, suspend or terminate the Plan at any time without any participant's consent unless it would retroactively reduce the amount credited to a participant's bookkeeping account.

**ITEM 6. EXHIBITS**

The exhibits required to be filed or furnished with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see "Exhibit Index" beginning at page 53.



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PEOPLES BANCORP INC.

Date: July 25, 2013

By: /s/ CHARLES W. SULERZYSKI  
Charles W. Sulerzyski  
President and Chief Executive Officer

Date: July 25, 2013

By: /s/ EDWARD G. SLOANE  
Edward G. Sloane  
Executive Vice President,  
Chief Financial Officer and Treasurer

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

| Exhibit Number | Description  | Exhibit Location  |
|----------------|--|---|
| 3.1(a)         | Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993)   | Incorporated herein by reference to Exhibit 3(a) to the Registration Statement on Form 8-B of Peoples Bancorp Inc. (“Peoples”) filed July 20, 1993 (File No. 0-16772)                             |
| 3.1(b)         | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994)  | Incorporated herein by reference to Exhibit 3(a)(2) to Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-16772) (“Peoples’ 1997 Form 10-K”)             |
| 3.1(c)         | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996)   | Incorporated herein by reference to Exhibit 3(a)(3) to Peoples’ 1997 Form 10-K  |
| 3.1(d)         | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003)  | Incorporated herein by reference to Exhibit 3(a) to Peoples’ Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) (“Peoples’ March 31, 2003 Form 10-Q”) |
| 3.1(e)         | Certificate of Amendment by Shareholders to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on January 22, 2009)  | Incorporated herein by reference to Exhibit 3.1 to Peoples’ Current Report on Form 8-K dated and filed on January 23, 2009 (File No. 0-16772)   |
| 3.1(f)         | Certificate of Amendment by Directors to Articles filed with the Secretary of State of the State of Ohio on January 28, 2009, evidencing adoption of amendments by the Board of Directors of Peoples Bancorp Inc. to Article FOURTH of Amended Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Peoples Bancorp Inc. | Incorporated herein by reference to Exhibit 3.1 to Peoples’ Current Report on Form 8-K dated and filed on February 2, 2009 (File No. 0-16772)   |
| 3.1(g)         | Amended Articles of Incorporation of Peoples Bancorp Inc. (reflecting amendments through January 28, 2009) [For SEC reporting compliance purposes only – not filed with Ohio Secretary of State]   | Incorporated herein by reference to Exhibit 3.1(g) to Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (File No. 0-16772)  |
| 3.2(a)         | Code of Regulations of Peoples Bancorp Inc.  | Incorporated herein by reference to Exhibit 3(b) to Peoples’ Registration Statement on  |

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Form 8-B filed July 20, 1993 (File No. 0-16772)

- |        |  |   |
|--------|--|---|
| 3.2(b) | Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003 | Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q   |
| 3.2(c) | Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004                                 | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)   |
| 3.2(d) | Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006   | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)   |
| 3.2(e) | Certificate regarding adoption of an amendment to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 22, 2010   | Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) ("Peoples' June 30, 2010 Form 10-Q/A") |

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

| Exhibit Number | Description   | Exhibit Location   |
|----------------|---|--|
| 3.2(f)         | Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 22, 2010) [For SEC reporting compliance purposes only]   | Incorporated herein by reference to Exhibit 3.2(f) to Peoples' June 30, 2010 Form 10-Q/A   |
| 10.1           | Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan (approved by shareholders on April 25, 2013)  | Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K dated and filed on April 26, 2013 (File No. 0-16772) |
| 10.2           | Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan Time-Based Restricted Stock Award Agreement (for Executives) to be used for grants on and after June 27, 2013             | Filed herewith   |
| 10.3           | Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan Time-Based Restricted Stock Award Agreement (for Non-Employee Directors) to be used for grants on and after June 27, 2013 | Filed herewith   |
| 10.4           | Peoples Bancorp Inc. Nonqualified Deferred Compensation Plan (adopted effective July 25, 2013)  | Filed herewith   |
| 10.5           | Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan Performance-Based Restricted Stock Award Agreement (for Executives) to be used for grants on and after July 25, 2013      | Filed herewith   |
| 31.1           | Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]   | Filed herewith   |
| 31.2           | Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]   | Filed herewith   |
| 32             | Section 1350 Certifications   | Furnished herewith   |
| 101.INS        | XBRL Instance Document  | Submitted electronically herewith #  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   | Submitted electronically herewith #  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   | Submitted electronically herewith #  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   | Submitted electronically herewith #  |

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document Submitted electronically herewith #

101.DEF XBRL Taxonomy Extension Definition Linkbase Document Submitted electronically herewith #

# Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at June 30, 2013 and December 31, 2012; (ii) Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2013 and 2012; (iii) Consolidated Statements of Comprehensive Income (unaudited) for the three and six months ended June 30, 2013 and 2012; (iv) Consolidated Statement of Stockholders' Equity (unaudited) for the six months ended June 30, 2013; (v) Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2013 and 2012; and (vi) Notes to the Unaudited Consolidated Financial Statements.