

PEOPLES BANCORP INC
Form 10-Q
October 23, 2014

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

OR

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

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

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

138 Putnam Street, P. O. Box 738,

45750

Marietta, Ohio

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,150,287 common shares, without par value, at October 22, 2014.

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

| (Dollars in thousands) | September 30, 2014 | December 31, 2013 |
|--|-----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 38,380 | \$ 36,016 |
| Interest-bearing deposits in other banks | 27,590 | 17,804 |
| Total cash and cash equivalents | 65,970 | 53,820 |
| Available-for-sale investment securities, at fair value (amortized cost of \$631,500 at September 30, 2014 and \$621,126 at December 31, 2013) | 631,827 | 606,108 |
| Held-to-maturity investment securities, at amortized cost (fair value of \$48,234 at September 30, 2014 and \$46,094 at December 31, 2013) | 48,883 | 49,222 |
| Other investment securities, at cost | 25,049 | 25,196 |
| Total investment securities | 705,759 | 680,526 |
| Loans, net of deferred fees and costs | 1,503,351 | 1,196,234 |
| Allowance for loan losses | (17,556) |)(17,065) |
| Net loans | 1,485,795 | 1,179,169 |
| Loans held for sale | 3,157 | 1,688 |
| Bank premises and equipment, net | 37,439 | 29,809 |
| Goodwill | 89,604 | 70,520 |
| Other intangible assets | 9,665 | 7,083 |
| Other assets | 36,374 | 36,493 |
| Total assets | \$ 2,433,763 | \$ 2,059,108 |
| Liabilities | | |
| Non-interest-bearing deposits | \$ 500,330 | \$ 409,891 |
| Interest-bearing deposits | 1,361,289 | 1,170,867 |
| Total deposits | 1,861,619 | 1,580,758 |
| Short-term borrowings | 71,897 | 113,590 |
| Long-term borrowings | 157,454 | 121,826 |
| Accrued expenses and other liabilities | 23,461 | 21,381 |
| Total liabilities | 2,114,431 | 1,837,555 |
| Stockholders' Equity | | |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2014 and December 31, 2013 | — | — |
| Common stock, no par value, 24,000,000 shares authorized, 14,749,971 shares issued at September 30, 2014 and 11,206,576 shares issued at December 31, 2013, including shares in treasury | 249,112 | 168,869 |
| Retained earnings | 88,456 | 80,898 |
| Accumulated other comprehensive loss, net of deferred income taxes | (3,277) |)(13,244) |
| Treasury stock, at cost, 599,692 shares at September 30, 2014 and 600,794 shares at December 31, 2013 | (14,959) |)(14,970) |
| Total stockholders' equity | 319,332 | 221,553 |
| Total liabilities and stockholders' equity | \$ 2,433,763 | \$ 2,059,108 |

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| (Dollars in thousands, except per share data) | Three Months Ended | | Nine Months Ended | | |
|---|-----------------------|------------|-----------------------|------------|---|
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 | |
| Interest Income: | | | | | |
| Interest and fees on loans | \$ 15,986 | \$ 11,958 | \$ 43,431 | \$ 34,945 | |
| Interest and dividends on taxable investment securities | 4,181 | 4,119 | 12,661 | 12,493 | |
| Interest on tax-exempt investment securities | 470 | 410 | 1,332 | 1,183 | |
| Other interest income | 5 | 22 | (14 |)65 | |
| Total interest income | 20,642 | 16,509 | 57,410 | 48,686 | |
| Interest Expense: | | | | | |
| Interest on deposits | 1,514 | 1,674 | 4,548 | 5,411 | |
| Interest on short-term borrowings | 46 | 28 | 114 | 63 | |
| Interest on long-term borrowings | 1,147 | 1,131 | 3,288 | 3,406 | |
| Total interest expense | 2,707 | 2,833 | 7,950 | 8,880 | |
| Net interest income | 17,935 | 13,676 | 49,460 | 39,806 | |
| (Recovery of) provision for loan losses | (380 |)919 |) 211 | (3,446 |) |
| Net interest income after (recovery of) provision for loan losses | 18,315 | 14,595 | 49,249 | 43,252 | |
| Other Income: | | | | | |
| Insurance income | 3,169 | 3,261 | 10,728 | 9,359 | |
| Deposit account service charges | 2,449 | 2,377 | 6,787 | 6,479 | |
| Trust and investment income | 1,876 | 1,751 | 5,656 | 5,225 | |
| Electronic banking income | 1,695 | 1,547 | 4,796 | 4,527 | |
| Mortgage banking income | 334 | 360 | 872 | 1,443 | |
| Net gain (loss) on investment securities | 124 | (1 |) 160 | 443 | |
| Net loss on asset disposals and other transactions | (109 |)19 |) (285 |)30 |) |
| Other non-interest income | 338 | 290 | 1,036 | 841 | |
| Total other income | 9,876 | 9,566 | 29,750 | 28,287 | |
| Other Expenses: | | | | | |
| Salaries and employee benefit costs | 11,667 | 9,358 | 33,700 | 27,009 | |
| Net occupancy and equipment | 2,267 | 1,637 | 5,822 | 5,121 | |
| Professional fees | 1,451 | 1,188 | 3,625 | 3,084 | |
| Electronic banking expense | 1,283 | 920 | 3,316 | 2,645 | |
| Data processing and software | 673 | 530 | 1,798 | 1,479 | |
| Marketing expense | 668 | 547 | 1,540 | 1,559 | |
| Communication expense | 421 | 342 | 1,170 | 1,006 | |
| Franchise tax | 388 | 412 | 1,215 | 1,238 | |
| Amortization of other intangible assets | 367 | 180 | 912 | 533 | |
| FDIC insurance | 331 | 224 | 878 | 754 | |
| Foreclosed real estate and other loan expenses | 177 | 186 | 509 | 503 | |
| Other non-interest expense | 2,514 | 1,739 | 6,542 | 4,939 | |
| Total other expenses | 22,207 | 17,263 | 61,027 | 49,870 | |
| Income before income taxes | 5,984 | 6,898 | 17,972 | 21,669 | |
| Income tax expense | 1,755 | 4,381 | 5,482 | 9,209 | |
| Net income | \$4,229 | \$2,517 | \$12,490 | \$12,460 | |
| Earnings per share - basic | \$0.33 | \$0.24 | \$1.09 | \$1.17 | |
| Earnings per share - diluted | \$0.33 | \$0.23 | \$1.08 | \$1.16 | |
| Weighted-average number of shares outstanding - basic | 12,632,341 | 10,589,126 | 11,348,625 | 10,574,130 | |

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| | | | | |
|---|------------|------------|------------|------------|
| Weighted-average number of shares outstanding - diluted | 12,765,880 | 10,692,555 | 11,464,020 | 10,664,999 |
| Cash dividends declared | \$ 1,675 | \$ 1,513 | \$ 4,932 | \$ 4,320 |
| Cash dividends declared per share | \$0.15 | \$0.14 | \$0.45 | \$0.40 |

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$4,229 | \$2,517 | \$12,490 | \$12,460 |
| Other comprehensive income (loss): | | | | |
| Available-for-sale investment securities: | | | | |
| Gross unrealized holding (loss) gain arising in the period | (395 |) (876 |) 15,503 | (17,146 |
| Related tax benefit (expense) | 139 | 307 | (5,426 |) 6,001 |
| Less: reclassification adjustment for net gain (loss) included in net income | 124 | (1 |) 160 | 443 |
| Related tax expense | (43 |) — | (56 |) (155 |
| Net effect on other comprehensive (loss) income | (337 |) (568 |) 9,973 | (11,433 |
| Defined benefit plans: | | | | |
| Net (loss) gain arising during the period | (311 |) 3,023 | (1,490 |) 3,023 |
| Related tax benefit (expense) | 109 | (1,058 |) 522 | (1,058 |
| Amortization of unrecognized loss and service cost on benefit plans | 32 | 50 | 97 | 149 |
| Related tax expense | (11 |) (17 |) (34 |) (52 |
| Recognition of loss due to settlement and curtailment | 361 | 264 | 1,383 | 264 |
| Related tax expense | (126 |) (92 |) (484 |) (92 |
| Net effect on other comprehensive income (loss) | 54 | 2,170 | (6 |) 2,234 |
| Total other comprehensive income (loss), net of tax | (283 |) 1,602 | 9,967 | (9,199 |
| Total comprehensive income | \$3,946 | \$4,119 | \$22,457 | \$3,261 |

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands) | Common Stock | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Treasury Stock | Total Stockholders' Equity |
|---|--------------|-------------------|---|----------------|----------------------------|
| Balance, December 31, 2013 | \$168,869 | \$80,898 | \$(13,244 |) \$(14,970 |) \$221,553 |
| Net income | | 12,490 | | | 12,490 |
| Other comprehensive income, net of tax | | | 9,967 | | 9,967 |
| Cash dividends declared | | (4,932 |) | | (4,932 |
| Reissuance of treasury stock for common stock option exercises | | | | 72 | 72 |
| Tax benefit from exercise of stock options | 80 | | | | 80 |
| Reissuance of treasury stock for deferred compensation plan for Boards of Directors | | | | 175 | 175 |
| Purchase of treasury stock | | | | (407 |) (407 |
| Common shares issued under dividend reinvestment plan | 309 | | | | 309 |
| Common shares issued under compensation plan for Board of Directors | (12 |) | | 171 | 159 |
| Stock-based compensation expense | 1,382 | | | | 1,382 |
| Issuance of common shares related to acquisitions: | | | | | |

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| | | | | | |
|---|-----------|----------|-----------|------------|-----------|
| Midwest Bancshares, Inc. | 6,305 | | | | 6,305 |
| Ohio Heritage Bancorp, Inc. | 32,017 | | | | 32,017 |
| Common shares issued in Private Equity Issuance | 40,162 | | | | 40,162 |
| Balance, September 30, 2014 | \$249,112 | \$88,456 | \$(3,277) | \$(14,959) | \$319,332 |

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | Nine Months Ended | |
|--|-------------------|------------|
| | September 30, | |
| (Dollars in thousands) | 2014 | 2013 |
| Net cash provided by operating activities | \$ 19,422 | \$ 32,123 |
| Investing activities: | | |
| Available-for-sale investment securities: | | |
| Purchases | (109,356) | (206,331) |
| Proceeds from sales | 88,561 | 121,117 |
| Proceeds from principal payments, calls and prepayments | 55,170 | 82,247 |
| Held-to-maturity investment securities: | | |
| Purchases | (1,017) | (5,216) |
| Proceeds from principal payments | 1,022 | 455 |
| Net increase in loans | (67,963) | (68,729) |
| Net expenditures for premises and equipment | (5,363) | (4,777) |
| Proceeds from sales of other real estate owned | 204 | 922 |
| Proceeds from bank owned life insurance contracts | 6,322 | 42,837 |
| Business acquisitions, net of cash received | 10,080 | (2,248) |
| Return of (investment in) limited partnership and tax credit funds | 358 | (120) |
| Net cash used in investing activities | (21,982) | (39,843) |
| Financing activities: | | |
| Net increase in non-interest-bearing deposits | 43,085 | 39,696 |
| Net decrease in interest-bearing deposits | (15,270) | (94,140) |
| Net (decrease) increase in short-term borrowings | (45,753) | 59,074 |
| Proceeds from long-term borrowings | 5,268 | — |
| Payments on long-term borrowings | (7,916) | (4,698) |
| Cash dividends paid | (4,618) | (4,007) |
| Purchase of treasury stock | (407) | (166) |
| Proceeds from issuance of shares | 40,242 | 6 |
| Excess tax benefit from share-based payments | 79 | 73 |
| Net cash provided by (used in) financing activities | 14,710 | (4,162) |
| Net increase (decrease) in cash and cash equivalents | 12,150 | (11,882) |
| Cash and cash equivalents at beginning of period | 53,820 | 62,542 |
| Cash and cash equivalents at end of period | \$ 65,970 | \$ 50,660 |

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ("2013 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2013 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2014, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2013, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2013 Form 10-K.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year, due in part to seasonal variations and unusual or infrequently occurring items.

New Accounting Pronouncements: In June 2014, the Financial Accounting Standards Board issued an accounting standards update requiring that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. This standard will be effective for all entities for interim and annual periods beginning after December 15, 2015. Peoples will adopt this new guidance as required, and it is not expected to have a material impact on Peoples' consolidated financial statements.

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

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

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Note 2. Fair Value of Financial Instruments

Available-for-sale securities measured at fair value on a recurring basis comprised the following as of September 30, 2014 and December 31, 2013:

| (Dollars in thousands) | Fair Value | Fair Value Measurements at Reporting Date Using | | |
|--|------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| September 30, 2014 | | | | |
| Obligations of: | | | | |
| U.S. Treasury and government agencies | \$ 7 | \$— | \$ 7 | \$— |
| U.S. government sponsored agencies | 8,689 | — | 8,689 | — |
| States and political subdivisions | 64,048 | — | 64,048 | — |
| Residential mortgage-backed securities | 518,159 | — | 518,159 | — |
| Commercial mortgage-backed securities | 27,542 | — | 27,542 | — |
| Bank-issued trust preferred securities | 8,194 | — | 8,194 | — |
| Equity securities | 5,188 | 4,984 | 204 | — |
| Total available-for-sale securities | \$ 631,827 | \$ 4,984 | \$ 626,843 | \$— |
| December 31, 2013 | | | | |
| Obligations of: | | | | |
| U.S. Treasury and government agencies | \$ 20 | \$— | \$ 20 | \$— |
| U.S. government sponsored agencies | 319 | — | 319 | — |
| States and political subdivisions | 50,962 | — | 50,962 | — |
| Residential mortgage-backed securities | 510,097 | — | 510,097 | — |
| Commercial mortgage-backed securities | 32,304 | — | 32,304 | — |
| Bank-issued trust preferred securities | 7,829 | — | 7,829 | — |
| Equity securities | 4,577 | 4,443 | 134 | — |
| Total available-for-sale securities | \$ 606,108 | \$ 4,443 | \$ 601,665 | \$— |

Held-to-maturity securities reported at fair value comprised the following at September 30, 2014 and December 31, 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) |
| September 30, 2014 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | \$ 4,251 | \$— | \$ 4,251 | \$— |
| Residential mortgage-backed securities | 36,582 | — | 36,582 | — |
| Commercial mortgage-backed securities | 7,401 | — | 7,401 | — |
| Total held-to-maturity securities | \$ 48,234 | \$— | \$ 48,234 | \$— |
| December 31, 2013 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | \$ 3,929 | \$— | \$ 3,929 | \$— |
| Residential mortgage-backed securities | 34,530 | — | 34,530 | — |
| Commercial mortgage-backed securities | 7,635 | — | 7,635 | — |

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| | | | | |
|-----------------------------------|----------|-----|----------|-----|
| Total held-to-maturity securities | \$46,094 | \$— | \$46,094 | \$— |
|-----------------------------------|----------|-----|----------|-----|

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

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makers and live trading systems (Level 2). Management reviews the valuation methodology and quality controls utilized by the pricing services in their overall assessment of the reasonableness of the fair values provided and challenges prices when it believes a material discrepancy in pricing exists.

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2014, impaired loans with an aggregate outstanding principal balance of \$1.5 million were measured and reported at a fair value of \$1.1 million. For the three months ended September 30, 2014, Peoples recognized \$419,000 of losses and for the nine months ended September 30, 2014, Peoples recognized losses of \$428,000, on impaired loans through the allowance for loan losses.

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

| (Dollars in thousands) | September 30, 2014 | | December 31, 2013 | |
|-------------------------------|--------------------|--------------|-------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 65,970 | \$ 65,970 | \$ 53,820 | \$ 53,820 |
| Investment securities | 705,759 | 705,110 | 680,526 | 677,398 |
| Loans | 1,488,952 | 1,463,830 | 1,180,857 | 1,165,560 |
| Financial liabilities: | | | | |
| Deposits | \$ 1,861,619 | \$ 1,870,042 | \$ 1,580,758 | \$ 1,587,448 |
| Short-term borrowings | 71,897 | 71,897 | 113,590 | 113,590 |
| Long-term borrowings | 157,454 | 161,565 | 121,826 | 128,205 |

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

Loans: The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 3 inputs). In the current whole loan market, financial investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the lack of market liquidity. This divergence accounts for the majority of the difference in carrying amount over fair value.

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

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

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

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Note 3. Investment Securities

Available-for-sale

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

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|------------|
| September 30, 2014 | | | | |
| Obligations of: | | | | |
| U.S. Treasury and government agencies | \$7 | \$— | \$— | \$7 |
| U.S. government sponsored agencies | 8,636 | 87 | (34) |)8,689 |
| States and political subdivisions | 61,616 | 2,557 | (125) |)64,048 |
| Residential mortgage-backed securities | 523,229 | 5,812 | (10,882) |)518,159 |
| Commercial mortgage-backed securities | 28,083 | 101 | (642) |)27,542 |
| Bank-issued trust preferred securities | 8,521 | 83 | (410) |)8,194 |
| Equity securities | 1,408 | 3,855 | (75) |)5,188 |
| Total available-for-sale securities | \$631,500 | \$12,495 | \$(12,168) |)\$631,827 |
| December 31, 2013 | | | | |
| Obligations of: | | | | |
| U.S. Treasury and government agencies | \$20 | \$— | \$— | \$20 |
| U.S. government sponsored agencies | 308 | 11 | — | 319 |
| States and political subdivisions | 50,509 | 1,480 | (1,027) |)50,962 |
| Residential mortgage-backed securities | 527,283 | 5,334 | (22,520) |)510,097 |
| Commercial mortgage-backed securities | 33,256 | 274 | (1,226) |)32,304 |
| Bank-issued trust preferred securities | 8,508 | — | (679) |)7,829 |
| Equity securities | 1,242 | 3,421 | (86) |)4,577 |
| Total available-for-sale securities | \$621,126 | \$10,520 | \$(25,538) |)\$606,108 |

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both September 30, 2014 and December 31, 2013. At September 30, 2014, there were no securities of a single issuer, other than U.S. Treasury and government agencies, and U.S. government sponsored agencies/enterprises, 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 September 30 were as follows:

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|--------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Gross gains realized | \$129 | \$— | \$863 | \$3,312 |
| Gross losses realized | 5 | 1 | 703 | 2,869 |
| Net gain (loss) realized | \$124 | \$(1) |)\$160 | \$443 |

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

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

| (Dollars in thousands) | Less than 12 Months | | | 12 Months or More | | | Total | |
|--|---------------------|-----------------|-------------------|-------------------|-----------------|-------------------|------------|-----------------|
| | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| September 30, 2014 | | | | | | | | |
| Obligations of: | | | | | | | | |
| U.S. Treasury and government agencies | \$— | \$— | — | \$— | \$— | — | \$— | \$— |
| U.S. government sponsored agencies | 4,360 | 34 | 6 | — | — | — | 4,360 | 34 |
| States and political subdivisions | 2,422 | 10 | 2 | 8,398 | 115 | 12 | 10,820 | 125 |
| Residential mortgage-backed securities | 156,672 | 1,993 | 29 | 199,889 | 8,889 | 55 | 356,561 | 10,882 |
| Commercial mortgage-backed securities | 3,327 | 13 | 1 | 19,086 | 629 | 4 | 22,413 | 642 |
| Bank-issued trust preferred securities | — | — | — | 2,588 | 410 | 3 | 2,588 | 410 |
| Equity securities | — | — | — | 101 | 75 | 1 | 101 | 75 |
| Total | \$166,781 | \$2,050 | 38 | \$230,062 | \$10,118 | 75 | \$396,843 | \$12,168 |
| December 31, 2013 | | | | | | | | |
| Obligations of: | | | | | | | | |
| U.S. Treasury and government agencies | \$— | \$— | — | \$— | \$— | — | \$— | \$— |
| U.S. government sponsored agencies | — | — | — | — | — | — | — | — |
| States and political subdivisions | 15,848 | 659 | 22 | 6,180 | 368 | 10 | 22,028 | 1,027 |
| Residential mortgage-backed securities | 310,315 | 16,709 | 75 | 57,440 | 5,811 | 20 | 367,755 | 22,520 |
| Commercial mortgage-backed securities | 19,560 | 779 | 4 | 7,205 | 447 | 2 | 26,765 | 1,226 |
| Bank-issued trust preferred securities | 2,013 | 90 | 1 | 4,803 | 589 | 4 | 6,816 | 679 |
| Equity securities | — | — | — | 97 | 86 | 2 | 97 | 86 |
| Total | \$347,736 | \$18,237 | 102 | \$75,725 | \$7,301 | 38 | \$423,461 | \$25,538 |

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2014, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2014 and December 31, 2013, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2014, approximately 99% of the mortgage-backed securities that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 1%, or three positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the three positions had a fair value less than 90% of their book value, with an aggregate book and fair value of \$0.9 million and \$0.6 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, the three bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at September 30, 2014 were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector.

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The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at September 30, 2014. The weighted-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 | \$— | \$3 | \$— | \$4 | \$7 | |
| U.S. government sponsored agencies | — | 981 | — | 7,655 | 8,636 | |
| States and political subdivisions | 272 | 4,985 | 23,345 | 33,014 | 61,616 | |
| Residential mortgage-backed securities | — | 13,106 | 28,240 | 481,883 | 523,229 | |
| Commercial mortgage-backed securities | — | — | 23,054 | 5,029 | 28,083 | |
| Bank-issued trust preferred securities | — | — | — | 8,521 | 8,521 | |
| Equity securities | | | | | 1,408 | |
| Total available-for-sale securities | \$272 | \$19,075 | \$74,639 | \$536,106 | \$631,500 | |
| Fair value | | | | | | |
| Obligations of: | | | | | | |
| U.S. Treasury and government agencies | \$— | \$3 | \$— | \$4 | \$7 | |
| U.S. government sponsored agencies | — | 999 | — | 7,690 | 8,689 | |
| States and political subdivisions | 273 | 5,289 | 24,215 | 34,271 | 64,048 | |
| Residential mortgage-backed securities | — | 13,062 | 28,349 | 476,748 | 518,159 | |
| Commercial mortgage-backed securities | — | — | 22,412 | 5,130 | 27,542 | |
| Bank-issued trust preferred securities | — | — | — | 8,194 | 8,194 | |
| Equity securities | | | | | 5,188 | |
| Total available-for-sale securities | \$273 | \$19,353 | \$74,976 | \$532,037 | \$631,827 | |
| Total weighted-average yield | 4.66 | %3.37 | %2.98 | %2.71 | %2.78 | % |

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 |
|--|-------------------|------------------------------|-------------------------------|------------|
| September 30, 2014 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | \$3,843 | \$414 | \$(6) | \$4,251 |
| Residential mortgage-backed securities | 37,316 | 36 | (770) | 36,582 |
| Commercial mortgage-backed securities | 7,724 | 2 | (325) | 7,401 |
| Total held-to-maturity securities | \$48,883 | \$452 | \$(1,101) | \$48,234 |
| December 31, 2013 | | | | |
| Obligations of: | | | | |
| States and political subdivisions | \$3,850 | \$91 | \$(12) | \$3,929 |
| Residential mortgage-backed securities | 37,536 | 35 | (3,041) | 34,530 |
| Commercial mortgage-backed securities | 7,836 | 2 | (203) | 7,635 |
| Total held-to-maturity securities | \$49,222 | \$128 | \$(3,256) | \$46,094 |

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three or the nine months ended September 30, 2014 and 2013.

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

| (Dollars in thousands) | Less than 12 Months | | | 12 Months or More | | | Total | |
|--|---------------------|-----------------|-------------------|-------------------|-----------------|-------------------|------------|-----------------|
| | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| September 30, 2014 | | | | | | | | |
| Obligations of: | | | | | | | | |
| States and political subdivisions | \$— | \$— | — | \$325 | \$6 | 1 | \$325 | \$6 |
| Residential mortgage-backed securities | 10,862 | 50 | 2 | 18,565 | 720 | 6 | 29,427 | 770 |
| Commercial mortgage-backed securities | — | — | — | 6,335 | 325 | 1 | 6,335 | 325 |
| Total | \$10,862 | \$50 | 2 | \$25,225 | \$1,051 | 8 | \$36,087 | \$1,101 |
| December 31, 2013 | | | | | | | | |
| Obligations of: | | | | | | | | |
| States and political subdivisions | \$321 | \$12 | 1 | \$— | \$— | — | \$321 | \$12 |
| Residential mortgage-backed securities | \$31,341 | \$2,908 | 7 | \$1,181 | \$133 | 1 | \$32,522 | \$3,041 |
| Commercial mortgage-backed securities | 6,547 | 203 | 1 | — | — | — | 6,547 | 203 |
| Total | \$38,209 | \$3,123 | 9 | \$1,181 | \$133 | 1 | \$39,390 | \$3,256 |

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at September 30, 2014. The weighted-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 | \$— | \$— | \$330 | \$3,513 | \$3,843 | |
| Residential mortgage-backed securities | — | — | 512 | 36,804 | 37,316 | |
| Commercial mortgage-backed securities | — | — | — | 7,724 | 7,724 | |
| Total held-to-maturity securities | \$— | \$— | \$842 | \$48,041 | \$48,883 | |
| Fair value | | | | | | |
| Obligations of: | | | | | | |
| States and political subdivisions | \$— | \$— | \$325 | \$3,926 | \$4,251 | |
| Residential mortgage-backed securities | — | — | 504 | 36,078 | 36,582 | |
| Commercial mortgage-backed securities | — | — | — | 7,401 | 7,401 | |
| Total held-to-maturity securities | \$— | \$— | \$829 | \$47,405 | \$48,234 | |
| Total weighted-average yield | — | %— | %2.61 | %2.73 | %2.73 | % |
| Pledged Securities | | | | | | |

Peoples had pledged available-for-sale investment securities with carrying values of \$350.9 million and \$303.8 million at September 30, 2014 and December 31, 2013, respectively, and held-to-maturity investment securities with carrying values of \$23.0 million and \$21.4 million at September 30, 2014 and December 31, 2013, 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 \$14.2 million and \$16.2 million at September 30, 2014 and December 31, 2013, respectively, and held-to-maturity securities with

carrying values of \$24.9 million and \$25.9 million at September 30, 2014 and December 31, 2013, respectively, to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

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Note 4. Loans

Peoples' loan portfolio has consisted of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of northeastern, 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) | September 30, December 31, | |
|---------------------------------------|----------------------------|--------------|
| | 2014 | 2013 |
| Commercial real estate, construction | \$ 25,877 | \$ 47,539 |
| Commercial real estate, other | 545,592 | 450,170 |
| Commercial real estate | 571,469 | 497,709 |
| Commercial and industrial | 261,544 | 232,754 |
| Residential real estate | 412,807 | 268,617 |
| Home equity lines of credit | 74,762 | 60,076 |
| Consumer | 180,100 | 135,018 |
| Deposit account overdrafts | 2,669 | 2,060 |
| Loans, net of deferred fees and costs | \$ 1,503,351 | \$ 1,196,234 |

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) | September 30, December 31, | |
|---------------------------|----------------------------|----------|
| | 2014 | 2013 |
| Commercial real estate | \$ 4,712 | \$ 1,078 |
| Commercial and industrial | 517 | 188 |
| Residential real estate | 7,548 | 1,507 |
| Consumer | 237 | 9 |
| Total outstanding balance | \$ 13,014 | \$ 2,782 |
| Net carrying amount | \$ 10,867 | \$ 1,875 |

Changes in the accretable yield for the nine months ended September 30, 2014 were as follows:

| (Dollars in thousands) | Accretable Yield |
|---|------------------|
| Balance, December 31, 2013 | \$ 1,654 |
| Additions: | |
| Reclassification from nonaccretable to accretable | 402 |
| Midwest | 1,102 |
| Ohio Heritage | 3,037 |
| Accretion | (1,037) |
| Balance, September 30, 2014 | \$ 5,158 |

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 \$418.1 million and \$259.1 million at September 30, 2014 and December 31, 2013, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$171.8 million and \$113.0 million at September 30, 2014 and December 31, 2013, respectively.

Nonaccrual and Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. A loan may be placed on nonaccrual status regardless of whether or not such loan is considered past due.

The recorded investments in loans on nonaccrual status and accruing loans delinquent for 90 days or more were as follows:

| Nonaccrual Loans | Accruing Loans 90+ Days Past Due |
|------------------|----------------------------------|
|------------------|----------------------------------|

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| (Dollars in thousands) | September 30, 2014 | December 31, 2013 | September 30, 2014 | December 31, 2013 |
|--------------------------------------|-----------------------|----------------------|-----------------------|----------------------|
| Commercial real estate, construction | \$96 | \$96 | \$— | \$— |
| Commercial real estate, other | 2,353 | 3,717 | 1,406 | — |
| Commercial real estate | 2,449 | 3,813 | 1,406 | — |
| Commercial and industrial | 655 | 708 | 279 | — |
| Residential real estate | 3,247 | 3,215 | 798 | 37 |
| Home equity lines of credit | 275 | 87 | — | 873 |
| Consumer | — | 58 | 1 | — |
| Total | \$6,626 | \$7,881 | \$2,484 | \$910 |

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 | | |
| September 30, 2014 | | | | | | |
| Commercial real estate, construction | \$— | \$— | \$96 | \$96 | \$25,781 | \$25,877 |
| Commercial real estate, other | 2,116 | 623 | 2,517 | 5,256 | 540,336 | 545,592 |
| Commercial real estate | 2,116 | 623 | 2,613 | 5,352 | 566,117 | 571,469 |
| Commercial and industrial | 2,968 | 12 | 731 | 3,711 | 257,833 | 261,544 |
| Residential real estate | 3,439 | 1,969 | 1,866 | 7,274 | 405,533 | 412,807 |
| Home equity lines of credit | 385 | 203 | 41 | 629 | 74,133 | 74,762 |
| Consumer | 1,109 | 126 | 1 | 1,236 | 178,864 | 180,100 |
| Deposit account overdrafts | 67 | — | — | 67 | 2,602 | 2,669 |
| Total | \$10,084 | \$2,933 | \$5,252 | \$18,269 | \$1,485,082 | \$1,503,351 |
| December 31, 2013 | | | | | | |
| Commercial real estate, construction | \$1,340 | \$— | \$— | \$1,340 | \$46,199 | \$47,539 |
| Commercial real estate, other | 432 | 679 | 1,249 | 2,360 | 447,810 | 450,170 |
| Commercial real estate | 1,772 | 679 | 1,249 | 3,700 | 494,009 | 497,709 |
| Commercial and industrial | 171 | 90 | 127 | 388 | 232,366 | 232,754 |
| Residential real estate | 5,445 | 1,509 | 1,452 | 8,406 | 260,211 | 268,617 |
| Home equity lines of credit | 254 | 65 | 929 | 1,248 | 58,828 | 60,076 |
| Consumer | 976 | 165 | 58 | 1,199 | 133,819 | 135,018 |
| Deposit account overdrafts | 47 | — | — | 47 | 2,013 | 2,060 |
| Total | \$8,665 | \$2,508 | \$3,815 | \$14,988 | \$1,181,246 | \$1,196,234 |

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2013 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 loan 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 loan 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 the loan. They are characterized by the distinct

possibility that Peoples will sustain some loss if the deficiencies are not corrected.

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

“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category. Consumer loans and other smaller-balance loans are evaluated and categorized as “substandard”, “doubtful” or “loss” based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually, nor meeting the regulatory conditions to be categorized as described above, would be considered as being “not rated”.

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

| (Dollars in thousands) | Pass Rated (Grades 1 - 4) | Watch (Grade 5) | Substandard (Grade 6) | Doubtful (Grade 7) | Not Rated | Total Loans |
|---|------------------------------|--------------------|--------------------------|-----------------------|--------------|----------------|
| September 30, 2014 | | | | | | |
| Commercial real estate, construction | \$ 25,205 | \$— | \$— | \$— | \$ 672 | \$ 25,877 |
| Commercial real estate, other | 510,372 | 11,795 | 22,317 | 417 | 691 | 545,592 |
| Commercial real estate | 535,577 | 11,795 | 22,317 | 417 | 1,363 | 571,469 |
| Commercial and industrial | 249,039 | 6,294 | 3,492 | — | 2,719 | 261,544 |
| Residential real estate | 37,346 | 1,367 | 10,155 | — | 363,939 | 412,807 |
| Home equity lines of credit | 934 | — | 968 | — | 72,860 | 74,762 |
| Consumer | 380 | 2 | 11 | — | 179,707 | 180,100 |
| Deposit account overdrafts | — | — | — | — | 2,669 | 2,669 |
| Total | \$ 823,276 | \$ 19,458 | \$ 36,943 | \$ 417 | \$ 623,257 | \$ 1,503,351 |
| December 31, 2013 | | | | | | |
| Commercial real estate, construction | \$ 43,407 | \$ 148 | \$ 68 | \$— | \$ 3,916 | \$ 47,539 |
| Commercial real estate, other | 423,313 | 13,433 | 12,921 | — | 503 | 450,170 |
| Commercial real estate | 466,720 | 13,581 | 12,989 | — | 4,419 | 497,709 |
| Commercial and industrial | 212,193 | 6,013 | 14,006 | 542 | — | 232,754 |
| Residential real estate | 26,822 | 2,787 | 8,094 | 4 | 230,910 | 268,617 |
| Home equity lines of credit | 844 | — | 1,014 | — | 58,218 | 60,076 |
| Consumer | 50 | 5 | 24 | — | 134,939 | 135,018 |
| Deposit account overdrafts | — | — | — | — | 2,060 | 2,060 |
| Total | \$ 706,629 | \$ 22,386 | \$ 36,127 | \$ 546 | \$ 430,546 | \$ 1,196,234 |

Impaired Loans

The following table summarizes loans classified as impaired:

| (Dollars in thousands) | Unpaid Principal Balance | Recorded With Allowance | Investment Without Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|--------------------------------|-------------------------------|------------------------------------|---------------------------------|----------------------|-----------------------------------|----------------------------------|
| September 30, 2014 | | | | | | | |
| Commercial real estate, construction | \$ 101 | \$— | \$ 96 | \$ 96 | \$— | \$ 48 | \$ 4 |
| Commercial real estate, other | 3,398 | 1,166 | 1,160 | 2,326 | 252 | 2,919 | 7 |
| Commercial real estate | 3,499 | \$ 1,166 | \$ 1,256 | \$ 2,422 | \$ 252 | \$ 2,967 | \$ 11 |

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| | | | | | | | |
|--------------------------------------|---------|---------|---------|---------|-------|---------|-------|
| Commercial and industrial | 198 | 193 | 2 | 195 | 193 | 438 | 1 |
| Residential real estate | 4,490 | 121 | 4,103 | 4,224 | 24 | 2,986 | 155 |
| Home equity lines of credit | 647 | — | 641 | 641 | — | 463 | 13 |
| Consumer | 171 | — | 171 | 171 | — | 128 | 9 |
| Total | \$9,005 | \$1,480 | \$6,173 | \$7,653 | \$469 | \$6,982 | \$189 |
| December 31, 2013 | | | | | | | |
| Commercial real estate, construction | \$— | \$— | \$— | \$— | \$— | \$— | \$— |
| Commercial real estate, other | 4,970 | 1,150 | 1,729 | 2,879 | 83 | 4,586 | 6 |
| Commercial real estate | 4,970 | \$1,150 | \$1,729 | \$2,879 | \$83 | \$4,586 | \$6 |
| Commercial and industrial | 617 | 575 | 5 | 580 | 575 | 278 | 1 |
| Residential real estate | 3,498 | — | 3,280 | 3,280 | — | 2,800 | 86 |
| Home equity lines of credit | 347 | — | 347 | 347 | — | 327 | 12 |
| Consumer | 182 | — | 182 | 182 | — | 127 | 15 |
| Total | \$9,614 | \$1,725 | \$5,543 | \$7,268 | \$658 | \$8,118 | \$120 |

At September 30, 2014, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDRs").

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 borrower 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 borrower has declared or is in the process of declaring bankruptcy; and (iv) the borrower'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 borrower'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.

The following table summarizes the loans that were modified as a TDR during the three and nine months ended September 30, 2014 and 2013.

| | Number of Contracts | Three Months Ended | | | Nine Months Ended | | | |
|--------------------------------------|---------------------|-------------------------|------------------|-------------------------------|-------------------------|------------------|-------------------------------|-------------------|
| | | Recorded Investment (1) | | Remaining Recorded Investment | Recorded Investment (1) | | Remaining Recorded Investment | |
| | Pre-Modification | Post-Modification | Pre-Modification | | Post-Modification | Pre-Modification | | Post-Modification |
| September 30, 2014 | | | | | | | | |
| Commercial real estate, construction | — | \$— | \$ — | \$— | 1 | \$96 | \$ 96 | \$96 |
| Commercial and industrial | 1 | \$2 | \$ 2 | \$2 | 1 | \$2 | \$ 2 | \$2 |
| Residential real estate | 25 | \$1,344 | \$ 1,344 | \$ | | | | |