

PEOPLES BANCORP INC
Form 10-Q
July 24, 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 June 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: 10,929,048 common shares, without par value, at July 23, 2014.

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	June 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 47,737	\$ 36,016
Interest-bearing deposits in other banks	6,225	17,804
Total cash and cash equivalents	53,962	53,820
Available-for-sale investment securities, at fair value (amortized cost of \$592,954 at June 30, 2014 and \$621,126 at December 31, 2013)	593,803	606,108
Held-to-maturity investment securities, at amortized cost (fair value of \$49,239 at June 30, 2014 and \$46,094 at December 31, 2013)	49,376	49,222
Other investment securities, at cost	21,808	25,196
Total investment securities	664,987	680,526
Loans, net of deferred fees and costs	1,319,352	1,196,234
Allowance for loan losses	(17,384)	)(17,065)
Net loans	1,301,968	1,179,169
Loans held for sale	3,436	1,688
Bank premises and equipment, net	33,122	29,809
Goodwill	71,843	70,520
Other intangible assets	7,430	7,083
Other assets	27,144	36,493
Total assets	\$ 2,163,892	\$ 2,059,108
Liabilities		
Non-interest-bearing deposits	\$ 426,384	\$ 409,891
Interest-bearing deposits	1,234,534	1,170,867
Total deposits	1,660,918	1,580,758
Short-term borrowings	115,869	113,590
Long-term borrowings	118,815	121,826
Accrued expenses and other liabilities	24,019	21,381
Total liabilities	1,919,621	1,837,555
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at June 30, 2014 and December 31, 2013	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,529,732 shares issued at June 30, 2014 and 11,206,576 shares issued at December 31, 2013, including shares in treasury	176,406	168,869
Retained earnings	85,902	80,898
Accumulated other comprehensive loss, net of deferred income taxes	(2,994)	)(13,244)
Treasury stock, at cost, 603,296 shares at June 30, 2014 and 600,794 shares at December 31, 2013	(15,043)	)(14,970)
Total stockholders' equity	244,271	221,553
Total liabilities and stockholders' equity	\$ 2,163,892	\$ 2,059,108

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands, except per share data)	2014	2013	2014	2013
Interest Income:				
Interest and fees on loans	\$ 14,072	\$ 11,533	\$ 27,445	\$ 22,987
Interest and dividends on taxable investment securities	4,140	4,159	8,480	8,374
Interest on tax-exempt investment securities	446	394	862	773
Other interest income	(42)	)25	(19)	)43
Total interest income	18,616	16,111	36,768	32,177
Interest Expense:				
Interest on deposits	1,466	1,798	3,034	3,737
Interest on short-term borrowings	36	22	68	35
Interest on long-term borrowings	1,069	1,136	2,141	2,275
Total interest expense	2,571	2,956	5,243	6,047
Net interest income	16,045	13,155	31,525	26,130
Provision for (recovery of) loan losses	583	(1,462)	) 591	(2,527)
Net interest income after provision for (recovery of) loan losses	15,462	14,617	30,934	28,657
Other Income:				
Insurance income	3,443	3,220	7,559	6,098
Deposit account service charges	2,227	2,045	4,338	4,102
Trust and investment income	1,933	1,772	3,780	3,474
Electronic banking income	1,562	1,561	3,101	2,980
Mortgage banking income	311	365	538	1,083
Net gain on investment securities	66	26	36	444
Net loss on asset disposals and other transactions	(187)	)(6	) (176	)(11
Other non-interest income	243	253	698	551
Total other income	9,598	9,236	19,874	18,721
Other Expenses:				
Salaries and employee benefit costs	11,241	8,934	22,033	17,651
Net occupancy and equipment	1,739	1,626	3,555	3,484
Professional fees	1,320	1,002	2,174	1,896
Electronic banking expense	951	885	2,033	1,725
Data processing and software	555	488	1,125	949
Franchise tax	442	413	827	826
Marketing expense	413	562	872	1,012
Communication expense	390	361	749	664
FDIC insurance	287	250	547	530
Amortization of other intangible assets	282	164	545	353
Foreclosed real estate and other loan expenses	197	162	332	317
Other non-interest expense	2,186	1,575	4,028	3,200
Total other expenses	20,003	16,422	38,820	32,607
Income before income taxes	5,057	7,431	11,988	14,771
Income tax expense	1,579	2,510	3,727	4,828
Net income	\$ 3,478	\$ 4,921	\$ 8,261	\$ 9,943
Earnings per share - basic	\$ 0.32	\$ 0.46	\$ 0.77	\$ 0.93
Earnings per share - diluted	\$ 0.32	\$ 0.46	\$ 0.76	\$ 0.93
Weighted-average number of shares outstanding - basic	10,755,509	10,576,643	10,696,129	10,566,508

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Weighted-average number of shares outstanding - diluted	10,880,090	10,597,033	10,807,688	10,584,383
Cash dividends declared	\$ 1,634	\$ 1,512	\$ 3,257	\$ 2,807
Cash dividends declared per share	\$0.15	\$0.14	\$0.30	\$0.26

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		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net income	\$3,478	\$4,921	\$8,261	\$9,943
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding gain (loss) arising in the period	7,258	(16,727)	15,898	(16,270)
Related tax (expense) benefit	(2,541)	5,854	(5,565)	5,694
Less: reclassification adjustment for net gain included in net income	66	26	36	444
Related tax expense	(24)	(9)	(13)	(155)
Net effect on other comprehensive income (loss)	4,675	(10,890)	10,310	(10,865)
Defined benefit plans:				
Net loss arising during the period	(126)	—	(1,179)	—
Related tax benefit	43	—	413	—
Amortization of unrecognized loss and service cost on benefit plans	34	52	65	97
Related tax expense	(12)	(18)	(23)	(34)
Recognition of loss due to settlement and curtailment	536	—	1,022	—
Related tax expense	(188)	—	(358)	—
Net effect on other comprehensive income (loss)	287	34	(60)	63
Total other comprehensive income (loss), net of tax	4,962	(10,856)	10,250	(10,802)
Total comprehensive income (loss)	\$8,440	\$(5,935)	\$18,511	\$(859)

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		8,261			8,261
Other comprehensive income, net of tax			10,250		10,250
Cash dividends declared		(3,257)			(3,257)
Reissuance of treasury stock for common stock option exercises				21	21
Tax benefit from exercise of stock options	77				77
Reissuance of treasury stock for deferred compensation plan for Boards of Directors				148	148
Purchase of treasury stock				(359)	(359)
Common shares issued under dividend reinvestment plan	209				209
Common shares issued under compensation plan for Board of Directors	(8)			117	109
Stock-based compensation expense	954				954
Issuance of common shares related to acquisitions:					

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Midwest Bancshares, Inc.	6,305				6,305
Balance, June 30, 2014	\$176,406	\$85,902	\$(2,994)	\$(15,043)	\$244,271

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	June 30,	
(Dollars in thousands)	2014	2013
Net cash provided by operating activities	\$ 14,442	\$ 20,343
Investing activities:		
Available-for-sale investment securities:		
Purchases	(62,800)	(162,360)
Proceeds from sales	76,409	120,974
Proceeds from principal payments, calls and prepayments	36,443	57,501
Held-to-maturity investment securities:		
Purchases	(1,017)	(3,231)
Proceeds from principal payments	642	230
Net increase in loans	(62,802)	(42,855)
Net expenditures for premises and equipment	(3,355)	(2,995)
Proceeds from sales of other real estate owned	138	912
Proceeds from bank owned life insurance contracts	6,322	6,596
Business acquisitions, net of cash received	(2,742)	(2,248)
Return of (investment in) limited partnership and tax credit funds	358	(120)
Net cash used in investing activities	(12,404)	(27,596)
Financing activities:		
Net increase in non-interest-bearing deposits	1,078	8,054
Net increase (decrease) in interest-bearing deposits	1,079	(64,583)
Net increase in short-term borrowings	2,279	44,752
Payments on long-term borrowings	(3,023)	(3,124)
Cash dividends paid	(3,053)	(2,604)
Purchase of treasury stock	(359)	(86)
Proceeds from issuance of shares	26	4
Excess tax benefit from share-based payments	77	55
Net cash used in financing activities	(1,896)	(17,532)
Net increase (decrease) in cash and cash equivalents	142	(24,785)
Cash and cash equivalents at beginning of period	53,820	62,542
Cash and cash equivalents at end of period	\$ 53,962	\$ 37,757

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 June 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 at June 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)
June 30, 2014				
Obligations of:				
U.S. Treasury and government agencies	\$ 19	\$—	\$ 19	\$—
U.S. government sponsored agencies	—	—	—	—
States and political subdivisions	61,281	—	61,281	—
Residential mortgage-backed securities	491,628	—	491,628	—
Commercial mortgage-backed securities	27,746	—	27,746	—
Bank-issued trust preferred securities	8,132	—	8,132	—
Equity securities	4,997	4,799	198	—
Total available-for-sale securities	\$ 593,803	\$ 4,799	\$ 589,004	\$—
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 June 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)
June 30, 2014				
Obligations of:				
States and political subdivisions	\$ 4,241	\$—	\$ 4,241	\$—
Residential mortgage-backed securities	37,255	—	37,255	—
Commercial mortgage-backed securities	7,743	—	7,743	—
Total held-to-maturity securities	\$ 49,239	\$—	\$ 49,239	\$—
December 31, 2013				
Obligations of:				
States and political subdivisions	\$ 3,929	\$—	\$ 3,929	\$—
Residential mortgage-backed securities	34,530	—	34,530	—
Commercial mortgage-backed securities	7,635	—	7,635	—
Total held-to-maturity securities	\$ 46,094	\$—	\$ 46,094	\$—

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

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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 June 30, 2014, impaired loans with an aggregate outstanding principal balance of \$1.0 million were measured and reported at a fair value of \$0.8 million. For the three months ended June 30, 2014, Peoples recognized \$34,000 of losses and for the six months ended June 30, 2014, Peoples recognized losses of \$67,000, 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)	June 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$ 53,962	\$ 53,962	\$ 53,820	\$ 53,820
Investment securities	664,987	664,850	680,526	677,398
Loans	1,305,404	1,284,401	1,180,857	1,165,560
Financial liabilities:				
Deposits	\$ 1,660,918	\$ 1,666,358	\$ 1,580,758	\$ 1,587,448
Short-term borrowings	115,869	115,869	113,590	113,590
Long-term borrowings	118,815	124,798	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
June 30, 2014				
Obligations of:				
U.S. Treasury and government agencies	\$ 19	\$—	\$—	\$ 19
U.S. government sponsored agencies	—	—	—	—
States and political subdivisions	59,052	2,452	(223	)61,281
Residential mortgage-backed securities	495,886	5,872	(10,130	)491,628
Commercial mortgage-backed securities	28,146	50	(450	)27,746
Bank-issued trust preferred securities	8,516	66	(450	)8,132
Equity securities	1,335	3,741	(79	)4,997
Total available-for-sale securities	\$592,954	\$ 12,181	\$(11,332	)\$593,803
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 June 30, 2014 and December 31, 2013. At June 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 June 30 were as follows:

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Gross gains realized	\$ 220	\$ 1,267	\$ 734	\$ 3,312
Gross losses realized	154	1,241	698	2,868
Net gain realized	\$ 66	\$ 26	\$ 36	\$ 444

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
June 30, 2014								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	6,640	12	5	9,889	211	14	16,529	223
Residential mortgage-backed securities	93,539	1,169	17	233,606	8,961	58	327,145	10,130
Commercial mortgage-backed securities	—	—	—	19,289	450	4	19,289	450
Bank-issued trust preferred securities	—	—	—	3,548	450	4	3,548	450
Equity securities	—	—	—	96	79	1	96	79
Total	\$100,179	\$1,181	22	\$266,428	\$10,151	81	\$366,607	\$11,332
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 June 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 June 30, 2014 and December 31, 2013, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At June 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 four bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at June 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 weighted-average yield of available-for-sale securities by contractual maturity at June 30, 2014. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	
Amortized cost						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$ 19	\$—	\$—	\$ 19	
U.S. government sponsored agencies	—	—	—	—	—	
States and political subdivisions	273	4,486	21,170	33,123	59,052	
Residential mortgage-backed securities	—	9,686	31,113	455,087	495,886	
Commercial mortgage-backed securities	—	—	23,089	5,057	28,146	
Bank-issued trust preferred securities	—	—	—	8,516	8,516	
Equity securities					1,335	
Total available-for-sale securities	\$ 273	\$ 14,191	\$ 75,372	\$ 501,783	\$ 592,954	
Fair value						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$ 19	\$—	\$—	\$ 19	
U.S. government sponsored agencies	—	—	—	—	—	
States and political subdivisions	276	4,753	22,026	34,226	61,281	
Residential mortgage-backed securities	—	9,654	31,114	450,860	491,628	
Commercial mortgage-backed securities	—	—	22,660	5,086	27,746	
Bank-issued trust preferred securities	—	—	—	8,132	8,132	
Equity securities					4,997	
Total available-for-sale securities	\$ 276	\$ 14,426	\$ 75,800	\$ 498,304	\$ 593,803	
Total average yield	4.66	% 3.96	% 2.92	% 2.76	% 2.83	%

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, 2014				
Obligations of:				
States and political subdivisions	\$ 3,845	\$ 403	\$(7)	\$ 4,241
Residential mortgage-backed securities	37,766	192	(703)	37,255
Commercial mortgage-backed securities	7,765	2	(24)	7,743
Total held-to-maturity securities	\$ 49,376	\$ 597	\$(734)	\$ 49,239
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 six months ended June 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
June 30, 2014								
Obligations of:								
States and political subdivisions	\$—	\$—	—	\$325	\$7	1	\$325	\$7
Residential mortgage-backed securities	—	—	—	18,722	703	6	18,722	703
Commercial mortgage-backed securities	—	—	—	6,669	24	1	6,669	24
Total	\$—	\$—	—	\$25,716	\$734	8	\$25,716	\$734
December 31, 2013								
Obligations of:								
States and political subdivisions	\$321	\$12	1	\$—	\$—	—	\$321	\$12
Residential mortgage-backed securities	\$31,341	\$2,908	7	\$1,181	\$133	1	\$32,522	\$3,041
Commercial mortgage-backed securities	6,547	203	1	—	—	—	6,547	203
Total	\$38,209	\$3,123	9	\$1,181	\$133	1	\$39,390	\$3,256

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at June 30, 2014. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	\$—	\$—	\$331	\$3,514	\$3,845
Residential mortgage-backed securities	—	—	517	37,249	37,766
Commercial mortgage-backed securities	—	—	—	7,765	7,765
Total held-to-maturity securities	\$—	\$—	\$848	\$48,528	\$49,376
Fair value					
Obligations of:					
States and political subdivisions	\$—	\$—	\$325	\$3,916	\$4,241
Residential mortgage-backed securities	—	—	510	36,745	37,255
Commercial mortgage-backed securities	—	—	—	7,743	7,743
Total held-to-maturity securities	\$—	\$—	\$835	\$48,404	\$49,239
Total average yield	—	%—	%2.61	%2.74	%2.73
Pledged Securities					

Peoples had pledged available-for-sale investment securities with carrying values of \$335.9 million and \$303.8 million at June 30, 2014 and December 31, 2013, respectively, and held-to-maturity investment securities with carrying values of \$23.1 million and \$21.4 million at June 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 \$14.9 million and \$16.2 million at June 30, 2014 and December 31, 2013, respectively, and held-to-maturity securities with carrying

values of \$25.2 million and \$25.9 million at June 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)	June 30, 2014	December 31, 2013
Commercial real estate, construction	\$ 56,421	\$ 47,539
Commercial real estate, other	463,734	450,170
Commercial real estate	520,155	497,709
Commercial and industrial	254,561	232,754
Residential real estate	314,190	268,617
Home equity lines of credit	61,838	60,076
Consumer	163,326	135,018
Deposit account overdrafts	5,282	2,060
Loans, net of deferred fees and costs	\$ 1,319,352	\$ 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)	June 30, 2014	December 31, 2013
Commercial real estate	\$ 1,611	\$ 1,078
Commercial and industrial	574	188
Residential real estate	3,480	1,507
Consumer	101	9
Total outstanding balance	\$ 5,766	\$ 2,782
Net carrying amount	\$ 4,237	\$ 1,875

Changes in the accretable yield for the six months ended June 30, 2014 were as follows:

(Dollars in thousands)	Accretable Yield
Balance, December 31, 2013	\$ 1,654
Additions:	
Midwest	1,102
Accretion	(570)
Balance, June 30, 2014	\$ 2,186

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 \$264.3 million and \$259.1 million at June 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 \$194.0 million and \$113.0 million at June 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:

(Dollars in thousands)	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013

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Commercial real estate, construction	\$96	\$96	\$—	\$—
Commercial real estate, other	3,190	3,717	1,138	—
Commercial real estate	3,286	3,813	1,138	—
Commercial and industrial	806	708	903	—
Residential real estate	3,620	3,215	1,290	37
Home equity lines of credit	292	87	39	873
Consumer	—	58	20	—
Total	\$8,004	\$7,881	\$3,390	\$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		
June 30, 2014						
Commercial real estate, construction	\$—	\$—	\$96	\$96	\$56,325	\$56,421
Commercial real estate, other	874	88	2,513	3,475	460,259	463,734
Commercial real estate	874	88	2,609	3,571	516,584	520,155
Commercial and industrial	50	432	1,662	2,144	252,417	254,561
Residential real estate	2,760	1,116	3,079	6,955	307,235	314,190
Home equity lines of credit	332	21	68	421	61,417	61,838
Consumer	908	177	21	1,106	162,220	163,326
Deposit account overdrafts	66	—	—	66	5,216	5,282
Total	\$4,990	\$1,834	\$7,439	\$14,263	\$1,305,089	\$1,319,352
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 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.

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“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
June 30, 2014						
Commercial real estate, construction	\$ 53,027	\$ —	\$ 65	\$ —	\$ 3,329	\$ 56,421
Commercial real estate, other	429,819	11,456	20,580	—	1,879	463,734
Commercial real estate	482,846	11,456	20,645	—	5,208	520,155
Commercial and industrial	232,002	9,332	11,850	—	1,377	254,561
Residential real estate	23,800	2,560	10,227	38	277,565	314,190
Home equity lines of credit	825	—	1,181	—	59,832	61,838
Consumer	61	3	15	—	163,247	163,326
Deposit account overdrafts	—	—	—	—	5,282	5,282
Total	\$ 739,534	\$ 23,351	\$ 43,918	\$ 38	\$ 512,511	\$ 1,319,352
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 Investment With Allowance	Total Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2014							
Commercial real estate, construction	\$ 96	\$ —	\$ 96	\$ 96	\$ —	\$ 32	\$ 3
Commercial real estate, other	5,351	985	2,229	3,214	158	3,182	6
Commercial real estate	5,447	\$ 985	\$ 2,325	\$ 3,310	\$ 158	\$ 3,214	\$ 9
Commercial and industrial	503	9	492	501	9	518	1

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Residential real estate	3,335	—	3,294	3,294	—	2,876	95
Home equity lines of credit	500	—	498	498	—	403	6
Consumer	173	—	173	173	—	126	6
Total	\$9,958	\$994	\$6,782	\$7,776	\$167	\$7,137	\$117
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 June 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 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.

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

	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, 2014		Pre-Modification	Post-Modification	At June 30, 2014
Commercial real estate, construction	1	\$96	\$ 96	\$96	1	\$96	\$ 96	\$96
Commercial real estate, other	—	\$—	\$ —	\$—	1	\$511	\$ 511	\$497
Residential real estate	10	\$450	\$ 449	\$449	18	\$946	\$ 946	\$935
Home equity lines of credit	2	\$39	\$ 39	\$39	4	\$86	\$ 86	\$86
Consumer	18	\$76	\$ 76	\$76	20	\$97	\$ 97	\$96

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	Three Months Ended				Six Months Ended			
	Recorded Investment (1)		Recorded Investment (1)		Recorded Investment (1)		Recorded Investment (1)	
	Number of Contracts	Pre-Modification	Post-Modification	At June 30, 2013	Number of Contracts	Pre-Modification	Post-Modification	At June 30, 2013
Residential real estate	4	\$ 174	\$ 174	\$ 174	10	\$ 354	\$ 354	\$ 343
Home equity lines of credit	1	\$ 30	\$ 30	\$ 30	2	\$ 55	\$ 55	\$ 53
Consumer	12	\$ 109	\$ 109	\$ 109	22	\$ 178	\$ 178	\$ 164

(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, 2014 and 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).

	June 30, 2014			June 30, 2013		
	Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses	Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses
Commercial real estate, other	—	\$—	\$—	1	\$ 251	\$—
Residential real estate	1	\$ 40	\$—	2	\$ 70	\$—
Home equity lines of credit	—	\$—	\$—	1	\$ 24	\$—
Total	1	\$ 40	\$—	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 Real Estate	Commercial and Industrial	Residential Real Estate	Home Equity Lines of Credit	Consumer	Deposit Account Overdrafts	Total
Balance, January 1, 2014	\$13,215	\$2,174	\$881	\$343	\$316	\$136	\$17,065
Charge-offs	—	(49)	(272)	(45)	(552)	(201)	(1,119)
Recoveries	208	59	117	12	351	100	847
Net recoveries (charge-offs)	208	10	(155)	(33)	(201)	(101)	(272)
Provision for loan losses	(3,156)	1,035	1,092	346	1,183	91	591
Balance, June 30, 2014	\$10,267	\$3,219	\$1,818	\$656	\$1,298	\$126	\$17,384

Period-end amount allocated to:

Loans individually evaluated for impairment	\$158	\$9	\$—	\$—	\$—	\$—	\$167
Loans collectively evaluated for impairment	10,109	3,210	1,818	656	1,298	126	17,217
Ending balance	\$10,267	\$3,219	\$1,818	\$656	\$1,298	\$126	\$17,384

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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 (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 evaluated for impairment	\$1,180	\$266	\$95	\$—	\$—	\$—	\$1,541
Loans collectively 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

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Note 5. Stockholders' Equity

The following table details the progression in shares of Peoples' common and treasury stock during the six months ended June 30, 2014:

	Common Stock	Treasury Stock
Shares at December 31, 2013	11,206,576	600,794
Changes related to stock-based compensation awards:		
Release of restricted shares	57,704	14,034
Exercise of common stock options		(792)
Changes related to deferred compensation plan for Boards of Directors:		
Purchase of treasury stock		1,734
Reissuance of treasury stock		(7,910)
Shares issued under dividend reinvestment plan	9,170	
Common shares issued under compensation plan for Board of Directors		(4,564)
Issuance of common shares related to acquisitions:		
Midwest Bancshares, Inc.	256,282	
Shares at June 30, 2014	11,529,732	603,296

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 Peoples' Board of Directors. At June 30, 2014, Peoples had no preferred shares issued or outstanding.

Accumulated Other Comprehensive (Loss) Income

The following table details the change in the components of Peoples' accumulated other comprehensive (loss) income for the six months ended June 30, 2014:

(Dollars in thousands)	Unrealized (Loss) Gain on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Other Comprehensive (Loss) Income
Balance, December 31, 2013	\$ (9,761	)\$ (3,483	)\$ (13,244)
Reclassification adjustments to net income:			
Realized gain on sale of securities, net of tax	(23	)—	(23)
Realized loss due to settlement and curtailment, net of tax	—	664	664
Other comprehensive income (loss), net of reclassifications and tax	10,333	(724)9,609
Balance, June 30, 2014	\$ 549	\$ (3,543)\$ (2,994)

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

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Interest cost	\$ 131	\$ 133	\$ 274	\$ 266
Expected return on plan assets	(150	)(165	)(319	)(330
Amortization of net loss	36	51	69	103
Settlement of benefit obligation	536	—	1,022	—
Net periodic cost	\$ 553	\$ 19	\$ 1,046	\$ 39
	Postretirement Benefits			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Interest cost	\$ 2	\$ 1	\$ 3	\$ 3
Amortization of net loss	(2	)(4	)(4	)(4
Net periodic benefit	\$—	\$ (3	) \$ (1	) \$ (1

Under US GAAP, Peoples is required to recognize a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the unrealized gain or loss existing immediately prior to the settlement. In general, both the projected benefit obligation and fair value of plan assets are required to be remeasured in order to determine the settlement gain or loss.

In the first six months of 2014, the total lump-sum distributions made to participants caused the total settlements to exceed the recognition threshold for settlement gains or losses. As a result, Peoples remeasured its pension obligation and plan assets as of April 1, 2014 as part of the calculation of the settlement loss recognized.

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The following table summarizes the change in pension obligation and funded status as a result of this remeasurement and the aggregate settlements for the six months ended June 30, 2014:

(Dollars in thousands)	As of December 31, 2013	June 30, 2014 Before Settlement	Impact of Settlements	After Settlements
Projected benefit obligation	\$ 14,723	\$ 15,065	\$(1,323)	\$ 13,742
Fair value of plan assets	11,287	10,467	(1,323)	9,144
Funded status	\$(3,436)	\$(4,598)	\$—	\$(4,598)
Gross unrealized loss	\$ 5,436	\$ 6,089	\$(536)	\$ 5,553

Assumptions:

Discount rate	4.30	% 3.70	%	3.70	%
Expected return on plan assets	7.50	% 7.50	%	7.50	%

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 share awards to employees and non-employee directors. The total number of 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 shares and stock appreciation rights (“SARs”) to be settled in shares to employees and restricted shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, shares are issued from authorized but unissued 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 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 table summarizes the changes to Peoples' stock options for the six months ended June 30, 2014:

	Number of Shares Subject to Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	57,094	\$ 27.96		
Exercised	792	24.07		
Expired	12,926	28.12		
Outstanding at June 30	43,376	\$ 27.98	1.3 years	\$ 3,000
Exercisable at June 30	43,376	\$ 27.98	1.3 years	\$ 3,000

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The following table summarizes Peoples' stock options outstanding at June 30, 2014:

Range of Exercise Prices	Options Outstanding & Exercisable		
	Shares Subject to Options Outstanding & Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$23.59 to \$25.94	2,000	0.2 years	\$ 25.94
\$26.01 to \$27.74	15,136	0.6 years	26.93
\$28.25 to \$28.26	15,040	1.6 years	28.25
\$28.57 to \$30.00	11,200	1.8 years	29.40
Total	43,376	1.3 years	\$ 27.98

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' shares on the date of grant and will be settled using shares of Peoples. Additionally, the SARs granted vested three years after the grant date and expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes the changes to Peoples' SARs for the six months ended June 30, 2014:

	Number of Shares Subject to SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	21,292	\$ 25.96		
Forfeited	—	—		
Outstanding at June 30	21,292	\$ 25.96	3.2 years	\$ 35,000
Exercisable at June 30	21,292	\$ 25.96	3.2 years	\$ 35,000

The following table summarizes Peoples' SARs outstanding at June 30, 2014:

Exercise Price	Number of Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
\$23.26	2,000	3.1 years
\$23.77	10,582	3.6 years
\$29.25	8,710	2.6 years
Total	21,292	3.2 years

Restricted Shares

Under the 2006 Equity Plan, Peoples may award restricted shares to officers, key employees and non-employee directors. In general, the restrictions on restricted shares awarded to non-employee directors expire after six months, while the restrictions on restricted shares awarded to employees expire after periods ranging from one to three years. In the first quarter of 2014, Peoples granted restricted 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 in order for the restricted common shares to vest on each of the three foregoing dates, Peoples must have reported positive net income and maintained a well capitalized status by regulatory standards in the year immediately preceding the vesting date. During the second quarter of 2014, Peoples granted restricted common shares to non-employee directors with a six month time-based vesting period, and certain key employees with a three year time-based vesting period.

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The following table summarizes the changes to Peoples' restricted shares for the six months ended June 30, 2014:

	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	60,206	\$ 17.18	85,254	\$ 20.98
Awarded	4,900	24.32	83,514	21.68
Released	20,077	15.75	37,746	19.93
Forfeited	—	—	5,803	21.73
Outstanding at June 30	45,029	\$ 18.60	125,219	\$ 21.73

For the six months ended June 30, 2014, the total intrinsic value of restricted shares released was \$1.3 million.

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 table summarizes the amount of stock-based compensation expense and related tax benefit recognized:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(Dollars in thousands)	2014	2013	2014	2013
Total stock-based compensation	\$ 464	\$ 386	\$ 954	\$ 683
Recognized tax benefit	(162)	(135)	(334)	(239)
Net expense recognized	\$ 302	\$ 251	\$ 620	\$ 444

Total unrecognized stock-based compensation expense related to unvested awards was \$1.7 million at June 30, 2014, 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,		June 30,	
(Dollars in thousands, except per share data)	2014	2013	2014	2013
Distributed earnings allocated to shareholders	\$ 1,609	\$ 1,490	\$ 3,213	\$ 2,764
Undistributed earnings allocated to shareholders	1,837	3,388	4,987	7,094
Net earnings allocated to shareholders	\$ 3,446	\$ 4,878	\$ 8,200	\$ 9,858
Weighted-average shares outstanding	10,755,509	10,576,643	10,696,129	10,566,508
Effect of potentially dilutive shares	124,581	20,390	111,559	17,875
Total weighted-average diluted shares outstanding	10,880,090	10,597,033	10,807,688	10,584,383
Earnings per share:				
Basic	\$ 0.32	\$ 0.46	\$ 0.77	\$ 0.93
Diluted	\$ 0.32	\$ 0.46	\$ 0.76	\$ 0.93
Anti-dilutive shares excluded from calculation:				
Stock options and SARs	52,587	86,986	57,303	103,438

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Note 9. Acquisitions

On May 30, 2014, Peoples completed its acquisition of Midwest Bancshares, Inc. ("Midwest") for total consideration of \$12.6 million which was settled 50% in cash and 50% in Peoples' common shares. Midwest merged into Peoples and Midwest's wholly-owned subsidiary, First National Bank of Wellston, which operates two full-service branches in Wellston and Jackson, Ohio, merged into Peoples' wholly-owned subsidiary, Peoples Bank, National Association ("Peoples Bank"). The acquisition was accounted for as a business combination under the acquisition method of accounting under US GAAP. The assets purchased, liabilities assumed, and related identifiable intangible assets were recorded at their acquisition date fair values. Per the applicable accounting guidance for business combinations, these fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values become available. The goodwill recognized will not be deductible for income tax purposes.

As a result of the Midwest acquisition, Peoples acquired loans of \$59.7 million and deposits of \$78.1 million after purchase accounting adjustments. The balances and operations related to the acquisition are included in Peoples' consolidated financial statements from the date of the acquisition, and did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.

On April 4, 2014, Peoples entered into an Agreement and Plan of Merger (the "Ohio Heritage Agreement") with Ohio Heritage Bancorp, Inc. ("Ohio Heritage"). The Ohio Heritage Agreement calls for Ohio Heritage to merge into Peoples, and for Ohio Heritage's wholly-owned subsidiary, Ohio Heritage Bank, which operates six full-service branches in Coshocton, Newark, Heath, Mount Vernon and New Philadelphia, Ohio, to merge into Peoples' wholly-owned subsidiary, Peoples Bank. This transaction is expected to close during the third quarter of 2014.

On April 21, 2014, Peoples entered into an Agreement and Plan of Merger (the "North Akron Agreement") with North Akron Savings Bank ("North Akron"), which operates four full-service branches in Akron, Cuyahoga Falls, Munroe Falls and Norton, Ohio. The North Akron Agreement calls for North Akron to merge into Peoples' wholly-owned subsidiary, Peoples Bank. This transaction is expected to close during the fourth quarter of 2014.

The following table is a preliminary summary of changes in goodwill and intangible assets during the period ended June 30, 2014:

(Dollars in thousands)	Goodwill	Gross Core Deposit	Gross Customer Relationships
Balance, December 31, 2013	\$ 70,520	\$ 8,760	\$ 8,647
Acquired intangible assets:			
Midwest	1,323	976	—
Balance, June 30, 2014	\$ 71,843	\$ 9,736	\$ 8,647

(Dollars in thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
June 30, 2014			
Core deposits	\$ 9,736	\$ (7,089)	) \$ 2,647
Customer relationships	8,647	(6,075)	) 2,572
Total acquired intangible assets	\$ 18,383	\$ (13,164)) \$ 5,219
Servicing rights			2,211
Total other intangible assets			\$ 7,430

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
 SELECTED FINANCIAL DATA

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

	At or For the Three Months Ended June 30,		At or For the Six Months Ended June 30,		
	2014	2013	2014	2013	
SIGNIFICANT RATIOS					
Return on average stockholders' equity	5.91	% 8.74	% 7.20	% 8.96	%
Return on average assets	0.67	% 1.03	% 0.80	% 1.05	%
Net interest margin	3.39	% 3.13	% 3.37	% 3.11	%
Efficiency ratio (a)	75.58	% 71.71	% 73.35	% 71.66	%
Pre-provision net revenue to average assets (b)	1.11	% 1.25	% 1.24	% 1.25	%
Average stockholders' equity to average assets	11.29	% 11.82	% 11.18	% 11.70	%
Average loans to average deposits	78.82	% 68.87	% 77.90	% 67.10	%
Dividend payout ratio	46.98	% 30.73	% 39.43	% 28.23	%
ASSET QUALITY RATIOS					
Nonperforming loans as a percent of total loans (c)(d)	0.86	% 1.17	% 0.86	% 1.17	%
Nonperforming assets as a percent of total assets (c)(d)	0.57	% 0.64	% 0.57	% 0.64	%
Nonperforming assets as a percent of total loans and other real estate owned (c)(d)	0.93	% 1.18	% 0.93	% 1.18	%
Allowance for loan losses as a percent of loans, net of deferred fees and costs (c)(d)	1.32	% 1.66	% 1.32	% 1.66	%
Allowance for loan losses to nonperforming loans (c)(d)	152.57	% 141.11	% 152.57	% 141.11	%
Provision for (recovery of) loan losses as a percent of average total loans	0.19	%(0.58)	%) 0.10	%(0.51))%
Net charge-offs (recoveries) as a percentage of average total loans (annualized)	0.02	%(0.45)	%) 0.04	%(0.37))%
CAPITAL RATIOS (d)					
Tier 1	12.33	% 14.17	% 12.33	% 14.17	%
Total (Tier 1 and Tier 2)	13.65	% 15.54	% 13.65	% 15.54	%
Tier 1 leverage	8.76	% 9.04	% 8.76	% 9.04	%
Tangible equity to tangible assets (e)	7.92	% 8.07	% 7.92	% 8.07	%
PER SHARE DATA					
Earnings per share – Basic	\$0.32	\$0.46	\$0.77	\$0.93	
Earnings per share – Diluted	0.32	0.46	0.76	0.93	
Cash dividends declared per share	0.15	0.14	0.30	0.26	
Book value per share (d)	22.36	20.71	22.36	20.71	
Tangible book value per share (d)(e)	\$15.10	\$13.94	\$15.10	\$13.94	
Weighted-average number of shares outstanding – Basic	10,755,509	10,576,643	10,696,129	10,566,508	
Weighted-average number of shares outstanding – Diluted	10,880,090	10,597,033	10,807,688	10,584,383	
Shares outstanding at end of period	10,926,436	10,583,161	10,926,436	10,583,161	

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

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

(c) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans.

(c) 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".

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Forward-Looking Statements

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

- (1) the success, impact, and timing of the implementation of Peoples' business strategies, including the successful integration of the recently completed acquisitions and the expansion of consumer lending activity;
- (2) Peoples' ability to complete and, if completed, successfully integrate future acquisitions, including the pending acquisitions of Ohio Heritage and North Akron;
- (3) 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; changes in the interest rate environment due to economic conditions and/or the fiscal policies of the U.S.
- (4) government and Board of Governors of the Federal Reserve System ("Federal Reserve Board"), which may adversely impact interest margins and interest rate sensitivity;
- (5) 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; adverse changes in the economic conditions and/or activities, including, but not limited to, impacts from the implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, as well as
- (6) continuing economic uncertainty in the U.S., the European Union, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults; 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 by the Office
- (7) of the Comptroller of the Currency ("OCC"), the Federal Reserve Board and the Consumer Financial Protection Bureau, 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;
- (8) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;
- (9) changes in accounting standards, policies, estimates or procedures, which may adversely affect Peoples' reported financial condition or results of operations; adverse changes in the conditions and trends in the financial markets, including political developments, which
- (10) may adversely affect the fair value of securities within Peoples' investment portfolio, the interest rate sensitivity of Peoples' consolidated balance sheet, and the income generated by Peoples' trust and investment activities;
- (11) Peoples' ability to receive dividends from its subsidiaries;
- (12) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;
- (13) the impact of new minimum capital thresholds established as a part of the implementation of Basel III;
- (14) the impact of larger or similar sized financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples' business generation and retention, funding and liquidity;
- (15) 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; Peoples' ability to secure confidential information through the use of computer systems and telecommunications
- (16) networks, including those of Peoples' 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;

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- (17) the overall adequacy of Peoples' risk management program; and
other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples' reports filed
(18) with the Securities and Exchange Commission ("SEC"), including those risk factors included in the disclosure
under "ITEM 1A. RISK FACTORS" of Peoples' 2013 Form 10-K.

All forward-looking statements speak only as of the filing 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 of this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at www.sec.gov and/or from Peoples' website – www.peoplesbancorp.com under the "Investor Relations" section. This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and Notes thereto, contained in Peoples' 2013 Form 10-K, as well as the Unaudited Consolidated Financial Statements, Notes to 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 50 financial service locations and 50 ATMs in northeastern, central and southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank and Peoples Insurance Agency, LLC ("Peoples Insurance"), a subsidiary of Peoples Bank. Peoples Bank is subject to regulation and examination primarily by the OCC and secondarily by the Federal Reserve Board and the Federal Deposit Insurance Corporation (the "FDIC"). 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, 2014, which were unchanged from the policies disclosed in Peoples' 2013 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 April 21, 2014, Peoples entered into the North Akron Agreement. The North Akron Agreement calls for North Akron, which operates four full-service branches in Akron, Cuyahoga Falls, Munroe Falls and Norton, Ohio, to merge into Peoples' wholly-owned subsidiary, Peoples Bank. Under the terms of the North Akron Agreement, shareholders of North Akron will receive \$7,655 per share, or approximately \$20.1 million total value, with 80% of the total consideration to be paid in Peoples' shares and the remaining 20% to be paid in cash. The exchange ratio for the stock component of the transaction will be determined based on the Peoples' average closing stock price during the 20 consecutive trading days immediately preceding the closing of the transaction. The North Akron transaction is expected to be completed during the fourth quarter of 2014, pending adoption of the North Akron Agreement by the shareholders of North Akron, the satisfaction of

various closing conditions, including the accuracy of the representations and warranties of each party (subject to certain exceptions), the performance in all material respects by each party of its obligations under the North Akron Agreement, and other conditions customary for transactions of this type. The North Akron transaction is expected to add \$0.06 to \$0.08 to Peoples' annual earnings per share starting in 2015. One-time acquisition costs will more than offset the incremental earnings in 2014.

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On April 4, 2014, Peoples entered into the Ohio Heritage Agreement. The Ohio Heritage Agreement calls for Ohio Heritage to merge into Peoples, and for Ohio Heritage's wholly-owned subsidiary, Ohio Heritage Bank, an Ohio-chartered savings bank, which operates six full-service branches in Coshocton, Newark, Heath, Mount Vernon and New Philadelphia, Ohio, to merge into Peoples' wholly-owned subsidiary, Peoples Bank. Under the terms of the Ohio Heritage Agreement, shareholders of Ohio Heritage will have the right to receive merger consideration equal to \$110.00 per share, or approximately \$37.6 million total value, with 85% of the total consideration to be paid in Peoples' shares and the remaining 15% to be paid in cash. The exchange ratio for the Peoples shares component of the consideration will be determined based on Peoples' volume weighted-average closing share price during the 20 consecutive trading days immediately preceding the closing of the merger. The Ohio Heritage transaction is expected to be completed during the third quarter of 2014, pending adoption of the Ohio Heritage Agreement by the shareholders of Ohio Heritage, the satisfaction of various closing conditions, including the accuracy of the representations and warranties of each party (subject to certain exceptions), the performance in all material respects by each party of its obligations under the Ohio Heritage Agreement, and other conditions customary for transactions of this type. The Ohio Heritage transaction is expected to add \$0.10 to \$0.12 to Peoples' annual earnings per share starting in 2015. One-time acquisition costs are expected to offset incremental earnings in 2014.

At the close of business on May 30, 2014, Peoples completed the acquisition of Midwest and its full services offices in Wellston and Jackson, Ohio. Under the terms of the agreement, Peoples paid \$65.50 of consideration, or \$12.6 million, of which 50% was paid in cash and the remaining 50% in Peoples' shares. The acquisition added \$59.7 million of loans and \$78.1 million of deposits.

At the close of business on October 11, 2013, Peoples Bank completed the acquisition of Ohio Commerce Bank ("Ohio Commerce") and its single full-service office in Beachwood, Ohio. Under the terms of the agreement, Peoples Bank paid \$13.75 in cash for each share of Ohio Commerce stock for a total cash consideration of \$16.5 million. The acquisition added \$96.6 million of loans and \$110.9 million of deposits.

Peoples periodically has taken actions to reduce interest rate exposure within the investment portfolio and the 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. During the first half of 2014, in an effort to reduce the relative size of the portfolio, Peoples used the cash flow generated from the investment portfolio to fund loan growth. 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 has indicated the possibility these short-term rates could start to be raised as early as 2015.

From late 2008 until year-end 2012, the Federal Reserve Board took 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 included the buying and selling of mortgage-backed and other debt securities through its open market operations. In December 2013, the Federal Reserve Board announced plans to taper its quantitative easing efforts. 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 early third quarter of 2011 through 2012, while moderate steepening occurred in the second half of 2009, late 2010 and mid-2013. The curve has remained relatively steep since mid-2013, primarily as a reaction to the Federal Reserve Board's announcement of a reduction in monthly asset purchases and generally improving economic conditions.

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

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EXECUTIVE SUMMARY

Net income for the quarter ended June 30, 2014 was \$3.5 million, or \$0.32 per diluted share, compared to \$4.9 million and \$0.46 per diluted share a year ago, and \$4.8 million or \$0.44 per diluted share in the first quarter of 2014. The decreased earnings in the second quarter of 2014 were largely due to higher provision for loan losses compared to prior periods and increased non-interest expenses.

Peoples' provision for loan losses for the three months ended June 30, 2014 was \$583,000, compared to recoveries of loan losses of \$1.5 million during the three months ended June 30, 2013 and nominal provision for loan losses for the three months ended March 31, 2014. For the six months ended June 30, 2014, provision for loan losses was \$591,000 compared to recoveries of loan losses of \$2.5 million in 2013. The increase in provision for loan losses was a result of higher loan growth in recent quarters. Net charge-offs for the second quarter of 2014 were \$0.1 million compared to net recoveries of \$1.1 million in the second quarter of 2013 and net charge-offs of \$0.2 million in the first quarter of 2014. Asset quality metrics remained favorable during the second quarter of 2014.

Net interest income was \$16.0 million in the second quarter of 2014, compared to \$13.2 million for the second quarter of 2013, while net interest margin was 3.39% and 3.13%, respectively. For the six months ended June 30, 2014, net interest income was \$31.5 million, compared to \$26.1 million in 2013. The improvement over the prior year was driven by an increase in earning assets due to higher loan balances, stability in the asset yields and the change in asset mix. The acquired balances and accretion income from the Midwest acquisition added approximately 3 basis points of net interest margin for the second quarter of 2014. Compared to the prior year second quarter, net interest margin expanded 26 basis points from earning asset growth and accretion income from completed acquisitions.

Total non-interest income was up 5% in the second quarter and 9% for the first half of 2014, compared to the same periods in 2013, due largely to higher insurance income. During the second quarter of 2014, insurance income benefited from increased property and casualty commissions resulting from higher customer retention rates and referrals from other lines of business. In addition, deposit account service charges, and trust and investment income both grew 5% from the linked quarter and 9% from the prior year second quarter. Mortgage banking income continues to be pressured as refinancing activity has declined in response to the higher long-term interest rates, leading to a \$545,000 decline year-to-date.

Non-interest expenses were 6% higher than the linked quarter and 22% higher than the prior year second quarter. This increase included \$1.3 million of acquisition-related costs, consisting primarily of deconversion costs, and professional and legal fees, during the second quarter of 2014, compared to \$150,000 in the linked quarter and \$37,000 in the prior year second quarter. Salaries and employee benefit costs grew 4% over the linked quarter and 26% over the prior year second quarter as employee medical benefit plan costs increased due to higher claim activity and pension settlement charges of \$536,000 recognized in the second quarter of 2014. Pension settlement charges during the first half of 2014 were \$1.0 million, while there were no pension settlement charges recognized in the first half of 2013.

At June 30, 2014, total assets were \$2.16 billion, up \$104.8 million from year-end 2013. This increase was primarily the result of the Midwest acquisition, coupled with organic loan growth of \$63.4 million since December 31, 2013. The allowance for loan losses was \$17.4 million, or 1.32% of loans (net of deferred fees and costs), compared to \$17.1 million and 1.43% at December 31, 2013.

Total liabilities were \$1.92 billion at June 30, 2014, up \$82.1 million since year-end 2013. Retail deposit balances grew 6%, or \$88.6 million since year-end, primarily driven by the deposits acquired from Midwest of \$78.1 million. Non-interest bearing deposits increased 4% or \$16.5 million from December 31, 2013 primarily due to the Midwest acquisition. Peoples continues to focus on its strategy of reducing high-cost funding with increases in low-cost core deposits.

At June 30, 2014, total stockholders' equity was \$244.3 million, up \$22.7 million since December 31, 2013. During the second quarter of 2014, Peoples issued \$6.3 million of common shares in consideration for the Midwest acquisition. In addition, earnings exceeded dividends declared in 2014 and the fair value of the available-for-sale investment portfolio increased. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio remained stable at 12.33% at June 30, 2014, versus 12.42% at December 31, 2013, while the Total Risk-Based Capital ratio was 13.65% versus 13.78% at December 31, 2013. In

addition, Peoples' tangible equity to tangible asset ratio was 7.92% and tangible book value per share was \$15.10 at June 30, 2014, versus 7.26% and \$13.57 at December 31, 2013, respectively.

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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:

For the Three Months Ended
June 30, 2014