PEOPLES BANCORP INC
Form 10-Q
October 24, 2013

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

FORM 10-Q

(Mark One)

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

OR

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

Commission File Number: 0-16772
PEOPLES BANCORP INC.
(Exact name of Registrant as specified in its charter)

Ohio	31-0987416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
138 Putnam Street, P. O. Box 738, Marietta, Ohio	45750
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(740) 373-3155

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated Accelerated filer x Non-accelerated filer o Smaller reporting company o

filer o (Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,810,596 common shares, without par value, at October 23, 2013.

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PART I
ITEM 1. FINANCIAL STATEMENTS
PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	September 30, 2013	December 31, 2012
Assets		
Cash and cash equivalents:		
Cash and due from banks	$41,348	$47,256
Interest-bearing deposits in other banks	9,312	15,286
Total cash and cash equivalents	50,660	62,542
Available-for-sale investment securities, at fair value (amortized cost of $623,024 at September 30, 2013 and $628,584 at December 31, 2012)	616,036	639,185
Held-to-maturity investment securities, at amortized cost (fair value of $48,629 at September 30, 2013 and $47,124 at December 31, 2012)	49,758	45,275
Other investment securities, at cost	24,679	24,625
Total investment securities	690,473	709,085
Loans, net of deferred fees and costs	1,057,165	985,172
Allowance for loan losses	(16,902)	(17,811)
Net loans	1,040,263	967,361
Loans held for sale	3,179	6,546
Bank premises and equipment, net	28,990	27,013
Bank owned life insurance	1,865	51,229
Goodwill	65,786	64,881
Other intangible assets	5,631	3,644
Other assets	32,858	25,749
Total assets	$1,919,705	$1,918,050
Liabilities		
Deposits:		
Non-interest-bearing	$356,767	$317,071
Interest-bearing	1,081,099	1,175,232
Total deposits	1,437,866	1,492,303
Short-term borrowings	106,843	47,769
Long-term borrowings	124,146	128,823
Accrued expenses and other liabilities	28,603	27,427
Total liabilities	1,697,458	1,696,322
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2013 and December 31, 2012	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,197,041 shares issued at September 30, 2013 and 11,155,648 shares issued at December 31, 2012, including shares in treasury	168,457	167,039
Retained earnings	77,298	69,158
Accumulated other comprehensive (loss) income, net of deferred income taxes	(8,545)	654
Treasury stock, at cost, 600,244 shares at September 30, 2013 and 607,688 shares at December 31, 2012	(14,963)	(15,123)
Total stockholders' equity	222,247	221,728
Total liabilities and stockholders' equity	$1,919,705	$1,918,050

See Notes to the Unaudited Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2013	2012	2013	2012
Interest Income:				
Interest and fees on loans	$11,958	$11,911	$34,945	$35,714
Interest and dividends on taxable investment securities	4,119	4,658	12,493	15,104
Interest on tax-exempt investment securities	410	368	1,183	1,064
Other interest income	22	5	65	13
Total interest income	16,509	16,942	48,686	51,895
Interest Expense:				
Interest on deposits	1,674	2,171	5,411	7,007
Interest on short-term borrowings	28	19	63	57
Interest on long-term borrowings	1,131	936	3,406	2,984
Interest on junior subordinated debentures held by subsidiary trust	—	495	—	1,482
Total interest expense	2,833	3,621	8,880	11,530
Net interest income	13,676	13,321	39,806	40,365
Recovery of loan losses	(919)	(956)	(3,446)	(4,213)
Net interest income after recovery of loan losses	14,595	14,277	43,252	44,578
Other Income:				
Insurance income	3,261	2,367	9,359	7,756
Deposit account service charges	2,377	2,261	6,479	6,728
Trust and investment income	1,751	1,565	5,225	4,510
Electronic banking income	1,547	1,484	4,527	4,436
Mortgage banking income	360	638	1,443	1,869
Net (loss) gain on investment securities	(1)	112	443	3,275
Net loss on asset disposals and other transactions	(19)	(161)	(30)	(3,266)
Other non-interest income	290	257	841	853
Total other income	9,566	8,523	28,287	26,161
Other Expenses:				
Salaries and employee benefit costs	9,358	8,051	27,009	24,711
Net occupancy and equipment	1,637	1,423	5,121	4,358
Professional fees	1,188	1,172	3,084	3,189
Electronic banking expense	920	887	2,645	2,451
Marketing expense	547	534	1,559	1,490
Data processing and software	530	470	1,479	1,442
Franchise tax	412	415	1,238	1,241
Communication expense	342	294	1,006	930
FDIC insurance	224	257	754	789
Foreclosed real estate and other loan expenses	243	263	683	739
Amortization of other intangible assets	180	134	533	350
Other non-interest expense	1,682	1,766	4,759	4,678
Total other expenses	17,263	15,666	49,870	46,368
Income before income taxes	6,898	7,134	21,669	24,371
Income tax expense	4,381	2,310	9,209	7,860
Net income	$2,517	$4,824	$12,460	$16,511
Earnings per share - basic	$0.24	$0.45	$1.17	$1.56

Earnings per share - diluted	$0.23	$0.45	$1.16	$1.56
Weighted-average number of shares outstanding - basic	10,589,126	10,530,800	10,574,130	10,522,874
Weighted-average number of shares outstanding - diluted	10,692,555	10,530,876	10,664,999	10,522,905
Cash dividends declared	$1,513	$1,175	$4,320	$3,522
Cash dividends declared per share	$0.14	$0.11	$0.40	$0.33

See Notes to the Unaudited Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Net income	$2,517	$4,824	$12,460	$16,511
Other comprehensive (loss) income:				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(876)	(107)	(17,146)	1,468
Related tax benefit (expense)	307	37	6,001	(514)
Less: reclassification adjustment for net gain included in net income	(1)	112	443	3,275
Related tax expense	—	(39)	(155)	(1,146)
Net effect on other comprehensive income (loss)	(568)	(143)	(11,433)	(1,175)
Defined benefit plans:				
Net loss arising during the period	3,023	—	3,023	318
Related tax benefit	(1,058)	—	(1,058)	(111)
Amortization of unrecognized loss and service cost on benefit plans	50	41	149	119
Related tax expense	(17)	(14)	(52)	(41)
Recognition of loss due to settlement and curtailment	264	—	264	353
Related tax expense	(92)	—	(92)	(124)
Net effect on other comprehensive income (loss)	2,170	27	2,234	514
Total other comprehensive income (loss), net of tax	1,602	(116)	(9,199)	(661)
Total comprehensive income (loss)	$4,119	$4,708	$3,261	$15,850

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2012	$167,039	$69,158	$654	$(15,123)	$221,728
Net income		12,460			12,460
Other comprehensive loss, net of tax			(9,199)		(9,199)
Common stock cash dividends declared		(4,320)			(4,320)
Tax benefit from exercise of stock options	73				73
Reissuance of treasury stock for deferred compensation plan				169	169
Purchase of treasury stock				(166)	(166)
Common shares issued under dividend reinvestment plan	318				318
Common shares issued under Board of Directors' compensation plan	(25)			157	132
Stock-based compensation expense	1,052				1,052
Balance, September 30, 2013	$168,457	$77,298	$(8,545)	$(14,963)	$222,247

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)	2013	2012
Net cash provided by operating activities	$32,123	$22,806
Investing activities:		
Available-for-sale investment securities:		
Purchases	(206,331)	(190,531)
Proceeds from sales	121,117	113,720
Proceeds from principal payments, calls and prepayments	82,247	111,377
Held-to-maturity investment securities:		
Purchases	(5,216)	(23,791)
Proceeds from principal payments	455	7,387
Net increase in loans	(68,729)	(20,449)
Net expenditures for premises and equipment	(4,777)	(2,331)
Proceeds from sales of other real estate owned	922	1,387
Proceeds from bank owned life insurance contracts	42,837	—
Business acquisitions, net of cash received	(2,248)	(3,321)
Investment in limited partnership and tax credit funds	(120)	(187)
Net cash used in investing activities	(39,843)	(6,739)
Financing activities:		
Net increase in non-interest-bearing deposits	39,696	34,742
Net (decrease) increase in interest-bearing deposits	(94,140)	27,190
Net increase (decrease) in short-term borrowings	59,074	(13,992)
Payments on long-term borrowings	(4,698)	(39,152)
Repurchase of preferred shares and common stock warrant	—	(1,201)
Cash dividends paid on common shares	(4,007)	(3,265)
Purchase of treasury stock	(166)	(80)
Proceeds from issuance of common shares	6	5
Excess tax benefit from share-based payments	73	13
Net cash (used in) provided by financing activities	(4,162)	4,260
Net (decrease) increase in cash and cash equivalents	(11,882)	20,327
Cash and cash equivalents at beginning of period	62,542	38,950
Cash and cash equivalents at end of period	$50,660	$59,277

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. ("Peoples") and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("2012 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2012 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2013, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2012, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2012 Form 10-K.

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

New Accounting Pronouncements: In February 2013, the Financial Accounting Standards Board issued an accounting standards update with new guidance on the presentation of accumulated other comprehensive income ("AOCI"). This standard was effective for public companies for interim and annual periods beginning after December 15, 2012. The amendment requires an entity to present the reclassification adjustments out of AOCI and into net income for each component reported. These amounts may be disclosed before-tax or after-tax, and must be disclosed in either the income statement or the notes to the financial statements. This update is intended to supplement changes made in 2012 to increase the prominence of items reported in other comprehensive income. Peoples adopted this new guidance on January 1, 2013, as required. As a result of the adoption, the disclosure of AOCI included in Note 6 contains additional information regarding reclassifications out of AOCI and into net income.

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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 September 30, 2013:

(Dollars in thousands)		Fair Value Measurements at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
Obligations of:				
U.S. Treasury and government agencies	$22	$—	$22	$—
U.S. government sponsored agencies	356	—	356	—
States and political subdivisions	51,061	—	51,061	—
Residential mortgage-backed securities	519,387	—	519,387	—
Commercial mortgage-backed securities	33,135	—	33,135	—
Bank-issued trust preferred securities	7,868	—	7,868	—
Equity securities	4,207	4,073	134	—
Total available-for-sale securities	$616,036	$4,073	$611,963	$—
December 31, 2012				
Obligations of:				
U.S. Treasury and government agencies	$26	$—	$26	$—
U.S. government sponsored agencies	516	—	516	—
States and political subdivisions	45,668	681	44,987	—
Residential mortgage-backed securities	514,096	—	514,096	—
Commercial mortgage-backed securities	64,416	—	64,416	—
Bank-issued trust preferred securities	10,357	—	10,357	—
Equity securities	4,106	3,971	135	—
Total available-for-sale securities	$639,185	$4,652	$634,533	$—

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

(Dollars in thousands)		Fair Value at Reporting Date Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013				
Obligations of:				
States and political subdivisions	$3,973	$—	$3,973	$—
Residential mortgage-backed securities	36,898	—	36,898	—
Commercial mortgage-backed securities	7,758	—	7,758	—
Total held-to-maturity securities	$48,629	$—	$48,629	$—
December 31, 2012				
Obligations of:				
States and political subdivisions	$4,250	$—	$4,250	$—
Residential mortgage-backed securities	34,560	—	34,560	—
Commercial mortgage-backed securities	8,314	—	8,314	—
Total held-to-maturity securities	$47,124	$—	$47,124	$—

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curves, credit spreads and prices from market makers and live trading systems (Level 2).

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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, 2013, impaired loans with an aggregate outstanding principal balance of $2.6 million were measured and reported at a fair value of $2.2 million. For the three months ended September 30, 2013, Peoples recognized $0.1 million of losses and for the nine months ended September 30, 2013, Peoples recognized losses of $0.4 million, on impaired loans through the allowance for loan losses.

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

	September 30, 2013		December 31, 2012	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$50,660	$50,660	$62,542	$62,542
Investment securities	690,473	689,344	709,085	710,934
Loans	1,043,442	971,413	973,907	897,132
Financial liabilities:				
Deposits	$1,437,866	$1,444,517	$1,492,303	$1,503,098
Short-term borrowings	106,843	106,843	47,769	47,769
Long-term borrowings	124,146	131,103	128,823	141,691

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

Loans: The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 2 inputs). In the current whole loan market, financial investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the lack of market liquidity. This divergence accounts for the majority of the difference in carrying amount over fair value.

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

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

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

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Note 3. Investment Securities

Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Obligations of:				
U.S. Treasury and government agencies	$22	$—	$—	$22
U.S. government sponsored agencies	341	15	—	356
States and political subdivisions	50,495	1,700	(1,134)	51,061
Residential mortgage-backed securities	528,634	6,176	(15,423)	519,387
Commercial mortgage-backed securities	33,813	289	(967)	33,135
Bank-issued trust preferred securities	8,503	—	(635)	7,868
Equity securities	1,216	3,077	(86)	4,207
Total available-for-sale securities	$623,024	$11,257	$(18,245)	$616,036
December 31, 2012				
Obligations of:				
U.S. Treasury and government agencies	$26	$—	$—	$26
U.S. government sponsored agencies	486	30	—	516
States and political subdivisions	42,458	3,292	(82)	45,668
Residential mortgage-backed securities	511,305	12,558	(9,767)	514,096
Commercial mortgage-backed securities	62,129	2,330	(43)	64,416
Bank-issued trust preferred securities	10,966	73	(682)	10,357
Equity securities	1,214	2,977	(85)	4,106
Total available-for-sale securities	$628,584	$21,260	$(10,659)	$639,185

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both September 30, 2013 and December 31, 2012. During the third quarter of 2013, Peoples also classified certain mutual funds as equity securities, which are intended for the payment of benefits under a deferred compensation plan for certain key officers of Peoples. At September 30, 2013, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies, that exceeded 10% of stockholders' equity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Gross gains realized	$—	$761	$3,312	$4,033
Gross losses realized	1	649	2,869	758
Net (loss) gain realized	$(1)	$112	$443	$3,275

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, 2013								
Obligations of:								
U.S. Treasury and government agencies	$—	$—	—	$—	$—	—	$—	$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	21,026	1,134	30	—	—	—	21,026	1,134
Residential mortgage-backed securities	334,362	12,090	77	37,716	3,333	12	372,078	15,423
Commercial mortgage-backed securities	22,628	750	5	4,933	217	1	27,561	967
Bank-issued trust preferred securities	3,037	75	2	4,831	560	4	7,868	635
Equity securities	—	—	—	92	86	2	92	86
Total	$381,053	$14,049	114	$47,572	$4,196	19	$428,625	$18,245
December 31, 2012								
Obligations of:								
U.S. Treasury and government agencies	$—	$—	—	$—	$—	—	$—	$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	4,558	82	8	—	—	—	4,558	82
Residential mortgage-backed securities	135,250	2,326	28	89,958	7,441	20	225,208	9,767
Commercial mortgage-backed securities	7,681	43	2	—	—	—	7,681	43
Bank-issued trust preferred securities	2,376	18	2	5,434	664	5	7,810	682
Equity securities	—	—	—	91	85	1	91	85
Total	$149,865	$2,469	40	$95,483	$8,190	26	$245,348	$10,659

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2013, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2013 and December 31, 2012, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2013, approximately 93% 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 7%, or five positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the five positions had a fair value less than 90% of their book value, with an aggregate book and fair value of $0.9 million and $0.8 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 September 30, 2013 were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector. The four securities had an aggregate book value of approximately $5.4 million and fair value of $4.8 million at September 30, 2013.

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The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at September 30, 2013. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
U.S. Treasury and government agencies	$—	$19	$3	$—	$22
U.S. government sponsored agencies	—	341	—	—	341
States and political subdivisions	470	2,915	17,532	29,578	50,495
Residential mortgage-backed securities	77	6,007	41,100	481,450	528,634
Commercial mortgage-backed securities	—	5,285	23,177	5,351	33,813
Bank-issued trust preferred securities	—	—	—	8,503	8,503
Equity securities					1,216
Total available-for-sale securities	$547	$14,567	$81,812	$524,882	$623,024
Fair value					
Obligations of:					
U.S. Treasury and government agencies	$—	$19	$3	$—	$22
U.S. government sponsored agencies	—	356	—	—	356
States and political subdivisions	472	3,072	18,186	29,331	51,061
Residential mortgage-backed securities	78	6,262	40,025	473,022	519,387
Commercial mortgage-backed securities	—	5,574	22,244	5,317	33,135
Bank-issued trust preferred securities	—	—	—	7,868	7,868
Equity securities					4,207
Total available-for-sale securities	$550	$15,283	$80,458	$515,538	$616,036
Total average yield	4.74 %	4.46 %	2.84 %	2.72 %	2.80 %

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, 2013				
Obligations of:				
States and political subdivisions	$3,853	$135	$(15)	$3,973
Residential mortgage-backed securities	38,046	54	(1,202)	36,898
Commercial mortgage-backed securities	7,859	10	(111)	7,758
Total held-to-maturity securities	$49,758	$199	$(1,328)	$48,629
December 31, 2012				
Obligations of:				
States and political subdivisions	$3,860	$390	$—	$4,250
Residential mortgage-backed securities	33,494	1,107	(41)	34,560
Commercial mortgage-backed securities	7,921	393	—	8,314
Total held-to-maturity securities	$45,275	$1,890	$(41)	$47,124

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three and nine months ended September 30, 2013 and 2012.

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

(Dollars in thousands)	Less than 12 Months			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, 2013								
Obligations of:								
States and political subdivisions	$867	$15	2	$—	$—	—	$867	$15
Residential mortgage-backed securities	34,860	1,202	8	—	—	—	34,860	1,202
Commercial mortgage-backed securities	6,656	111	1	—	—	—	6,656	111
Total	$42,383	$1,328	11	$—	$—	—	$42,383	$1,328
December 31, 2012								
Residential mortgage-backed securities	$2,398	$41	2	$—	$—	—	$2,398	$41
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—
Total	$2,398	$41	2	$—	$—	—	$2,398	$41

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at September 30, 2013. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	$—	$—	$336	$3,517	$3,853
Residential mortgage-backed securities	—	—	532	37,514	38,046
Commercial mortgage-backed securities	—	—	—	7,859	7,859
Total held-to-maturity securities	$—	$—	$868	$48,890	$49,758
Fair value					
Obligations of:					
States and political subdivisions	$—	$—	$325	$3,648	$3,973
Residential mortgage-backed securities	—	—	512	36,386	36,898
Commercial mortgage-backed securities	—	—	—	7,758	7,758
Total held-to-maturity securities	$—	$—	$837	$47,792	$48,629
Total average yield	—	%—	%2.57	%2.79	%2.78 %

Pledged Securities

Peoples had pledged available-for-sale investment securities with a carrying value of $314.5 million and $260.9 million at September 30, 2013 and December 31, 2012, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Additionally, Peoples had pledged held-to-maturity investment securities with a carrying value of $21.4 million and $45.3 million at September 30, 2013 and December 31, 2012, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of $17.4 million and $50.4 million at September 30, 2013 and December 31, 2012, respectively, and held-to-maturity securities with a carrying value of $26.3 million at September 30, 2013 to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

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Note 4. Loans

Peoples' loan portfolio consists of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of central and southeastern Ohio, west central West Virginia, and northeastern Kentucky. The major classifications of loan balances, excluding loans held for sale, were as follows:

(Dollars in thousands)	September 30, 2013	December 31, 2012
Commercial real estate, construction	$39,969	$34,265
Commercial real estate, other	374,953	378,073
Commercial real estate	414,922	412,338
Commercial and industrial	192,238	180,131
Residential real estate	262,602	233,841
Home equity lines of credit	55,341	51,053
Consumer	127,785	101,246
Deposit account overdrafts	4,277	6,563
Total loans	$1,057,165	$985,172

Peoples has acquired various loans through business combinations for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected. The carrying amounts of these loans included in the loan balances above are summarized as follows:

(Dollars in thousands)	September 30, 2013	December 31, 2012
Commercial real estate	$2,012	$2,145
Commercial and industrial	57	74
Residential real estate	11,458	12,873
Consumer	48	84
Total outstanding balance	$13,575	$15,176
Net carrying amount	$13,091	$14,700

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled $233.8 million and $202.0 million at September 30, 2013 and December 31, 2012, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled $148.9 million and $123.8 million at September 30, 2013 and December 31, 2012, respectively.

Nonaccrual and Past Due Loans

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

	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
(Dollars in thousands)	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Commercial real estate, construction	$76	$—	$—	$—
Commercial real estate, other	4,786	9,831	—	—
Commercial real estate	4,862	9,831	—	—
Commercial and industrial	323	627	950	181
Residential real estate	3,207	3,136	—	—
Home equity lines of credit	85	24	1,615	1,050
Consumer	60	20	32	4

Total	$8,537	$13,638	$2,597	$1,235

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

	Loans Past Due				Current	Total
(Dollars in thousands)	30 - 59 days	60 - 89 days	90 + Days	Total	Loans	Loans
September 30, 2013						
Commercial real estate, construction	$—	$—	$—	$—	$39,969	$39,969
Commercial real estate, other	2,485	635	1,972	5,092	369,861	374,953
Commercial real estate	2,485	635	1,972	5,092	409,830	414,922
Commercial and industrial	4,324	—	1,177	5,501	186,737	192,238
Residential real estate	2,565	1,317	1,790	5,672	256,930	262,602
Home equity lines of credit	650	310	1,660	2,620	52,721	55,341
Consumer	758	112	92	962	126,823	127,785
Deposit account overdrafts	73	—	—	73	4,204	4,277
Total	$10,855	$2,374	$6,691	$19,920	$1,037,245	$1,057,165
December 31, 2012						
Commercial real estate, construction	$—	$77	$—	$77	$34,188	$34,265
Commercial real estate, other	11,382	705	5,144	17,231	360,842	378,073
Commercial real estate	11,382	782	5,144	17,308	395,030	412,338
Commercial and industrial	3,841	116	294	4,251	175,880	180,131
Residential real estate	4,640	1,049	2,019	7,708	226,133	233,841
Home equity lines of credit	390	65	1,074	1,529	49,524	51,053
Consumer	926	127	10	1,063	100,183	101,246
Deposit account overdrafts	55	—	—	55	6,508	6,563
Total	$21,234	$2,139	$8,541	$31,914	$953,258	$985,172

During 2013, Peoples identified certain home equity lines of credit that had matured and were not sent notices that the principal was due. The majority of the borrowers continued to make required payments past maturity and had not defaulted. These loans should have been reported as past due since the principal was contractually due during a previous period. The total balance of these loans was $2.2 million at September 30, 2013, $1.2 million and $0.8 million at December 31, 2012 and 2011, respectively. Peoples has mailed letters to these customers, informing them that a notice of principal due will be sent in December 2013. Peoples has adjusted prior period amounts reported to appropriately reflect these loans, and expects the impact of these loans on past due balances to decrease significantly during the fourth quarter of 2013 and first quarter of 2014.

Also at September 30, 2013, commercial and industrial loans reported as accruing and 90 days past due were substantially higher than previous periods. The cause of this increase was a single loan that was brought current in October 2013.

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2012 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

“Pass” (grades 1 through 4): Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

“Watch” (grade 5): Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in Peoples' credit position.

“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct

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

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

“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category.

Consumer loans and other smaller-balance loans are evaluated and categorized as “substandard”, “doubtful” or “loss” based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually nor meeting the regulatory conditions to be categorized as described above would be considered as being “not rated”.

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

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
September 30, 2013						
Commercial real estate, construction	$36,096	$—	$70	$—	$3,803	$39,969
Commercial real estate, other	343,912	12,625	17,845	—	571	374,953
Commercial real estate	380,008	12,625	17,915	—	4,374	414,922
Commercial and industrial	173,244	6,465	12,302	227	—	192,238
Residential real estate	22,787	1,706	7,743	—	230,366	262,602
Home equity lines of credit	891	—	1,019	—	53,431	55,341
Consumer	52	7	28	—	127,698	127,785
Deposit account overdrafts	—	—	—	—	4,277	4,277
Total	$576,982	$20,803	$39,007	$227	$420,146	$1,057,165
December 31, 2012						
Commercial real estate, construction	$29,738	$—	$1,095	$—	$3,432	$34,265
Commercial real estate, other	328,435	18,940	29,573	—	1,125	378,073
Commercial real estate	358,173	18,940	30,668	—	4,557	412,338
Commercial and industrial	150,180	21,566	7,054	—	1,331	180,131
Residential real estate	22,392	1,768	7,597	10	202,074	233,841
Home equity lines of credit	1,051	—	1,094	—	48,908	51,053
Consumer	66	—	47	—	101,133	101,246
Deposit account overdrafts	—	—	—	—	6,563	6,563
Total	$531,862	$42,274	$46,460	$10	$364,566	$985,172

Impaired Loans

The following tables summarize loans classified as impaired:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2013							
Commercial real estate, construction	$—	$—	$—	$—	$—	$—	$—
Commercial real estate, other	10,857	2,291	2,512	4,803	566	6,441	—
Commercial real estate	10,857	$2,291	$2,512	$4,803	$566	$6,441	$—

Commercial and industrial	265	261	—	261	261	202	—
Residential real estate	3,271	76	2,790	2,866	29	2,968	90
Home equity lines of credit	342	—	342	342	—	331	12
Consumer	184	—	184	184	—	133	11
Total	$14,919	$2,628	$5,828	$8,456	$856	$10,075	$113
December 31, 2012							
Commercial real estate, construction	$—	$—	$—	$—	$—	$—	$—
Commercial real estate, other	19,023	2,785	7,053	9,838	1,262	11,048	—
Commercial real estate	19,023	$2,785	$7,053	$9,838	$1,262	$11,048	$—
Commercial and industrial	696	182	437	619	36	518	—
Residential real estate	3,943	418	3,063	3,481	123	2,014	149
Home equity lines of credit	349	—	349	349	—	140	17
Consumer	114	—	114	114	—	49	14
Total	$24,125	$3,385	$11,016	$14,401	$1,421	$13,769	$180

At September 30, 2013, 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.

During 2013, in accordance with regulatory guidance regarding borrowers who were in Chapter 7 bankruptcy, Peoples identified $543,000 of loans that were TDRs. The regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged and the borrower has not reaffirmed the debt, regardless of the delinquency status of the loan. The filing of bankruptcy by the borrower is evidence of financial difficulty and the discharge of the obligation by the bankruptcy court is deemed to be a concession granted to the borrower. As of September 30, 2013, a total of $494,000 of these loans were accruing since Peoples expects to collect all principal and interest payments.

The following table summarizes the loans that were modified as a TDR during the three and nine months ended September 30, 2013 and 2012.

	Three Months Ended				Nine Months Ended			
		Recorded Investment (1)				Recorded Investment (1)		
	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2013	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2013
Commercial real estate, other	1	$428	$ 428	$415	1	$428	$ 428	$415
Commercial and industrial	—	$—	$ —	$—	—	$—	$ —	$—

Residential real estate	3	$118	$ 118	$118	13	$461	$ 461	$360
Home equity lines of credit	—	$—	$ —	$—	2	$53	$ 53	$52
Consumer	6	$55	$ 55	$55	28	$219	$ 219	$131

	Three Months Ended				Nine Months Ended			
		Recorded Investment (1)				Recorded Investment (1)		
	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2012	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2012
Commercial real estate, other	3	$422	$ 422	$413	4	$752	$ 752	$743
Commercial and industrial	2	$58	$ 58	$58	2	$58	$ 58	$58
Residential real estate	71	$2,788	$ 2,788	$2,788	71	$2,788	$ 2,788	$2,788
Home equity lines of credit	20	$244	$ 244	$244	20	$244	$ 244	$244
Consumer	33	$143	$ 143	$143	33	$143	$ 143	$143

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

	September 30, 2013		
	Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses
Commercial real estate, other	1	$251	$—
Residential real estate	2	70	—
Home equity lines of credit	1	24	—
Consumer	2	11	—
Total	6	$356	$—

(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 September 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, 2013	$14,215	$1,733	$801	$479	$438	$145	$17,811
Charge-offs	(982)	(11)	(440)	(162)	(645)	(380)	(2,620)
Recoveries	4,313	28	300	20	361	135	5,157
Net recoveries (charge-offs)	3,331	17	(140)	(142)	(284)	(245)	2,537
Recovery of loan losses	(4,720)	445	165	—	410	254	(3,446)

Balance, September 30, 2013	$12,826	$2,195	$826	$337	$564	$154	$16,902
Period-end amount allocated to:							
Loans individually evaluated for impairment	$566	$261	$29	$—	$—	$—	$856
Loans collectively evaluated for impairment	12,260	1,934	797	337	564	154	16,046
Ending balance	$12,826	$2,195	$826	$337	$564	$154	$16,902
Balance, January 1, 2012	$18,947	$2,434	$1,119	$541	$449	$227	$23,717
Charge-offs	(3,112)	—	(890)	(94)	(428)	(417)	(4,941)
Recoveries	2,538	258	608	23	459	158	4,044
Net (charge-offs) recoveries	(574)	258	(282)	(71)	31	(259)	(897)
Recovery of loan losses	(3,400)	(1,025)	—	—	—	212	(4,213)
Balance, September 30, 2012	$14,973	$1,667	$837	$470	$480	$180	$18,607
Period-end amount allocated to:							
Loans individually evaluated for impairment	$731	$—	$36	$—	$—	$—	$767
Loans collectively evaluated for impairment	14,242	1,667	801	470	480	180	17,840
Ending balance	$14,973	$1,667	$837	$470	$480	$180	$18,607

During the third quarter of 2013, Peoples extended the historical loss period from two years to three years for its quantitative calculation of the allowance for loan losses. As discussed in Peoples' 2012 Form 10-K, the historical loss period may be updated based on actual charge-offs experienced, and management believes this change more appropriately reflects inherent losses in the portfolio, considering both the economic decline and progress of the recovery, and associated losses and recoveries in the loan portfolio. Peoples also uses qualitative factors in its determination of the allowance for loan losses, which were appropriately adjusted based on internal and external factors that are further discussed Note 1 of Peoples' 2012 Form 10-K. The impact of these changes on the allowance for loan losses was immaterial.

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Note 5. Bank Owned Life Insurance

In May 2013, Peoples initiated a partial surrender of its bank owned life insurance ("BOLI") contracts, resulting in a $5.2 million payout. In July 2013, Peoples requested the surrender of BOLI contracts reported at approximately $42.8 million, with a cost basis of $36.5 million at June 30, 2013. Peoples received notification from the insurance carrier that the surrender request had been processed in July 2013. Peoples received approximately $36.2 million in July 2013 in partial satisfaction of the surrender request, and recorded the remainder as a receivable with the expectation of receiving it within six months of the surrender notification.

As a result of this transaction, Peoples recorded an additional $2.2 million in income tax expense in the third quarter of 2013.

Note 6. Stockholders’ Equity

The following table details the progression in shares of Peoples’ common and treasury stock during the nine months ended September 30, 2013:

	Common Stock	Treasury Stock
Shares at December 31, 2012	11,155,648	607,688
Changes related to stock-based compensation awards:		
Release of restricted common shares	26,246	5,207
Changes related to deferred compensation plan:		
Purchase of treasury stock		2,577
Reissuance of treasury stock		(9,147)
Common shares issued under dividend reinvestment plan	15,147	
Common shares issued under Board of Directors' compensation plan	—	(6,081)
Shares at September 30, 2013	11,197,041	600,244

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by the Board of Directors. At September 30, 2013, Peoples had no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income (Loss)

The following table details the change in the components of Peoples’ accumulated other comprehensive income (loss) for the nine months ended September 30, 2013:

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2012	$6,892	$(6,238)	$654
Reclassification adjustments to net income:			
Realized gain on sale of securities, net of tax	(288)	—	(288)
Realized loss due to settlement and curtailment, net of tax	—	172	172
Other comprehensive (loss) income, net of reclassifications and tax	(11,145)	2,062	(9,083)
Balance, September 30, 2013	$(4,541)	$(4,004)	$(8,545)

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Note 7. 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest cost	$133	$148	$399	$452
Expected return on plan assets	(164)	(182)	(494)	(574)
Amortization of net loss	51	41	154	120
Settlement of benefit obligation	264	—	264	353
Net periodic cost	$284	$7	$323	$351

	Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Interest cost	$1	$2	$4	$7
Amortization of net loss	(1)	—	(5)	(1)
Net periodic cost	$—	$2	$(1)	$6

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 third quarter of 2013, the total lump-sum distributions made to participants, when added to the lump-sum distributions made through the first six months of 2013, caused the total settlements through nine months of 2013 to exceed the recognition threshold for settlement gains or losses. As a result, Peoples remeasured its pension obligation and plan assets as of July 1, 2013 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 nine months ended September 30, 2013:

(Dollars in thousands)	As of December 31, 2012	September 30, 2013 Before Settlement	Impact of Settlements	After Settlements
Funded status:				
Projected benefit obligation	$17,306	$15,468	$(627)	$14,841
Fair value of plan assets	10,019	11,304	(627)	10,677
Funded status	$(7,287)	$(4,164)	$—	$(4,164)
Gross unrealized loss	$9,630	$6,448	$(264)	$6,184
Assumptions:				
Discount rate	3.30%	4.20%		4.20%
Expected return on plan assets	7.50%	7.50%		7.50%

Note 8. Stock-Based Compensation

Under the Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan (the “2006 Equity Plan”), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights and unrestricted common share awards to employees and non-employee directors. The total number of common shares available under the 2006 Equity Plan is 1,081,260. The maximum number of shares that can be issued for incentive stock options is 800,000 shares. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights (“SARs”) to be settled in common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

Stock Options

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

The following summarizes the changes to Peoples' stock options for the period ended September 30, 2013:

	Number of Common Shares Subject to Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	101,594	$26.09		
Expired	42,500	23.46		
Outstanding at September 30	59,094	$27.98	1.7 years	$—
Exercisable at September 30	59,094	$27.98	1.7 years	$—

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

			Options Outstanding & Exercisable		
Range of Exercise Prices			Common Shares Subject to Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$23.59	to	$25.94	2,792	0.9 years	$25.41
$26.01	to	$27.74	20,334	1.2 years	27.08
$28.25	to	$28.26	17,632	2.3 years	28.25
$28.57	to	$30.00	18,336	1.7 years	29.10
Total			59,094	1.7 years	$27.98

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted vested three years after the grant date and expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following summarizes the changes to Peoples' SARs for the period ended September 30, 2013:

	Number of Common Shares Subject to SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	22,849	$25.97		
Forfeited	1,557	25.99		
Outstanding at September 30	21,292	$25.96	3.9 years	$—
Exercisable at September 30	21,292	$25.96	3.9 years	$—

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

Exercise Price	Number of Common Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
$23.26	2,000	3.8 years
$23.77	10,582	4.4 years
$29.25	8,710	3.4 years
Total	21,292	3.9 years

Restricted Shares

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

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

	Time-Based Vesting		Performance-Based Vesting	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	78,731	$16.36	17,865	$16.07
Awarded	6,500	21.65	72,706	21.82
Released	22,262	15.59	3,154	13.14
Forfeited	1,638	16.16	1,412	19.84
Outstanding at September 30	61,331	$17.20	86,005	$20.98

For the nine months ended September 30, 2013, the total intrinsic value of restricted common shares released was $539,000.

Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2013	2012	2013	2012
Total stock-based compensation	$369	$117	$1,052	$602
Recognized tax benefit	(129)	(41)	(368)	(211)
Net expense recognized	$240	$76	$684	$391

Total unrecognized stock-based compensation expense related to unvested awards was $1.1 million at September 30, 2013, which will be recognized over a weighted-average period of 1.4 years.

Note 9. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2013	2012	2013	2012
Distributed earnings allocated to shareholders	$1,491	$1,166	$4,256	$3,496
Undistributed earnings allocated to shareholders	1,000	3,620	8,098	12,900
Net earnings allocated to shareholders	$2,491	$4,786	$12,354	$16,396
Weighted-average shares outstanding	10,589,126	10,530,800	10,574,130	10,522,874
Effect of potentially dilutive shares	103,429	76	90,869	31
Total weighted-average diluted shares outstanding	10,692,555	10,530,876	10,664,999	10,522,905
Earnings per share:				
Basic	$0.24	$0.45	$1.17	$1.56
Diluted	$0.23	$0.45	$1.16	$1.56
Anti-dilutive common shares excluded from calculation:				
Stock options and SARs	81,340	122,500	95,991	147,756

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Note 10. Acquisitions

On January 2, 2013, Peoples Insurance Agency, LLC ("Peoples Insurance") acquired a commercial insurance agency office and related customer accounts in the Pikeville, Kentucky area for total cash consideration of $1.5 million.
On April 5, 2013, Peoples Insurance acquired an insurance agency office and related customer accounts in the Jackson, Ohio area for total cash consideration of $0.7 million. A portion of the consideration is contingent upon revenue metrics being achieved.
On May 15, 2013, Peoples Insurance acquired two insurance agency offices and related customer accounts in the Jackson, Ohio area for total cash consideration of $1.1 million. A portion of the consideration is contingent upon revenue metrics being achieved.
The balances and operations related to these acquisitions are included in Peoples' consolidated financial statements from the date of the acquisition. These acquisitions, individually and collectively, did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.
On October 14, 2013, Peoples announced that it had completed the acquisition of Ohio Commerce Bank ("Ohio Commerce") as of the close of business on October 11, 2013 for total cash consideration of $16.5 million. Ohio Commerce operates one full-service office in Beachwood, Ohio, and has been merged into Peoples' wholly-owned subsidiary, Peoples Bank, National Association ("Peoples Bank"). The acquisition will be accounted for under the acquisition method of accounting under US GAAP.
The following is a summary of changes in goodwill and intangible assets during the period ended September 30, 2013:

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

(Dollars in thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
September 30, 2013			
Core deposits	$8,853	$(8,343)	$510
Customer relationships	9,648	(6,662)	2,986
Total acquired intangible assets	$18,501	$(15,005)	$3,496
Mortgage servicing rights			2,135
Total other intangible assets			$5,631

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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 September 30,		At or For the Nine Months Ended September 30,	
	2013	2012	2013	2012
SIGNIFICANT RATIOS				
Return on average stockholders' equity	4.61 %	8.86 %	7.52 %	10.41 %
Return on average assets	0.53 %	1.04 %	0.87 %	1.21 %
Net interest margin	3.26 %	3.30 %	3.18 %	3.38 %
Efficiency ratio (a)	72.47 %	70.06 %	71.94 %	68.36 %
Pre-provision net revenue to average assets (b)	1.26 %	1.34 %	1.25 %	1.47 %
Average stockholders' equity to average assets	11.46 %	11.73 %	11.62 %	11.61 %
Average loans to average deposits	73.29 %	67.65 %	69.12 %	68.31 %
Dividend payout ratio	60.11 %	24.36 %	34.67 %	21.33 %
ASSET QUALITY RATIOS				
Nonperforming loans as a percent of total loans (c)(d)	1.05 %	1.63 %	1.05 %	1.63 %
Nonperforming assets as a percent of total assets (c)(d)	0.59 %	0.94 %	0.59 %	0.94 %
Nonperforming assets as a percent of total loans and other real estate owned (c)(d)	1.06 %	1.75 %	1.06 %	1.75 %
Allowance for loan losses to loans net of unearned interest (d)	1.60 %	1.88 %	1.60 %	1.88 %
Allowance for loan losses to nonperforming loans (c)(d)	151.79 %	113.71 %	151.79 %	113.71 %
Recovery of loan losses to average loans (annualized)	(0.35)%	(0.39)%	(0.46)%	(0.59)%
Net (recoveries) charge-offs as a percentage of average loans (annualized)	(0.26)%	0.15 %	(0.33)%	0.13 %
CAPITAL INFORMATION (d)				
Tier 1 common capital ratio	14.09 %	13.86 %	14.09 %	13.86 %
Tier 1 capital ratio	14.09 %	15.85 %	14.09 %	15.85 %
Total risk-based capital ratio	15.46 %	17.16 %	15.46 %	17.16 %
Leverage ratio	9.14 %	10.13 %	9.14 %	10.13 %
Tangible equity to tangible assets (e)	8.16 %	8.37 %	8.16 %	8.37 %
PER SHARE DATA				
Earnings per share – Basic	$0.24	$0.45	$1.17	$1.56
Earnings per share – Diluted	0.23	0.45	1.16	1.56
Cash dividends declared per share	0.14	0.11	0.40	0.33
Book value per share (d)	20.97	20.77	20.97	20.77
Tangible book value per common share (d)(e)	$14.23	$14.28	$14.23	$14.28
Weighted-average shares outstanding – Basic	10,589,126	10,530,800	10,574,130	10,522,874
Weighted-average shares outstanding – Diluted	10,692,555	10,530,876	10,664,999	10,522,905
Common shares outstanding at end of period	10,596,797	10,534,445	10,596,797	10,534,445

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

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

(c)

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

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

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

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Forward-Looking Statements

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

(1) the success, impact, and timing of Peoples' business strategies, including the successful integration of the recently completed Ohio Commerce acquisition and the insurance business acquisitions completed in the first half of 2013, the expansion of consumer lending activity and rebranding efforts;

(2) competitive pressures among financial institutions or from non-financial institutions may increase significantly, including product and pricing pressures and Peoples' ability to attract, develop and retain qualified professionals;

(3) changes in the interest rate environment due to economic conditions and/or the fiscal policies of the U.S. government and Federal Reserve Board, which may adversely impact interest margins;

(4) changes in prepayment speeds, loan originations and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;

(5) adverse changes in the economic conditions and/or activities, including impacts from the implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, as well as continuing economic uncertainty in the U.S., the European Union, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults;

(6) legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations promulgated and to be promulgated thereunder, which may subject Peoples, its subsidiaries or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses;

(7) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;

(8) changes in accounting standards, policies, estimates or procedures which may adversely affect Peoples' reported financial condition or results of operations;

(9) adverse changes in the conditions and trends in the financial markets, including political developments, which may adversely affect the fair value of securities within Peoples' investment portfolio and interest rate sensitivity of Peoples' consolidated balance sheet;

(10) Peoples' ability to receive dividends from its subsidiaries;

(11) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;

(12) the impact of larger or similar sized financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples' business generation and retention, funding and liquidity;

(13) the costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;

(14) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks, including those of its third-party vendors and other service providers, may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;

(15) the overall adequacy of Peoples' risk management program; and

(16) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under “ITEM 1A. RISK FACTORS” of Peoples’ 2012 Form 10-K.

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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 for this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at www.sec.gov and/or from Peoples' website – www.peoplesbancorp.com under the "Investor Relations" section.

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

Business Overview

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

Peoples offers diversified financial products and services through 50 financial service locations and 47 ATMs in southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association ("Peoples Bank") and Peoples Insurance Agency, LLC ("Peoples Insurance"), a subsidiary of Peoples Bank. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

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

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to understanding Peoples' Unaudited Consolidated Financial Statements and Management's Discussion and Analysis at September 30, 2013, which were unchanged from the policies disclosed in Peoples' 2012 Form 10-K.

Summary of Recent Transactions and Events

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

At the close of business on October 11, 2013, Peoples Bank completed the acquisition of 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 common stock for a total cash consideration of $16.5 million. At September 30, 2013, Ohio Commerce had total assets of $123.4 million, total loans of $97.7 million and total deposits of $111.3 million. Management expects this transaction to be accretive to Peoples' earnings starting in 2014 as one-time acquisition costs will more than offset the incremental 2013 earnings.

During 2013, Peoples has taken steps to reduce its investment in BOLI contracts and redeploy the funds in order to enhance long-term shareholder return. The first action was a $5.2 million partial withdrawal of the original premium paid, which was completed in May 2013. The next action was a request for a full surrender of certain BOLI policies, which had a cash surrender value of $42.8 million and cost basis of $36.5 million at June 30, 2013. In late July 2013, Peoples Bank received $36.2 million from the liquidation of the underlying investments in connection with the surrender request. The remaining cash surrender value of approximately $6.6 million is recorded as a receivable and is expected to be paid out by the end of January 2014 in accordance with the terms of the BOLI policies (collectively the "BOLI Surrender").

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The BOLI Surrender proceeds initially will be redeployed into Peoples Bank's investment portfolio, while the long-term goal is to ultimately use the proceeds to fund future loan growth. This redeployment is expected to increase Peoples' annual net interest income by at least $1 million. The BOLI Surrender caused Peoples to incur a $2.2 million federal income tax liability in the third quarter of 2013 for the gain associated with the policies surrendered.

On January 2, 2013, Peoples Insurance acquired a commercial insurance agency office and related customer accounts in the Pikeville, Kentucky area (the "Pikeville Acquisition"). On April 5, 2013, Peoples Insurance acquired McNelly Insurance and Consulting Agency, LLC and related customer accounts in Jackson, Ohio. On May 15, 2013, Peoples Insurance acquired two additional insurance agency offices and related customer accounts in Jackson, Ohio. These acquisitions are expected to help Peoples maintain revenue diversity by continuing to grow the fee-based businesses.

Peoples periodically has taken actions to reduce interest rate exposure within the investment portfolio and 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. In future quarters, Peoples intends to use the cash flow generated from the investment portfolio to fund loan growth.

On December 19, 2012, Peoples repaid the entire $30.9 million aggregate outstanding principal amount of its Series A and Series B Junior Subordinated Debentures and the proceeds were used by PEBO Capital Trust I to redeem 22,975 Series B 8.62% Capital Securities having an aggregate liquidation amount of $23.0 million, held by institutional investors as well as 928 outstanding Common Securities and 7,025 Series B 8.62% Capital Securities, having an aggregate liquidation amount of $8.0 million, held by Peoples (the "Trust Preferred Redemption"). This transaction resulted in Peoples incurring a pre-tax loss of $1.0 million for the redemption premium and unamortized issuance costs. Peoples funded $24.0 million of the repayment with a term note from an unaffiliated financial institution at a significantly lower interest rate, and the balance with cash on hand. As a result of the Trust Preferred Redemption, Peoples will realize an annual interest expense savings of $1.1 million beginning in 2013. Through the nine months of 2013, as a result of the Trust Preferred Redemption, Peoples realized interest expense savings of approximately $0.8 million.

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

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

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

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

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Since late 2008, the Federal Reserve Board has taken various actions to lower longer-term market interest rates as a means of stimulating the economy – a policy commonly referred to as “quantitative easing”. These actions have included the buying and selling of mortgage-backed and other debt securities through its open market operations. As a result, the slope of the U.S. Treasury yield curve has fluctuated significantly. Substantial flattening occurred in late 2008, in mid-2010 and since early third quarter of 2011, while moderate steepening occurred in the second half of 2009, late 2010 and mid 2013.

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

EXECUTIVE SUMMARY

Net income for the quarter ended September 30, 2013 was $2.5 million, or $0.23 per diluted share, compared to $4.8 million and $0.45 per diluted share a year ago. On a year-to-date basis, net income was $12.5 million through September 30, 2013, compared to $16.5 million a year ago, representing earnings per diluted share of $1.16 and $1.56, respectively. Peoples' third quarter and year-to-date 2013 earnings were reduced by $2.2 million (or $0.21 per diluted share) due to the additional income tax expense associated with the BOLI Surrender. Also contributing to the lower year-to-date earnings were additional operating costs associated with various strategic investments to grow revenue over the past year, plus a lower recovery of loan losses.

Peoples had a recovery of loan losses of $0.9 million and $3.4 million for the three and nine months ended September 30, 2013, respectively, as several asset quality metrics maintained favorable trends. In comparison, Peoples recorded recovery of loan losses of $1.0 million and $4.2 million for the three and nine months ended September 30, 2012, respectively.

Net interest income was $13.7 million in the third quarter of 2013, compared to $13.2 million for the linked quarter and $13.3 million for the third quarter of 2012, while net interest margin was 3.26%, 3.15% and 3.30%, respectively. The linked quarter improvements were driven mostly by $405,000 of additional interest income for prepayment fees and interest recovered on nonaccrual loans, which added 10 basis points to net interest margin. Compared to the prior year, the prolonged low interest rate environment continued to put downward pressure on asset yields, causing net interest margin to compress. However, the impact on net interest income was offset by higher loan balances. On a year-to-date basis, net interest income was $39.8 million and net interest margin was 3.18% versus $40.4 million and 3.38%, respectively, a year ago. These decreases were the result of declining asset yields due to the reinvestment of funds at lower interest rates.

Non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, for the third quarter of 2013 was up 4% from the linked quarter. This increase was due mostly to higher deposit account service charges driven by additional overdraft fees. Year-over-year, total non-interest income grew 12% for the third quarter and 7% on a year-to-date basis. Much of this growth was the result of increased insurance and investment income due to acquisitions completed in the second half of 2012 and first half of 2013. Insurance income was up 38% compared to prior year and 21% on a year-to-date basis, while trust and investment income increased by 12% and 16%, respectively. These increases were partially offset by lower mortgage banking income due to fewer loans being sold in the secondary market.

Total non-interest expense was $17.3 million for the quarter ended September 30, 2013, 5% higher than the linked quarter and 10% higher than the prior year third quarter. Contributing to the increase during the third quarter of 2013 was the pension settlement charges of $264,000 that Peoples recognized and acquisition-related expenses of $182,000. Peoples also has incurred additional expenses in 2013 for the costs associated with strategic investments, such as adding new talent and the branch refresh project. As a result, Peoples' non-interest expense totaled $49.9 million through nine months of 2013, an increase of 8% over $46.4 million in the first nine months of 2012.

At September 30, 2013, total assets were $1.92 billion, up $19.9 million from the prior quarter-end but unchanged compared to year-end 2012. Total investment securities increased $17.2 million, to $690.5 million at September 30, 2013, due mostly to the BOLI Surrender. At September 30, 2013, gross loan balances were $1.06 billion, $26.9 million higher than the prior quarter-end amount and up 7% compared to year-end 2012, with growth occurring in both commercial and consumer balances. The allowance for loan losses was $16.9 million, or 1.60% of gross loans, compared to $17.8 million and 1.81% of gross loans at December 31, 2012.

Total liabilities were $1.70 billion at September 30, 2013, up $16.8 million for the quarter but comparable to December 31, 2012. Retail deposit balances were essentially flat with the prior quarter-end and down 3% compared to year-end 2012. Non-interest-bearing deposits were substantially higher than both June 30, 2013 and December 31, 2012, due largely to a single commercial customer maintaining a higher than normal balance at quarter-end. Throughout 2013, Peoples

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has experienced a decline in retail interest-bearing deposits driven mostly by lower money market account and certificate of deposit ("CD") balances. At September 30, 2013, total borrowed funds were $231.0 million, up $12.8 million from June 30, 2013 and $54.4 million higher than year-end as Peoples has funded the majority of loan growth using short-term borrowings.

At September 30, 2013, total stockholders' equity was $222.2 million, up $3.1 million for the quarter but consistent with December 31, 2012. During 2013, the market value of Peoples' available-for-sale investment portfolio declined causing a $9.2 million reduction in stockholders' equity. In contrast, earnings have exceeded dividends declared by $8.1 million. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio remained stable at 14.09% at September 30, 2013, versus 14.06% at December 31, 2012, while the Total Risk-Based Capital ratio was 15.46% versus 15.43% at December 31, 2012. In addition, Peoples' tangible equity to tangible asset ratio was 8.16% and tangible book value per common share was $14.23 at September 30, 2013, versus 8.28% and $14.52 at December 31, 2012, respectively.

RESULTS OF OPERATIONS

Net Interest Income

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

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

	For the Three Months Ended								
	September 30, 2013			June 30, 2013			September 30, 2012		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$5,914	$21	1.41 %	$11,399	$25	0.88 %	$10,150	$5	0.20 %
Investment Securities (1):									
Taxable	633,335	4,163	2.63 %	657,644	4,202	2.56 %	649,309	4,705	2.90 %
Nontaxable (2)	50,933	632	4.96 %	50,978	607	4.76 %	41,995	565	5.39 %
Total investment securities	684,268	4,795	2.80 %	708,622	4,809	2.71 %	691,304	5,270	3.05 %
Loans (3):									
Commercial	618,742	7,114	4.56 %	611,631	6,785	4.45 %	619,392	7,337	4.71 %
Real estate (4)	297,065	3,307	4.45 %	280,889	3,263	4.65 %	249,664	3,177	5.09 %
Consumer	126,094	1,579	4.97 %	116,995	1,528	5.24 %	97,702	1,428	5.81 %
Total loans	1,041,901	12,000	4.59 %	1,009,515	11,576	4.61 %	966,758	11,942	4.92 %
Less: Allowance for loan losses	(17,670)			(17,866)			(19,981)		
Net loans	1,024,231	12,000	4.66 %	991,649	11,576	4.68 %	946,777	11,942	5.03 %
Total earning assets	1,714,413	16,816	3.91 %	1,711,670	16,410	3.85 %	1,648,231	17,217	4.17 %
Intangible assets	71,517			71,081			65,912		
Other assets	105,802			128,237			133,448		
Total assets	$1,891,732			$1,910,988			$1,847,591		
Deposits:									
Savings accounts	$199,592	$27	0.05 %	$199,065	$27	0.05 %	$164,771	$24	0.06 %
Governmental deposit accounts	153,085	142	0.37 %	147,824	168	0.46 %	162,773	247	0.61 %
Interest-bearing demand accounts	124,093	25	0.08 %	124,199	25	0.08 %	114,030	23	0.08 %
Money market accounts	226,453	86	0.15 %	266,602	93	0.14 %	244,857	96	0.16 %
Brokered deposits	49,810	464	3.70 %	51,952	468	3.61 %	55,158	491	3.54 %
Retail certificates of deposit	343,549	930	1.07 %	350,141	1,017	1.17 %	407,254	1,290	1.26 %
Total interest-bearing deposits	1,096,582	1,674	0.61 %	1,139,783	1,798	0.63 %	1,148,843	2,171	0.75 %
Borrowed Funds:									
Short-term FHLB advances	62,500	14	0.09 %	35,462	9	0.10 %	12,386	5	0.14 %
Retail repurchase agreements	38,599	15	0.16 %	33,340	13	0.16 %	35,386	14	0.15 %
Total short-term borrowings	101,099	29	0.11 %	68,802	22	0.13 %	47,772	19	0.16 %
Long-term FHLB advances	63,874	544	3.38 %	64,237	543	3.39 %	66,348	566	3.39 %
Wholesale repurchase agreements	40,000	371	3.71 %	40,000	367	3.67 %	40,000	370	3.63 %
Other borrowings	21,524	216	3.93 %	22,690	226	3.94 %	22,622	495	8.56 %
	125,398	1,131	3.58 %	126,927	1,136	3.58 %	128,970	1,431	4.37 %

Total long-term borrowings											
Total borrowed funds	226,497	1,160	2.03	%	195,729	1,158	2.36	%	176,742	1,450	3.23 %
Total interest-bearing liabilities	1,323,079	2,834	0.85	%	1,335,512	2,956	0.89	%	1,325,585	3,621	1.08 %
Non-interest-bearing deposits	325,129				326,020				280,223		
Other liabilities	26,795				23,568				25,066		
Total liabilities	1,675,003				1,685,100				1,630,874		
Total stockholders' equity	216,729				225,888				216,717		
Total liabilities and stockholders' equity	$1,891,732				$1,910,988				$1,847,591		
Interest rate spread		$13,982	3.06	%		$13,454	2.96	%		$13,596	3.09 %
Net interest margin			3.26	%			3.15	%			3.30 %

(1) Average balances are based on carrying value.

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

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

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

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	For the Nine Months Ended September 30, 2013			For the Nine Months Ended September 30, 2012		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$18,682	$65	0.47 %	$8,594	$13	0.21 %
Investment Securities (1):						
Taxable	649,345	12,625	2.59 %	644,914	15,241	3.15 %
Nontaxable (2)	50,051	1,820	4.85 %	39,028	1,637	5.59 %
Total investment securities	699,396	14,445	2.75 %	683,942	16,878	3.29 %
Loans (3):						
Commercial	612,447	20,600	4.50 %	618,537	22,131	4.78 %
Real estate (4)	283,123	9,929	4.68 %	245,936	9,418	5.11 %
Consumer	116,796	4,541	5.32 %	93,090	4,253	6.10 %
Total loans	1,012,366	35,070	4.64 %	957,563	35,802	4.99 %
Less: Allowance for loan losses	(18,102)			(22,013)		
Net loans	994,264	35,070	4.71 %	935,550	35,802	5.11 %
Total earning assets	1,712,342	49,580	3.87 %	1,628,086	52,693	4.32 %
Intangible assets	70,868			65,028		
Other assets	122,371			132,718		
Total assets	$1,905,581			$1,825,832		
Deposits:						
Savings accounts	$196,508	$78	0.05 %	$156,634	$67	0.06 %
Governmental deposit accounts	148,901	512	0.46 %	154,106	736	0.64 %
Interest-bearing demand accounts	125,009	75	0.08 %	111,337	94	0.11 %
Money market accounts	260,180	275	0.14 %	252,041	332	0.18 %
Brokered deposits	51,949	1,408	3.62 %	56,809	1,505	3.54 %
Retail certificates of deposit	358,307	3,062	1.14 %	405,045	4,273	1.41 %
Total interest-bearing deposits	1,140,854	5,410	0.63 %	1,135,972	7,007	0.82 %
Borrowed Funds:						
Short-term FHLB advances	33,542	24	0.16 %	14,543	13	0.12 %
Retail repurchase agreements	34,662	41	0.10 %	37,924	44	0.15 %
Total short-term borrowings	68,204	65	0.13 %	52,467	57	0.14 %
Long-term FHLB advances	64,214	1,628	3.39 %	68,810	1,745	3.39 %
Wholesale repurchase agreements	40,000	1,100	3.67 %	45,620	1,239	3.57 %
Other borrowings	22,690	678	3.94 %	22,614	1,482	8.61 %
Total long-term borrowings	126,904	3,406	3.58 %	137,044	4,466	4.31 %
Total borrowed funds	195,108	3,471	2.37 %	189,511	4,523	3.16 %
Total interest-bearing liabilities	1,335,962	8,881	0.89 %	1,325,483	11,530	1.16 %
Non-interest-bearing deposits	323,733			265,728		
Other liabilities	24,447			22,670		
Total liabilities	1,684,142			1,613,881		
Total stockholders’ equity	221,439			211,951		
Total liabilities and stockholders’ equity	$1,905,581			$1,825,832		
Interest rate spread		$40,699	2.98 %		$41,163	3.16 %
Net interest margin			3.18 %			3.38 %

(1) Average balances are based on carrying value.

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

(3)

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

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

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

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	2012
Net interest income, as reported	$13,676	$13,155	$13,321	$39,806	$40,365
Taxable equivalent adjustments	306	299	275	893	798
Fully tax-equivalent net interest income	$13,982	$13,454	$13,596	$40,699	$41,163

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

	Three Months Ended September 30, 2013 Compared to						Nine Months Ended September 30, 2013 Compared to		
(Dollars in thousands)	June 30, 2013			September 30, 2012			September 30, 2012		
Increase (decrease) in:	Rate	Volume	Total [1]	Rate	Volume	Total [1]	Rate	Volume	Total [1]
INTEREST INCOME:									
Short-term investments	$51	$(55)	$(4)	$31	$(15)	$16	$27	$25	$52
Investment Securities: [2]									
Taxable	498	(537)	(39)	(429)	(113)	(542)	(2,787)	171	(2,616)
Nontaxable	29	(4)	25	(243)	310	67	(335)	518	183
Total investment income	527	(541)	(14)	(672)	197	(475)	(3,122)	689	(2,433)
Loans:									
Commercial	225	104	329	(216)	(7)	(223)	(1,313)	(218)	(1,531)
Real estate	(619)	663	44	(1,866)	1,996	130	(1,184)	1,695	511
Consumer	(360)	411	51	(1,047)	1,198	151	(872)	1,160	288
Total loan income	(754)	1,178	424	(3,129)	3,187	58	(3,369)	2,637	(732)
Total interest income	(176)	582	406	(3,770)	3,369	(401)	(6,464)	3,351	(3,113)
INTEREST EXPENSE:									
Deposits:									
Savings accounts	—	—	—	(10)	13	3	(7)	18	11
Government deposit accounts	(62)	36	(26)	(91)	(14)	(105)	(200)	(24)	(224)
Interest-bearing demand accounts	—	—	—	(1)	3	2	(35)	16	(19)
Money market accounts	36	(43)	(7)	(3)	(7)	(10)	(73)	16	(57)
Brokered certificates of deposit	54	(58)	(4)	109	(136)	(27)	54	(151)	(97)
Retail certificates of deposit	(70)	(17)	(87)	(175)	(185)	(360)	(752)	(459)	(1,211)
Total deposit cost	(42)	(82)	(124)	(171)	(326)	(497)	(1,013)	(584)	(1,597)
Borrowed funds:									
Short-term borrowings	(7)	14	7	(11)	21	10	(4)	12	8
Long-term borrowings	3	(8)	(5)	(256)	(44)	(300)	(764)	(296)	(1,060)
Total borrowed funds cost	(4)	6	2	(267)	(23)	(290)	(768)	(284)	(1,052)
Total interest expense	(46)	(76)	(122)	(438)	(349)	(787)	(1,781)	(868)	(2,649)
Net interest income	$(130)	$658	$528	$(3,332)	$3,718	$386	$(4,683)	$4,219	$(464)

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(1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the changes in each.

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

In the third quarter of 2013, Peoples recognized $405,000 of additional interest income for prepayment fees and interest recovered on nonaccrual loans, which added 10 basis points to net interest margin. Absent this one-time income, both net interest income and margin were relatively consistent with the linked quarter. The prolonged low interest rate environment continued to place downward pressure on asset yields due to lower reinvestment rates within both the loan and investment portfolios. However, the impact on third quarter 2013 net interest income was offset by the combination of higher average loan balances and continued reduction in total funding cost.

The overall yield on Peoples' investment portfolio improved over the linked quarter, which benefited both net interest income and margin for the third quarter of 2013. The investment strategy enacted late in the first quarter of 2013 helped to provide stability in the overall yield. In addition, the higher long-term interest rates during the third quarter led to a slowdown in prepayments within Peoples' mortgage-backed securities which resulted in a corresponding decline in premium amortization.

Peoples' funding costs have benefited from an ongoing strategy of replacing higher-cost funding with low-cost deposits. This strategy was the key driver of the lower overall funding cost in the third quarter of 2013 compared to recent periods. Contributing to the year-over-year decline in Peoples' total cost of funds was the impact of the Trust Preferred Redemption, which produced an interest expense savings through the nine months of 2013 of $0.8 million.

Management remains focused on minimizing the impact of margin compression on net interest income. Earning asset growth continues to be the key to increasing net interest income and expanding margin absent any meaningful increase in long-term interest rates. Peoples' balance sheet continues to be positioned so that any steepening of the yield curve should have a positive impact on net interest income and margin,

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

(Recovery of) Provision for Loan Losses

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2013	2013	2012	2013	2012
Provision for checking account overdrafts	$131	$138	$144	$254	$212
Recovery of other loan losses	(1,050)	(1,600)	(1,100)	(3,700)	(4,425)
Net recovery of loan losses	$(919)	$(1,462)	$(956)	$(3,446)	$(4,213)
As a percentage of average gross loans (a)	(0.35)%	(0.58)%	(0.39)%	(0.46)%	(0.59)%

(a) Presented on an annualized basis

The recovery of, or provision for, loan losses recorded represents the amount needed to maintain the adequacy of the allowance for loan losses based on management’s formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples’ loan quality, historical loss experience and current economic conditions. The recovery of loan losses recorded during 2013 was driven mostly by recoveries on commercial real estate loans that had previously incurred charge-offs. During 2013, recoveries on loans exceeded charge-offs by $0.7 million for the third quarter and $2.5 million on a year-to-date basis. Peoples also experienced continued improving trends in various credit quality metrics, including historical loss trends and the level of criticized loans.

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

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Net Other (Losses) Gains

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

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	2012
Net gain on OREO	$10	$81	$—	$86	$8
Loss on debt extinguishment	—	—	—	—	(3,111)
Net loss on bank premises and equipment	(29)	(87)	(174)	(116)	(176)
Other gains	—	—	13	—	13
Net other losses	$(19)	$(6)	$(161)	$(30)	$(3,266)

The net gain on OREO for the third quarter of 2013 was the result of an additional gain on the sale of one commercial property sold during the second quarter of 2013. The net loss on bank premises and equipment for the third quarter of 2013 was due to the sale of a banking office at a loss of $19,000 and a $10,000 write-down of a closed office location that is available for sale. The net loss on bank premises and equipment for the third quarter of 2012 was due to the write-down of $99,000 related to a closed office location that was available for sale and asset write-offs of $72,000 associated with the Sistersville acquisition.

Non-Interest Income

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

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	2012
Property and casualty insurance commissions	$2,695	$2,705	$2,140	$7,571	$6,108
Performance-based commissions	125	81	44	710	1,026
Life and health insurance commissions	389	309	125	844	385
Credit life and A&H insurance commissions	19	34	30	76	93
Other fees and charges	33	91	28	158	144
Total insurance income	$3,261	$3,220	$2,367	$9,359	$7,756

The overall growth in insurance income has been impacted by higher premiums throughout the industry, successful integration of acquisitions and referrals between lines of business at Peoples. The growth in property and casualty insurance commissions, as well as life and health insurance commissions, was due to acquisitions completed during 2013. The bulk of performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers. The decrease in 2013 in performance-based commissions was largely attributable to a major storm that hit the region in June 2012.

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

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	2012
Overdraft and non-sufficient funds fees	$1,993	$1,732	$1,935	$5,330	$5,569
Account maintenance fees	346	311	307	947	943
Other fees and charges	38	2	19	202	216
Total deposit account service charges	$2,377	$2,045	$2,261	$6,479	$6,728

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The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. During the third quarter of 2013, Peoples raised overdraft and non-sufficient funds fees which accounted for a significant portion of the increase over the linked quarter. In general, the volume of overdraft and non-sufficient funds fees remained lower than the prior year due to consumer behavior.

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2013	2013	2012	2013	2012
Fiduciary	$1,263	$1,293	$1,149	$3,745	$3,355
Brokerage	488	479	416	1,480	1,155
Total trust and investment income	$1,751	$1,772	$1,565	$5,225	$4,510

	September 30,	June 30,	March 31,	December 31,	September 30,
(Dollars in thousands)	2013	2013	2013	2012	2012
Trust assets under management	$994,683	$939,292	$927,675	$888,134	$874,293
Brokerage assets under management	449,196	433,651	433,217	404,320	398,875
Total managed assets	$1,443,879	$1,372,943	$1,360,892	$1,292,454	$1,273,168
Quarterly average	$1,417,707	$1,373,135	$1,332,353	$1,277,452	$1,203,285

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

Mortgage banking income was down compared to the linked quarter, the prior year quarter and on a year-to-date basis. The fluctuations corresponded with changes in refinancing activity, which are driven by mortgage interest rates available in the secondary market and customers' preference for long-term, fixed-rate loans. In addition, Peoples retained a larger percentage of the loans originated during 2013 than in 2012. Peoples sold approximately $14 million of loans to the secondary market in both the second and third quarters of 2013, compared to $32 million for the third quarter of 2012. On a year-to-date basis, Peoples sold $60 million of loans through September 30, 2013, compared to $86 million for the same period in 2012.

Non-Interest Expense

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for more than half of total non-interest expense.

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The following table details Peoples' salaries and employee benefit costs:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30, 2013	
(Dollars in thousands)	2013	2013	2012	2013	2012
Base salaries and wages	$6,095	$5,866	$5,278	$17,593	$15,687
Sales-based and incentive compensation	1,778	1,874	1,672	5,177	4,544
Employee benefits	1,160	771	802	2,913	3,341
Stock-based compensation	369	386	117	1,052	602
Deferred personnel costs	(598)	(589)	(490)	(1,681)	(1,388)
Payroll taxes and other employment costs	554	626	672	1,955	1,925
Total salaries and employee benefit costs	$9,358	$8,934	$8,051	$27,009	$24,711
Full-time equivalent employees:					
Actual at end of period	539	545	501	539	501
Average during the period	544	531	493	528	500

For the three and nine months ended September 30, 2013, base salaries and wages were higher than prior periods due to the strategic initiative of adding new talent and a corresponding increase in full-time equivalent employees. The acquisitions completed during the last twelve months also contributed to the increase in full-time equivalent employees. Sales-based and incentive compensation continued to be impacted by higher sales production within insurance and wealth management activities. Compared to the prior periods, employee benefit costs increased due to a third quarter 2013 pension settlement charge of $264,000, with no charge recorded in either the second quarter of 2013 or the third quarter of 2012. Given the nature of the pension settlement, it is inherently difficult to estimate the amount or exact timing of pension settlement charges.

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2013	2013	2012	2013	2012
Depreciation	$587	$590	$490	$1,944	$1,497
Repairs and maintenance costs	404	460	331	1,311	1,078
Net rent expense	269	200	249	690	715
Property taxes, utilities and other costs	377	376	353	1,176	1,068
Total net occupancy and equipment expense	$1,637	$1,626	$1,423	$5,121	$4,358

Depreciation expense increased over the prior year periods due to recent strategic investments, including a branch network remodel, the new Vienna, West Virginia office and the new signage resulting from the introduction of the new brand.

Professional fees were impacted by the third quarter 2013 recognition of $182,000 acquisition-related expenses that consisted of non-recurring consulting and legal expenses.

Electronic banking expense, which is comprised of bankcard and internet-based banking costs, increased for the nine months ended September 30, 2013 compared to the prior year. The primary reason for the increase was customers completing a larger percentage of their transactions using their debit cards and Peoples' internet banking service.

Peoples' efficiency ratio, calculated as non-interest expense less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 72.47% for the third quarter of 2013, higher than the linked quarter of 71.71% and the prior year of 70.06%. The third quarter 2013 ratio was outside management's target range of 68% to 70% due mostly to the pension settlement charges and acquisition-related expenses.

Management expects Peoples' total non-interest expenses to approximate $17.3 million for the final quarter of 2013. The estimate excludes any new acquisition-related costs, as well as the one-time costs associated with the Ohio Commerce acquisition, which are expected to be approximately $1.0 million.

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Income Tax Expense

For the nine months ended September 30, 2013, Peoples recorded income tax expense of $9.2 million, for an effective tax rate of 42.5%. During the third quarter of 2013, Peoples recorded an additional $2.2 million income tax expense associated with the BOLI Surrender. This effective tax rate represents management's current estimate of the rate for the entire year. In comparison, Peoples recorded income tax expense of $7.9 million for the same period in 2012, for an effective tax rate of 32.3%.

Pre-Provision Net Revenue

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

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

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2013	June 30, 2013	September 30, 2012	September 30, 2013	2012
Pre-Provision Net Revenue:					
Income before income taxes	$6,898	$7,431	$7,134	$21,669	$24,371
Add: loss on debt extinguishment	—	—	—	—	3,111
Add: loss on loans held-for-sale and OREO	—	—	—	5	—
Add: net loss on securities transactions	1	—	—	1	—
Add: loss on other assets	29	89	174	118	176
Less: recovery of loan losses	919	1,462	956	3,446	4,213
Less: gain on loans held-for-sale and OREO	10	81	—	91	8
Less: net gain on securities transactions	—	26	112	444	3,275
Less: gain on other assets	—	2	13	2	13
Pre-provision net revenue	$5,999	$5,949	$6,227	$17,810	$20,149
Pre-provision net revenue	$5,999	$5,949	$6,227	$17,810	$20,149
Total average assets	1,891,732	1,910,988	1,847,591	1,905,581	1,825,832
Pre-provision net revenue to total average assets (a)	1.26 %	1.25 %	1.34 %	1.25 %	1.47 %

(a) Presented on an annualized basis.

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

FINANCIAL CONDITION

Cash and Cash Equivalents

At September 30, 2013, Peoples' interest-bearing deposits in other banks increased compared to the linked quarter-end, and decreased from prior year-end. These balances included $4.0 million of excess cash reserves being maintained at the Federal Reserve Bank at September 30, 2013, compared to $0.3 million at June 30, 2013 and $11.6 million at December 31, 2012. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

Through nine months of 2013, Peoples' total cash and cash equivalents decreased $11.9 million, as cash used in Peoples' investing and financing activities exceeded the $32.1 million of cash generated by operating activities. Investing activities used $39.8 million of cash to fund the $68.7 million net loan growth, while proceeds from the BOLI Surrender contributed

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$42.8 million. Within Peoples' financing activities, decreases in deposits of $54.4 million were funded by additional short-term borrowings of $59.1 million.

Through nine months of 2012, Peoples' total cash and cash equivalents increased $20.3 million, as cash provided by Peoples' operating and financing activities exceeded the $6.7 million of cash used by investing activities. Investing activities used $6.7 million of cash to fund the $20.4 million net loan growth, while proceeds from sales and principal payments of investment securities exceeded the purchases of investment securities by $18.2 million. Within Peoples' financing activities, deposit growth generated $61.9 million of cash which was used primarily to reduce borrowed funds by $53.1 million and to repurchase the common stock warrant held by the U.S Treasury.

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

Investment Securities

The following table provides information regarding Peoples’ investment portfolio:

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	$22	$23	$25	$26	$28
U.S. government sponsored agencies	356	400	459	516	575
States and political subdivisions	51,061	50,579	47,165	45,668	42,154
Residential mortgage-backed securities	519,387	503,574	495,135	514,096	472,439
Commercial mortgage-backed securities	33,135	33,606	48,072	64,416	61,345
Bank-issued trust preferred securities	7,868	7,811	7,879	10,357	10,105
Equity securities	4,207	4,335	3,910	4,106	2,714
Total fair value	$616,036	$600,328	$602,645	$639,185	$589,360
Total amortized cost	$623,024	$606,441	$592,005	$628,584	$579,722
Net unrealized (loss) gain	$(6,988)	$(6,113)	$10,640	$10,601	$9,638
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	$3,853	$3,855	$3,857	$3,860	$3,862
Residential mortgage-backed securities	38,046	36,361	36,547	33,494	20,770
Commercial mortgage-backed securities	7,859	7,882	7,903	7,921	7,940
Total amortized cost	$49,758	$48,098	$48,307	$45,275	$32,572
Total investment portfolio:					
Amortized cost	$672,782	$654,539	$640,312	$673,859	$612,294
Carrying value	$665,794	$648,426	$650,952	$684,460	$621,932

During the third quarter of 2013, Peoples increased the size of the investment portfolio as the proceeds from the BOLI Surrender were redeployed into mortgage-backed securities. The overall impact was partially offset by a general decline in fair value. The 3% decrease in the investment portfolio since year-end 2012 was due to the timing of the sales and subsequent reinvestment of the first quarter repositioning of the investment portfolio. In 2013 and throughout 2012, Peoples continued to designate additional securities as "held-to-maturity" at the time of their purchase, for which management has made the determination Peoples would hold these securities until maturity and concluded Peoples has the ability to do so.

Peoples' investment in residential and commercial mortgage-backed securities largely consists of securities either guaranteed by the U.S. government or issued by U.S. government sponsored agencies, such as Fannie Mae and Freddie Mac. The remaining portions of Peoples' mortgage-backed securities consist of securities issued by other entities, including other financial institutions, which are not guaranteed by the U.S. government.

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The amount of these “non-agency” securities included in the residential and commercial mortgage-backed securities totals above was as follows:

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Residential	$25,573	$30,065	$32,748	$37,267	$40,827
Commercial	—	—	—	—	—
Total fair value	$25,573	$30,065	$32,748	$37,267	$40,827
Total amortized cost	$24,430	$28,820	$31,915	$36,395	$38,681
Net unrealized gain	$1,143	$1,245	$833	$872	$2,146

Management continues to reinvest the principal runoff from the non-agency securities into U.S agency investments, which accounted for the decline experienced in 2013 and prior quarters. At September 30, 2013, Peoples' non-agency portfolio consisted entirely of first lien residential and commercial mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

Loans

The following table provides information regarding outstanding loan balances:

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Gross portfolio loans:					
Commercial real estate, construction	$39,969	$30,770	$24,108	$34,265	$50,804
Commercial real estate, other	374,953	389,281	381,331	378,073	379,561
Commercial real estate	414,922	420,051	405,439	412,338	430,365
Commercial and industrial	192,238	184,981	174,982	180,131	172,068
Residential real estate	262,602	252,282	237,193	233,841	233,501
Home equity lines of credit	55,341	52,212	50,555	51,053	51,137
Consumer	127,785	119,029	108,353	101,246	100,116
Deposit account overdrafts	4,277	1,674	3,996	6,563	1,580
Total portfolio loans	$1,057,165	$1,030,229	$980,518	$985,172	$988,767
Percent of loans to total loans:					
Commercial real estate, construction	3.8 %	3.0 %	2.4 %	3.5 %	5.1 %
Commercial real estate, other	35.5 %	37.8 %	38.9 %	38.4 %	38.4 %
Commercial real estate	39.3 %	40.8 %	41.3 %	41.9 %	43.5 %
Commercial and industrial	18.2 %	17.9 %	17.8 %	18.3 %	17.4 %
Residential real estate	24.8 %	24.5 %	24.2 %	23.7 %	23.6 %
Home equity lines of credit	5.2 %	5.1 %	5.2 %	5.2 %	5.2 %
Consumer	12.1 %	11.5 %	11.1 %	10.3 %	10.1 %
Deposit account overdrafts	0.4 %	0.2 %	0.4 %	0.6 %	0.2 %
Total percentage	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Residential real estate loans being serviced for others	$339,557	$338,854	$343,769	$330,721	$307,052

The increase in construction loans was largely due to advances on loans with current relationships. Payoffs of several commercial real estate loans during the third quarter of 2013 resulted in a decrease compared to prior quarters. During 2013, Peoples retained a larger percentage of residential mortgage loans originated than in prior quarters which caused the increase in residential real estate loans over the prior periods. Consumer loan balances, which consist mostly of loans to finance automobile purchases, continued to increase in 2013 due largely to Peoples placing greater emphasis

on its consumer lending activity in recent quarters.

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Loan Concentration

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

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

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

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
Commercial real estate, other:					
Lodging and lodging related	$59,259	$—	$59,259	15.6	%
Apartment complexes	51,453	144	51,597	13.6	%
Office buildings and complexes:					
Owner occupied	10,039	85	10,124	2.7	%
Non-owner occupied	23,586	407	23,993	6.3	%
Total office buildings and complexes	33,625	492	34,117	9.0	%
Light industrial facilities:					
Owner occupied	23,510	416	23,926	6.3	%
Non-owner occupied	7,919	—	7,919	2.1	%
Total light industrial facilities	31,429	416	31,845	8.4	%
Retail facilities:					
Owner occupied	11,805	170	11,975	3.2	%
Non-owner occupied	19,269	28	19,297	5.1	%
Total retail facilities	31,074	198	31,272	8.3	%
Assisted living facilities and nursing homes	22,036	303	22,339	5.9	%
Mixed commercial use facilities:					
Owner occupied	12,354	494	12,848	3.4	%
Non-owner occupied	14,347	16	14,363	3.8	%
Total mixed commercial use facilities	26,701	510	27,211	7.2	%
Day care facilities:					
Owner occupied	11,387	—	11,387	3.0	%
Non-owner occupied	—	—	—	—	%
Total day care facilities	11,387	—	11,387	3.0	%
Health care facilities:					
Owner occupied	6,405	8	6,413	1.7	%
Non-owner occupied	16,860	—	16,860	4.4	%
Total health care facilities	23,265	8	23,273	6.1	%
Restaurant facilities:					
Owner occupied	9,952	57	10,009	2.6	%
Non-owner occupied	1,842	—	1,842	0.5	%
Total restaurant facilities	11,794	57	11,851	3.1	%
Other	72,930	2,523	75,453	19.8	%
Total commercial real estate, other	$374,953	$4,651	$379,604	100.0	%

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(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total
Commercial real estate, construction:				
Assisted living facilities and nursing homes	$7,133	$4,862	$11,995	18.4 %
Residential property	1,400	948	2,348	3.6 %
Apartment complexes	18,074	14,530	32,604	50.0 %
Office buildings and complexes - non-owner occupied	3,737	—	3,737	5.7 %
Mixed commercial use facilities - non-owner occupied	665	1,827	2,492	3.8 %
Other	8,960	3,100	12,060	18.5 %
Total commercial real estate, construction	$39,969	$25,267	$65,236	100.0 %

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

Allowance for Loan Losses

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

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Commercial real estate	$12,826	$12,568	$13,973	$14,215	$14,973
Commercial and industrial	2,195	2,188	1,750	1,733	1,667
Residential real estate	826	1,005	783	801	837
Home equity lines of credit	337	490	485	479	470
Consumer	564	740	383	438	480
Deposit account overdrafts	154	122	65	145	180
Total allowance for loan losses	$16,902	$17,113	$17,439	$17,811	$18,607
As a percentage of total loans	1.60 %	1.66 %	1.78 %	1.81 %	1.88 %

During the third quarter of 2013, Peoples extended the historical loss period from two years to three years for its quantitative calculation of the allowance for loan losses. Management believes this change more appropriately reflects inherent losses in the portfolio, and this change in methodology is more fully detailed in Note 4 of the Notes to the Unaudited Consolidated Financial Statements.

The significant allocations to commercial loans reflect the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. In the third quarter of 2013, the allowance for loan losses continued to be reduced as a result of sustained improvement in several credit quality metrics. Specifically, Peoples has experienced a steady decrease in criticized loans, which are those classified as watch, substandard or doubtful, due to principal paydowns and improvements in borrowers' financial conditions. Total criticized loans decreased $29.3 million or 32% since year-end 2012, reflecting $17.4 million in principal paydowns. Peoples upgraded $11.2 million in loans during 2013 based upon the financial condition of the borrowers. Net charge-offs also remained at or below Peoples' long-term historical rate for the tenth consecutive quarter. These factors had a direct impact on the estimated loss rates used to determine the appropriate allocations for commercial loans.

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

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

(Dollars in thousands)	Three Months Ended September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Gross charge-offs:					
Commercial real estate, construction	$—	$—	$—	$—	$—
Commercial real estate, other	199	217	566	2,034	266
Commercial real estate	199	217	566	2,034	266
Commercial and industrial	—	11	—	1	—
Residential real estate	218	88	134	201	329
Home equity lines of credit	160	—	2	—	17
Consumer	301	185	159	144	83
Deposit account overdrafts	135	115	130	157	163
Total gross charge-offs	1,013	616	991	2,537	858
Recoveries:					
Commercial real estate, construction	—	—	—	—	—
Commercial real estate, other	1,507	1,432	1,374	1,861	127
Commercial real estate	1,507	1,432	1,374	1,861	127
Commercial and industrial	7	4	17	67	143
Residential real estate	39	145	116	165	76
Home equity lines of credit	7	5	8	9	9
Consumer	125	132	104	102	107
Deposit account overdrafts	36	34	65	40	34
Total recoveries	1,721	1,752	1,684	2,244	496
Net (recoveries) charge-offs:					
Commercial real estate, construction	—	—	—	—	—
Commercial real estate, other	(1,308)	(1,215)	(808)	173	139
Commercial real estate	(1,308)	(1,215)	(808)	173	139
Commercial and industrial	(7)	7	(17)	(66)	(143)
Residential real estate	179	(57)	18	36	253
Home equity lines of credit	153	(5)	(6)	(9)	8
Consumer	176	53	55	42	(24)
Deposit account overdrafts	99	81	65	117	129
Total net (recoveries) charge-offs	$(708)	$(1,136)	$(693)	$293	$362
Ratio of net (recoveries) charge-offs to average loans (annualized):					
Commercial real estate, construction	—%	—%	—%	—%	—%
Commercial real estate, other	(0.50)%	(0.48)%	(0.33)%	0.07%	0.06%
Commercial real estate	(0.50)%	(0.48)%	(0.33)%	0.07%	0.06%
Commercial and industrial	—%	—%	(0.01)%	(0.03)%	(0.06)%
Residential real estate	0.07%	(0.02)%	0.01%	0.01%	0.11%
Home equity lines of credit	0.06%	—%	—%	—%	—%
Consumer	0.07%	0.03%	0.02%	0.02%	(0.01)%
Deposit account overdrafts	0.04%	0.02%	0.02%	0.05%	0.05%
Total	(0.26)%	(0.45)%	(0.29)%	0.12%	0.15%

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The following table details Peoples' nonperforming assets:

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Loans 90+ days past due and accruing:					
Commercial real estate	$—	$36	$—	$—	$—
Commercial and industrial	950	—	—	181	27
Residential real estate	—	—	—	—	—
Home equity	1,615	1,484	1,212	1,050	855
Consumer	32	—	3	4	—
Total	2,597	1,520	1,215	1,235	882
Nonaccrual loans:					
Commercial real estate, construction	76	80	—	—	—
Commercial real estate	3,593	4,922	5,739	7,259	9,846
Commercial and industrial	323	297	327	627	408
Residential real estate	3,012	3,136	3,166	2,786	2,884
Home equity	61	32	78	24	15
Consumer	60	62	9	20	10
Total	7,125	8,529	9,319	10,716	13,163
Troubled debt restructurings:					
Commercial real estate	1,193	1,879	2,208	2,572	1,891
Commercial and industrial	—	—	—	—	8
Residential real estate	195	175	276	350	419
Home equity	24	24	—	—	—
Total	1,412	2,078	2,484	2,922	2,318
Total nonperforming loans (NPLs)	11,134	12,127	13,018	14,873	16,363
Other real estate owned (OREO)					
Commercial	—	—	815	815	815
Residential	120	120	—	21	358
Total	120	120	815	836	1,173
Total nonperforming assets (NPAs)	$11,254	$12,247	$13,833	$15,709	$17,536
NPLs as a percent of total loans	1.05 %	1.17 %	1.32 %	1.50 %	1.63 %
NPAs as a percent of total assets	0.59 %	0.64 %	0.71 %	0.82 %	0.94 %
NPAs as a percent of gross loans and OREO	1.06 %	1.18 %	1.41 %	1.58 %	1.75 %
Allowance for loan losses as a percent of NPLs	151.79 %	141.11 %	133.96 %	119.75 %	113.71 %

As further detailed in Note 4, Peoples recently identified certain home equity lines of credit that had matured and were not sent notices that the principal was due. These loans have been reported as past due since the principal was contractually due during a previous period. At September 30, 2013, commercial and industrial loans reported as accruing and 90 days past due were substantially higher than previous periods due to a single loan that was brought current in October 2013. The decrease in total nonperforming assets during the second quarter of 2013 was due largely to two commercial real estate loans being paid-off, each was approximately $0.3 million, and the sale of two OREO properties. The reduction contributed to the decrease in total criticized loans, which were down 32% at September 30, 2013 versus year-end 2012.

The majority of Peoples' nonaccrual commercial real estate loans continues to consist of non-owner occupied commercial properties and real estate development projects. In general, management believes repayment of these loans is dependent on the sale of the underlying collateral. As such, the carrying values of these loans are ultimately supported by management's estimate of the net proceeds Peoples would receive upon the sale of the collateral. These estimates are based in part on market values provided by independent, licensed or certified appraisers periodically, but

no less frequently than annually. Given the volatility in commercial real estate values, management continues to monitor changes in real estate values from quarter-to-quarter and updates its estimates as needed based on observable changes in market prices and/or updated appraisals for similar properties.

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Deposits

The following table details Peoples' deposit balances:

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Interest-bearing deposits:					
Retail certificates of deposit	$334,910	$349,511	$353,894	$392,313	$413,837
Money market deposit accounts	224,400	238,554	288,538	288,404	251,735
Governmental deposit accounts	151,910	146,817	167,441	130,630	157,802
Savings accounts	196,293	199,503	200,549	183,499	172,715
Interest-bearing demand accounts	123,966	125,875	124,969	124,787	112,854
Total retail interest-bearing deposits	1,031,479	1,060,260	1,135,391	1,119,633	1,108,943
Brokered certificates of deposits	49,620	50,393	52,648	55,599	55,168
Total interest-bearing deposits	1,081,099	1,110,653	1,188,039	1,175,232	1,164,111
Non-interest-bearing deposits	356,767	325,125	340,887	317,071	288,376
Total deposits	$1,437,866	$1,435,778	$1,528,926	$1,492,303	$1,452,487

During 2013, Peoples maintained its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as CDs and brokered deposits. This strategy has included more selective pricing of long-term CDs, governmental deposits and similar non-core deposits, as well as non-renewal of maturing brokered deposits. These actions accounted for much of the changes in deposit balances over the last several quarters. The decrease in money market deposit accounts was due to a reduction in balances from Peoples' trust department. Since late 2008, Peoples' trust department has maintained larger than historical amounts of funds in money market deposit accounts as the ultra-low rate environment limited short-term investment options. The increase in non-interest-bearing deposits was the result of a single commercial customer maintaining a higher than normal balance as of September 30, 2013.

Borrowed Funds

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

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Short-term borrowings:					
FHLB advances	$64,000	$59,000	$—	$15,000	$—
Retail repurchase agreements	42,843	33,521	32,395	32,769	37,651
Total short-term borrowings	106,843	92,521	32,395	47,769	37,651
Long-term borrowings:					
FHLB advances	63,806	64,180	64,348	64,904	66,270
National market repurchase agreements	40,000	40,000	40,000	40,000	40,000
Other long-term borrowings	20,340	21,534	22,726	23,919	—
Total long-term borrowings	124,146	125,714	127,074	128,823	106,270
Subordinated debentures held by subsidiary trust	—	—	—	—	22,627
Total borrowed funds	$230,989	$218,235	$159,469	$176,592	$166,548

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

As disclosed in Peoples' 2012 Form 10-K, Peoples entered into a loan agreement on December 18, 2012, and is subject to certain covenants. At September 30, 2013, Peoples was in compliance with the applicable material covenants imposed by this agreement, as explained in more detail in Note 9 of the Notes to the Consolidated Financial Statements included in Peoples' 2012 Form 10-K.

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Capital/Stockholders' Equity

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

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

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Capital Amounts:					
Tier 1 common	$168,254	$166,576	$164,329	$160,604	$157,520
Tier 1	168,254	166,576	164,329	160,604	180,147
Total (Tier 1 and Tier 2)	184,550	182,706	179,569	176,224	195,083
Net risk-weighted assets	$1,194,016	$1,175,647	$1,118,644	$1,141,938	$1,136,532
Capital Ratios:					
Tier 1 common	14.09 %	14.17 %	14.69 %	14.06 %	13.86 %
Tier 1	14.09 %	14.17 %	14.69 %	14.06 %	15.85 %
Total (Tier 1 and Tier 2)	15.46 %	15.54 %	16.05 %	15.43 %	17.16 %
Leverage ratio	9.14 %	9.04 %	8.90 %	8.83 %	10.13 %

In addition to traditional capital measurements, management uses tangible capital measures to evaluate the adequacy of Peoples' stockholders' equity. Such ratios represent non-GAAP financial information since their calculation removes the impact of intangible assets acquired through acquisitions on the Consolidated Balance Sheets. Management believes this information is useful to investors since it facilitates the comparison of Peoples' operating performance, financial condition and trends to peers, especially those without a similar level of intangible assets to that of Peoples. Further, intangible assets generally are difficult to convert into cash, especially during a financial crisis, and could decrease substantially in value should there be deterioration in the overall franchise value. As a result, tangible equity represents a conservative measure of the capacity for a company to incur losses but remain solvent.

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

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Tangible Equity:					
Total stockholders' equity, as reported	$222,247	$219,147	$226,079	$221,728	$218,835
Less: goodwill and other intangible assets	71,417	71,608	69,977	68,525	68,422
Tangible equity	$150,830	$147,539	$156,102	$153,203	$150,413
Tangible Assets:					
Total assets, as reported	$1,919,705	$1,899,841	$1,938,722	$1,918,050	$1,866,510
Less: goodwill and other intangible assets	71,417	71,608	69,977	68,525	68,422
Tangible assets	$1,848,288	$1,828,233	$1,868,745	$1,849,525	$1,798,088
Tangible Book Value per Common Share:					
Tangible equity	$150,830	$147,539	$156,102	$153,203	$150,413
Common shares outstanding	10,596,797	10,583,161	10,568,147	10,547,960	10,534,445

Tangible book value per common share	$14.23	$13.94	$14.77	$14.52	$14.28	
Tangible Equity to Tangible Assets Ratio:						
Tangible equity	$150,830	$147,539	$156,102	$153,203	$150,413	
Tangible assets	$1,848,288	$1,828,233	$1,868,745	$1,849,525	$1,798,088	
Tangible equity to tangible assets	8.16	%8.07	%8.35	%8.28	%8.37	%

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The increase in the linked quarter tangible equity to tangible assets ratio during the third quarter of 2013 was primarily caused by higher tangible equity in connection with a recovery of the market value of assets held in Peoples' pension plan. When compared to the third quarter of 2012, the increase in tangible assets caused by loan production has reduced the tangible equity to tangible assets ratio.

Interest Rate Sensitivity and Liquidity

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

Interest Rate Risk

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

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

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

Increase in Interest Rate (in Basis Points)	Estimated Increase in Net Interest Income						Estimated (Decrease) Increase in Economic Value of Equity					
	September 30, 2013			December 31, 2012			September 30, 2013			December 31, 2012		
300	$5,627	10.3	%	$9,688	19.6	%	$(61,475)	(24.7)	%	$(20,348)	(8.5)	%
200	4,540	8.3	%	8,627	17.5	%	(42,178)	(17.0)	%	(3,888)	(1.6)	%
100	2,855	5.2	%	6,311	12.8	%	(20,879)	(8.4)	%	7,344	3.1	%

At September 30, 2013, Peoples' Consolidated Balance Sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. The benefit of the actions taken late in the first quarter of 2013 within the investment portfolio to reduce interest rate exposure were fully reflected in the analysis above. While parallel interest rate shock scenarios are useful in assessing the level of IRR inherent in Peoples' Consolidated Balance Sheet, interest rates typically move in a non-parallel manner, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve Board increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates.

Liquidity

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

At September 30, 2013, Peoples had liquid assets of $227.7 million, which represented 11.2% of total assets and unfunded commitments. This amount exceeded the minimal level of $40.8 million, or 2% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional $46.7 million of

unpledged securities not included in the measurement of liquid assets.

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

Off-Balance Sheet Activities and Contractual Obligations

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

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

(Dollars in thousands)	September 30, 2013	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Home equity lines of credit	$45,655	$43,956	$44,124	$43,818	$43,719
Unadvanced construction loans	25,923	25,646	19,092	11,839	14,261
Other loan commitments	129,418	138,783	127,665	113,868	142,269
Loan commitments	200,996	208,385	190,881	169,525	200,249
Standby letters of credit	$34,804	$35,845	$34,771	$35,373	$36,218

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

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

(b) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

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

Changes in Internal Control Over Financial Reporting

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

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PART II

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

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

Period	(a) Total Number of Common Shares Purchased		(b) Average Price Paid per Share		(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs [1]	(d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs [1]
July 1 - 31, 2013	1,115	[2]	$21.77	[2]	—	—
August 1 - 31, 2013	750	[2]	$22.04	[2]	—	—
September 1 - 30, 2013	—		$—		—	—
Total	1,865		$21.88		—	—

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required to be filed or furnished with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see "Exhibit Index" beginning at page 56.

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SIGNATURES

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

PEOPLES BANCORP INC.

Date: October 24, 2013

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

Date: October 24, 2013

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

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EXHIBIT INDEX

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

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

		Form 8-B filed July 20, 1993 (File No. 0-16772)
3.2(b)	Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003	Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q
3.2(c)	Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004	Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)
3.2(d)	Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)
3.2(e)	Certificate regarding adoption of an amendment to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 22, 2010	Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) ("Peoples' June 30, 2010 Form 10-Q/A")

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EXHIBIT INDEX

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

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

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

2012; and (vi) Notes to the Unaudited Consolidated Financial Statements.