

PEOPLES BANCORP INC  
Form 10-Q  
October 25, 2012  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_ to \_\_\_\_

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

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

138 Putnam Street, P. O. Box 738,

45750

Marietta, Ohio

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

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

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

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

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

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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,690,009 common shares, without par value, at October 24, 2012.

---

Table of Contents

Table of Contents

<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS (Unaudited)</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)</u>	<u>5</u>
<u>CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY (Unaudited)</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u>	<u>6</u>
<u>NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u>	<u>23</u>
<u>SELECTED FINANCIAL DATA</u>	<u>23</u>
<u>EXECUTIVE SUMMARY</u>	<u>27</u>
<u>RESULTS OF OPERATIONS</u>	<u>28</u>
<u>FINANCIAL CONDITION</u>	<u>36</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>48</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>48</u>
<u>PART II – OTHER INFORMATION</u>	<u>49</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>49</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>49</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>49</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>49</u>
<u>ITEM 4. MINE SAFETY DISLCOSURES</u>	<u>49</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>49</u>
<u>ITEM 6. EXHIBITS</u>	<u>49</u>
<u>SIGNATURES</u>	<u>50</u>
<u>EXHIBIT INDEX</u>	<u>51</u>

Table of Contents

As used in this Quarterly Report on Form 10-Q (“Form 10-Q”), “Peoples” refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to the registrant, Peoples Bancorp Inc.

## PART I – FINANCIAL INFORMATION

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

(Dollars in thousands)	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$33,814	\$32,346
Interest-bearing deposits in other banks	25,463	6,604
Total cash and cash equivalents	59,277	38,950
Available-for-sale investment securities, at fair value (amortized cost of \$579,722 at September 30, 2012 and \$617,128 at December 31, 2011)	589,360	628,571
Held-to-maturity investment securities, at amortized cost (fair value of \$33,933 at September 30, 2012 and \$16,705 at December 31, 2011)	32,572	16,301
Other investment securities, at cost	24,661	24,356
Total investment securities	646,593	669,228
Loans, net of deferred fees and costs	988,767	938,506
Allowance for loan losses	(18,607)	(23,717)
Net loans	970,160	914,789
Loans held for sale	12,739	3,271
Bank premises and equipment, net	24,552	23,905
Bank owned life insurance	51,206	49,384
Goodwill	64,835	62,520
Other intangible assets	3,587	1,955
Other assets	33,561	30,159
Total assets	\$1,866,510	\$1,794,161
Liabilities		
Deposits:		
Non-interest-bearing	\$288,376	\$239,837
Interest-bearing	1,164,111	1,111,243
Total deposits	1,452,487	1,351,080
Short-term borrowings	37,651	51,643
Long-term borrowings	106,270	142,312
Junior subordinated notes held by subsidiary trust	22,627	22,600
Accrued expenses and other liabilities	28,640	19,869
Total liabilities	1,647,675	1,587,504
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2012 and December 31, 2011	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,140,100 shares issued at September 30, 2012 and 11,122,247 shares issued at December 31, 2011, including shares in treasury	166,612	166,969
Retained earnings	66,569	53,580

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Accumulated other comprehensive income, net of deferred income taxes	751	1,412	
Treasury stock, at cost, 605,655 shares at September 30, 2012 and 615,123 shares at December 31, 2011	(15,097)	(15,304)	)
Total stockholders' equity	218,835	206,657	
Total liabilities and stockholders' equity	\$1,866,510	\$1,794,161	

See Notes to the Unaudited Consolidated Financial Statements

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

(Dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>Interest Income:</b>				
Interest and fees on loans	\$11,911	\$12,147	\$35,714	\$37,214
Interest and dividends on taxable investment securities	4,658	5,871	15,104	18,237
Interest on tax-exempt investment securities	368	378	1,064	1,187
Other interest income	5	4	13	20
Total interest income	16,942	18,400	51,895	56,658
<b>Interest Expense:</b>				
Interest on deposits	2,171	3,332	7,007	10,991
Interest on short-term borrowings	19	24	57	85
Interest on long-term borrowings	936	1,285	2,984	3,912
Interest on junior subordinated notes held by subsidiary trust	495	495	1,482	1,480
Total interest expense	3,621	5,136	11,530	16,468
Net interest income	13,321	13,264	40,365	40,190
(Recovery of) provision for loan losses	(956)	)865	(4,213)	)8,471
Net interest income after (recovery of) provision for loan losses	14,277	12,399	44,578	31,719
<b>Other Income:</b>				
Insurance income	2,367	2,324	7,756	7,321
Deposit account service charges	2,261	2,628	6,728	7,256
Trust and investment income	1,565	1,385	4,510	4,119
Electronic banking income	1,484	1,313	4,436	3,818
Mortgage banking income	638	370	1,869	1,030
Net gain on investment securities	112	57	3,275	473
Net (loss) gain on asset disposals and other transactions	(161)	)389	(3,266)	) (107)
Other non-interest income	257	371	853	1,112
Total other income	8,523	8,837	26,161	25,022
<b>Other Expenses:</b>				
Salaries and employee benefit costs	8,051	8,701	24,711	24,281
Net occupancy and equipment	1,423	1,453	4,358	4,426
Professional fees	1,172	807	3,189	2,615
Electronic banking expense	887	713	2,451	2,016
Marketing expense	534	452	1,490	1,105
Data processing and software	470	490	1,442	1,406
Franchise tax	415	369	1,241	1,128
Communication expense	294	307	930	915
Foreclosed real estate and other loan expenses	263	251	739	825
FDIC insurance	257	440	789	1,552
Amortization of other intangible assets	134	141	350	455
Other non-interest expense	1,766	1,306	4,678	4,043
Total other expenses	15,666	15,430	46,368	44,767
Income before income taxes	7,134	5,806	24,371	11,974
Income tax expense	2,310	1,885	7,860	3,263
Net income	\$4,824	\$3,921	\$16,511	\$8,711
Preferred dividends	—	237	—	998
Net income available to common shareholders	\$4,824	\$3,684	\$16,511	\$7,713

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Earnings per common share - basic	\$0.45	\$0.35	\$1.56	\$0.74
Earnings per common share - diluted	\$0.45	\$0.35	\$1.56	\$0.73
Weighted-average number of common shares outstanding - basic	10,530,800	10,484,609	10,522,874	10,478,310
Weighted-average number of common shares outstanding - diluted	10,530,876	10,519,673	10,522,905	10,498,708
Cash dividends declared on common shares	\$1,175	\$1,060	\$3,522	\$2,118
Cash dividends declared per common share	\$0.11	\$0.10	\$0.33	\$0.20
See Notes to the Unaudited Consolidated Financial Statements				

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$4,824	\$3,921	\$16,511	\$8,711
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding gain arising in the period	(107	)4,505	1,468	12,989
Related tax expense	37	(1,577	) (514	)(4,546
Less: reclassification adjustment for net gain included in net income	112	57	3,275	473
Related tax expense	(39	)(21	) (1,146	)(166
Net effect on other comprehensive income (loss)	(143	)2,892	(1,175	)8,136
Defined benefit plans:				
Net gain arising during the period	—	—	318	—
Related tax expense	—	—	(111	)—
Amortization of unrecognized loss and service cost on pension plan	41	387	472	464
Related tax expense	(14	)(136	) (165	)(163
Net effect on other comprehensive income (loss)	27	251	514	301
Total other comprehensive income (loss), net of tax	(116	)3,143	(661	)8,437
Total comprehensive income	\$4,708	\$7,064	\$15,850	\$17,148

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2011	\$—	\$166,969	\$53,580	\$1,412	\$(15,304)	\$206,657
Net income			16,511			16,511
Other comprehensive loss, net of tax				(661	)	(661
Repurchase of common stock warrant		(1,201	)			(1,201
Common stock cash dividends declared			(3,522	)		(3,522
Tax benefit from exercise of stock options		13				13
Reissuance of treasury stock for deferred compensation plan					163	163
Purchase of treasury stock					(80	)(80
Common shares issued under dividend reinvestment plan		264				264
Common shares issued under Board of Directors' compensation plan		(35	)		124	89
Stock-based compensation expense		602				602
Balance, September 30, 2012	\$—	\$166,612	\$66,569	\$751	\$(15,097)	\$218,835



See Notes to the Unaudited Consolidated Financial Statements

5

---

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30,	
	2012	2011
Net cash provided by operating activities	\$22,806	\$32,800
Investing activities:		
Available-for-sale investment securities:		
Purchases	(190,531	)(174,082
Proceeds from sales	113,720	59,868
Proceeds from principal payments, calls and prepayments	111,377	88,989
Held-to-maturity investment securities:		
Purchases	(23,791	)—
Proceeds from principal payments	7,387	—
Net (increase) decrease in loans	(20,449	)47
Net expenditures for premises and equipment	(2,331	)(1,100
Proceeds from sales of other real estate owned	1,387	1,534
Business acquisitions, net of cash received	(3,321	)—
Investment in limited partnership and tax credit funds	(187	)(234
Net cash used in investing activities	(6,739	)(24,978
Financing activities:		
Net increase in non-interest-bearing deposits	34,742	20,516
Net increase (decrease) in interest-bearing deposits	27,190	(39,619
Net (decrease) increase in short-term borrowings	(13,992	)7,046
Payments on long-term borrowings	(39,152	)(13,732
Repurchase of preferred shares and common stock warrant	(1,201	)(21,000
Cash dividends paid on preferred shares	—	(899
Cash dividends paid on common shares	(3,265	)(2,940
Purchase of treasury stock	(80	)(90
Proceeds from issuance of common shares	5	9
Excess tax benefit from share-based payments	13	—
Net cash provided by (used in) financing activities	4,260	(50,709
Net increase (decrease) in cash and cash equivalents	20,327	(42,887
Cash and cash equivalents at beginning of period	38,950	74,644
Cash and cash equivalents at end of period	\$59,277	\$31,757

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES  
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

---

**Basis of Presentation:** The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. 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, 2011 (“2011 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’ 2011 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, 2012, 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, 2011, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples’ 2011 Form 10-K.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year, due in part to seasonal variations and unusual or infrequently occurring items. Peoples’ insurance income includes contingent performance-based insurance commissions that are recognized by Peoples when received, which typically occurs during the first quarter of each year.

**New Accounting Pronouncements:** In June 2011, the FASB issued an accounting standards update with new guidance on the presentation of other comprehensive income (“OCI”). This standard was effective for public companies for fiscal years, and interim period within those years, beginning after December 15, 2011, and was to be applied retrospectively. The amendment now requires an entity to either present components of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. This standard is intended to improve the overall quality of financial reporting by increasing the prominence of items reported in OCI, and additionally align the presentation of OCI in financial statements prepared in accordance with U.S. GAAP with those prepared in accordance with IFRSs. Peoples adopted this new guidance on January 1, 2012, as required. As a result of the adoption, the components of OCI are presented in a separate statement following the Consolidated Statements of Income.

Note 2 Fair Value of Financial Instruments

---

The measurement of fair value under US GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

**Level 1:** Quoted prices in active exchange markets for identical assets or liabilities; also includes certain U.S. Treasury and other U.S. government and agency securities actively traded in over-the-counter markets.

**Level 2:** Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived

principally from or corroborated by observable market data. This category generally includes certain U.S. government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.

Table of Contents

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

Assets measured at fair value on a recurring basis comprised the following at September 30, 2012:

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$28	\$—	\$28	\$—
U.S. government sponsored agencies	575	—	575	—
States and political subdivisions	42,154	—	42,154	—
Residential mortgage-backed securities	472,439	—	472,439	—
Commercial mortgage-backed securities	61,345	—	61,345	—
Bank-issued trust preferred securities	10,105	—	10,105	—
Equity securities	2,714	2,594	120	—
Total available-for-sale securities	\$589,360	\$2,594	\$586,766	\$—
December 31, 2011				
Obligations of:				
U.S. Treasury and government agencies	\$32	\$—	\$32	\$—
U.S. government sponsored agencies	13,037	—	13,037	—
States and political subdivisions	35,745	—	35,745	—
Residential mortgage-backed securities	527,003	—	527,003	—
Commercial mortgage-backed securities	37,289	—	37,289	—
Bank-issued trust preferred securities	12,211	—	12,211	—
Equity securities	3,254	3,126	128	—
Total available-for-sale securities	\$628,571	\$3,126	\$625,445	\$—

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).

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. Allowable methods for determining the amount of impairment include 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 and market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2012, impaired loans with an aggregate outstanding principal balance of \$6.2 million were measured and reported at a fair value of \$4.6 million. For the three and nine months ended September 30, 2012, Peoples recognized losses on impaired loans of \$0.2 million and \$1.6 million, respectively,

through the allowance for loan losses.

8

---

Table of Contents

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

(Dollars in thousands)	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$59,277	\$59,277	\$38,950	\$38,950
Investment securities	646,593	647,954	669,228	669,632
Loans	982,899	886,038	918,060	828,477
Financial liabilities:				
Deposits	\$1,452,487	\$1,463,796	\$1,351,080	\$1,363,742
Short-term borrowings	37,651	37,651	51,643	51,643
Long-term borrowings	106,270	119,791	142,312	157,553
Junior subordinated notes held by subsidiary trust	22,627	23,681	22,600	23,760

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).

**Junior Subordinated Notes Held by Subsidiary Trust:** The fair value of the junior subordinated notes held by subsidiary trust is estimated using discounted cash flow analysis based on current market rates of securities with similar risk and remaining maturity (Level 2 inputs).

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

Table of Contents

## Note 3 Investment Securities

## Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$28	\$—	\$—	\$28
U.S. government sponsored agencies	540	35	—	575
States and political subdivisions	38,541	3,614	(1	)42,154
Residential mortgage-backed securities	469,514	12,106	(9,181	)472,439
Commercial mortgage-backed securities	58,923	2,458	(36	)61,345
Bank-issued trust preferred securities	10,962	70	(927	)10,105
Equity securities	1,214	1,601	(101	)2,714
Total available-for-sale securities	\$579,722	\$19,884	\$(10,246	)\$589,360
December 31, 2011				
Obligations of:				
U.S. Treasury and government agencies	\$32	\$—	\$—	\$32
U.S. government sponsored agencies	12,291	746	—	13,037
States and political subdivisions	32,763	2,982	—	35,745
Residential mortgage-backed securities	521,231	15,607	(9,835	)527,003
Commercial mortgage-backed securities	35,712	1,577	—	37,289
Bank-issued trust preferred securities	13,886	12	(1,687	)12,211
Equity securities	1,213	2,134	(93	)3,254
Total available-for-sale securities	\$617,128	\$23,058	\$(11,615	)\$628,571

Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both September 30, 2012 and December 31, 2011. At September 30, 2012, 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 three and nine months ended September 30 were as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross gains realized	\$761	\$612	\$4,033	\$1,110
Gross losses realized	649	555	758	637
Net gain realized	\$112	\$57	\$3,275	\$473

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



Table of Contents

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
September 30, 2012								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	380	1	2	—	—	—	380	1
Residential mortgage-backed securities	87,565	1,274	17	96,086	7,907	20	183,651	9,181
Commercial mortgage-backed securities	7,705	36	2	—	—	—	7,705	36
Bank-issued trust preferred securities	2,376	18	2	5,185	909	5	7,561	927
Equity securities	—	—	—	75	101	1	75	101
Total	\$98,026	\$1,329	23	\$101,346	\$8,917	26	\$199,372	\$10,246
December 31, 2011								