

PEOPLES BANCORP INC
Form 10-Q
April 28, 2016

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 March 31, 2016

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 (I.R.S.

jurisdiction Employer

of Identification

incorporation No.)

or

organization)

138

Putnam

Street,

P.

O. 45750

Box

738,

Marietta,

Ohio

(Address

of

principal (Zip Code)

executive

offices)

Registrant's (740)

telephone 373-3155

number,
including
area
code:

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 Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 18,157,962 common shares, without par value, at April 27, 2016.

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	March 31, 2016	December 31, 2015
Assets		
Cash and due from banks	\$54,319	\$53,663
Interest-bearing deposits in other banks	8,977	17,452
Total cash and cash equivalents	63,296	71,115
Available-for-sale investment securities, at fair value (amortized cost of \$785,544 at March 31, 2016 and \$780,304 at December 31, 2015)	802,194	784,701
Held-to-maturity investment securities, at amortized cost (fair value of \$46,202 at March 31, 2016 and \$45,853 at December 31, 2015)	44,866	45,728
Other investment securities, at cost	38,402	38,401
Total investment securities	885,462	868,830
Loans, net of deferred fees and costs	2,105,115	2,072,440
Allowance for loan losses	(17,261)	(16,779)
Net loans	2,087,854	2,055,661
Loans held for sale	950	1,953
Bank premises and equipment, net	52,156	53,487
Goodwill	132,631	132,631
Other intangible assets	16,366	16,986
Other assets	56,214	58,307
Total assets	\$3,294,929	\$3,258,970
Liabilities		
Non-interest-bearing deposits	\$716,202	\$717,939
Interest-bearing deposits	1,870,881	1,818,005
Total deposits	2,587,083	2,535,944
Short-term borrowings	135,068	160,386
Long-term borrowings	113,188	113,670
Accrued expenses and other liabilities	31,104	29,181
Total liabilities	2,866,443	2,839,181
Stockholders' equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at March 31, 2016 and December 31, 2015	—	—
Common stock, no par value, 24,000,000 shares authorized, 18,934,185 shares issued at March 31, 2016 and 18,931,200 shares issued at December 31, 2015, including shares in treasury	343,504	343,948
Retained earnings	96,037	90,790
Accumulated other comprehensive income (loss), net of deferred income taxes	7,592	(359)
Treasury stock, at cost, 831,018 shares at March 31, 2016 and 586,686 shares at December 31, 2015	(18,647)	(14,590)
Total stockholders' equity	428,486	419,789
Total liabilities and stockholders' equity	\$3,294,929	\$3,258,970

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended	
	2016	2015
Interest income:		
Interest and fees on loans	\$22,966	\$ 19,160
Interest and dividends on taxable investment securities	4,681	4,363
Interest on tax-exempt investment securities	780	596
Other interest income	16	40
Total interest income	28,443	24,159
Interest expense:		
Interest on deposits	1,601	1,559
Interest on short-term borrowings	87	35
Interest on long-term borrowings	988	1,146
Total interest expense	2,676	2,740
Net interest income	25,767	21,419
Provision for loan losses	955	350
Net interest income after provision for loan losses	24,812	21,069
Other income:		
Insurance income	4,498	4,312
Deposit account service charges	2,603	2,295
Electronic banking income	2,535	1,980
Trust and investment income	2,382	2,047
Mortgage banking income	160	303
Net gain on investment securities	96	600
Net loss on asset disposals and other transactions	(31	)(1,103)
Other non-interest income	876	571
Total other income	13,119	11,005
Other expenses:		
Salaries and employee benefit costs	14,247	17,361
Net occupancy and equipment expense	2,884	2,295
Professional fees	1,459	2,447
Electronic banking expense	1,433	1,124
Amortization of other intangible assets	1,008	673
Data processing and software expense	749	735
Communication expense	628	502
FDIC insurance expense	617	424
Franchise tax expense	538	548
Marketing expense	398	645
Foreclosed real estate and other loan expenses	251	321
Other non-interest expense	2,070	5,839
Total other expenses	26,282	32,914
Income (loss) before income taxes	11,649	(840)
Income tax expense (benefit)	3,654	(151)
Net income (loss)	\$7,995	\$ (689)
Earnings (loss) per common share - basic	\$0.44	\$ (0.04)

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Earnings (loss) per common share - diluted	\$0.44	\$ (0.04)
Weighted-average number of common shares outstanding - basic	18,071,741	15,802,334
Weighted-average number of common shares outstanding - diluted	18,194,990	15,930,235
Cash dividends declared	\$2,748	\$ 2,272
Cash dividends declared per common share	\$0.15	\$ 0.15

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended	
	2016	2015
Net income (loss)	\$7,995	\$(689)
Other comprehensive income:		
Available-for-sale investment securities:		
Gross unrealized holding gain arising in the period	12,329	8,886
Related tax expense	(4,316)	(3,111)
Less: reclassification adjustment for net gain included in net income	96	600
Related tax expense	(34)	(210)
Net effect on other comprehensive income	7,951	5,385
Defined benefit plans:		
Net loss arising during the period	—	(26)
Related tax benefit	—	9
Amortization of unrecognized loss and service cost on benefit plans	—	32
Related tax expense	—	(12)
Recognition of loss due to settlement and curtailment	—	269
Related tax expense	—	(94)
Net effect on other comprehensive income	—	178
Total other comprehensive income, net of tax expense	7,951	5,563
Total comprehensive income	\$15,946	\$4,874

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Shares	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2015	\$343,948	\$90,790	\$(359)	\$(14,590)	\$419,789
Net income	—	7,995	—	—	7,995
Other comprehensive income, net of tax	—	—	7,951	—	7,951
Cash dividends declared	—	(2,748)	—	—	(2,748)
Reissuance of treasury stock for common share awards	(849)	—	—	849	—
Tax expense from exercise of stock options	(3)	—	—	—	(3)
Reissuance of treasury stock for deferred compensation plan for Boards of Directors	—	—	—	165	165
Repurchase of common shares in connection with employee incentive and director compensation plans	—	—	—	(292)	(292)
Common shares repurchased under the share repurchase program	—	—	—	(4,965)	(4,965)
Common shares issued under dividend reinvestment plan	102	—	—	—	102
Common shares issued under compensation plan for Board of Directors	(18)	—	—	76	58
	(14)	—	—	110	96

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Common shares issued under employee stock purchase
plan

Stock-based compensation expense	338	—	—	—	338
Balance, March 31, 2016	\$343,504	\$96,037	\$ 7,592	\$(18,647)	\$ 428,486

See Notes to the Unaudited Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
(Dollars in thousands)	2016	2015
Net cash provided by (used in) operating activities	\$16,826	\$(5,884)
Investing activities:		
Available-for-sale investment securities:		
Purchases	(35,810)	(33,787)
Proceeds from sales	981	42,803
Proceeds from principal payments, calls and prepayments	26,627	21,646
Held-to-maturity investment securities:		
Proceeds from principal payments	750	316
Net (increase) decrease in loans	(31,933)	15,384
Net expenditures for premises and equipment	(2,660)	(2,152)
Proceeds from sales of other real estate owned	141	55
Business acquisitions, net of cash received	(244)	103,597
Investment in limited partnership and tax credit funds	12	—
Net cash (used in) provided by investing activities	(42,136)	147,862
Financing activities:		
Net (decrease) increase in non-interest-bearing deposits	(1,737)	76,533
Net increase (decrease) in interest-bearing deposits	52,905	(57,900)
Net (decrease) increase in short-term borrowings	(25,318)	2,824
Payments on long-term borrowings	(460)	(55,867)
Cash dividends paid	(2,645)	(2,149)
Purchase of treasury stock under the share repurchase program	(4,965)	—
Repurchase of common shares in connection with employee incentive and director compensation plans to be held as treasury stock	(292)	(534)
Proceeds from issuance of common shares	6	—
Excess tax (expense) benefit from share-based payments	(3)	63
Net cash provided by (used in) financing activities	17,491	(37,030)
Net (decrease) increase in cash and cash equivalents	(7,819)	104,948
Cash and cash equivalents at beginning of period	71,115	61,454
Cash and cash equivalents at end of period	\$63,296	\$166,402

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2015 ("2015 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' 2015 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 March 31, 2016 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, 2015, contained herein, has been derived from the audited Consolidated Balance Sheet included in Peoples' 2015 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 performance-based insurance commissions that are recognized by Peoples when received, which typically occurs, for the most part, during the first quarter of each year. For the three months ended March 31, 2016 and 2015, the amount of performance-based insurance commissions recognized totaled \$1.6 million and \$1.5 million, respectively.

New Accounting Pronouncements: From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by Peoples as of the required effective dates. Unless otherwise discussed, management believes the impact of any recently issued standards, including those issued but not yet effective, will not have a material impact on Peoples' financial statements taken as a whole.

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. For public entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Peoples will adopt this new guidance as required, and it is not expected to have a material impact on Peoples' results of operations.

In March 2016, the FASB issued ASU 2016-08 - Revenue from Contracts with Customers (Topic 606) which amended the accounting guidance issued by the FASB in May 2014 that revised the criteria for determining when to recognize revenue from contracts with customers and expanded disclosure requirements. The amendment defers the

effective date by one year (reflected below). This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. This new guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for Peoples). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. Peoples has elected to implement the new accounting guidance using a cumulative-effect approach and will adopt this new guidance as required. Management's preliminary analysis suggests that the adoption of the new accounting guidance is not expected to have a material effect on Peoples' financial condition or results of operations. There are many aspects of the new accounting guidance that are still being interpreted, and the FASB has recently issued and

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proposed updates to certain aspects of the guidance. Therefore, the results of Peoples' preliminary analysis of the materiality of the adoption of the new accounting guidance may change based on the conclusions reached as to the application of the new accounting guidance.

In March 2016, the FASB issued ASU 2016-06 - Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendment is intended to resolve the diversity in practice by assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to the debt instrument hosts, which is one of the criteria for bifurcating an embedded derivative. When a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise the call (put) option is related to interest rates or credit risks. For public entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Peoples is currently evaluating the impact of adopting the new guidance on Peoples' consolidated financial statements, but it is not expected to have a material impact.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The amendment was issued to improve the financial reporting of leasing activities and provide a faithful representation of leasing transactions and improve understanding and comparability of a lessee's financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The ASU will require both finance and operating leases to be recognized on the balance sheet. The ASU will affect all companies and organizations that lease real estate. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (effective January 1, 2019, for Peoples). Peoples will adopt this new guidance as required, but it is not expected to have a material impact on Peoples' consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendment is intended to enhance the reporting model for financial instruments to provide users of financial statements with more useful information. The new ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income.

However, a reporting organization may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment (if any), from observable price changes in orderly transactions for similar investments of the same issuer. The ASU is effective for fiscal years beginning after December 15, 2019 (effective January 1, 2020, for Peoples). Peoples is currently evaluating the impact of adopting the new guidance on Peoples' consolidated financial statements which may result in an impact to the income statement on a quarterly and annual basis, as market rates fluctuate. Peoples will adopt this guidance as required.

On January 1, 2016, the multi-year phase-in of capital buffer requirements under the Basel III Final Rule began. Banking organizations are required to maintain a minimum Common Equity Tier 1 ("CET1") risk-based capital ratio of 4.50%, a Tier 1 risk-based capital ratio of 6.00%, and a Total risk-based capital ratio of 8.00% to be considered "adequately capitalized." In addition, the Basel III Final Rule introduces a new "capital conservation buffer", on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio above the minimum, but below any of the three required ratios including the capital conservation buffer, will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. This buffer was implemented beginning January 1, 2016 at the 0.625% level and increases by 0.625% on each subsequent January 1, until it reaches 2.50% on January 1, 2019.

The regulatory capital standards are defined by the following key measurements:

- (a) The "Leverage Ratio" is defined as Tier 1 capital to average assets. To be considered "adequately capitalized" under this measurement, a bank must maintain a leverage ratio greater than or equal to 4.00%. For a bank to be considered "well capitalized," it must maintain a leverage ratio greater than or equal to 5.00%.
- (b) The "CET1 Ratio" is defined as Common Equity Tier 1 capital to total risk-weighted assets. To be considered "adequately capitalized" under this measurement, a bank must maintain a CET1 ratio greater than or equal to 4.50%. For a bank to be considered "well capitalized," it must maintain a CET1 ratio greater than or equal to 6.50%.
- (c) The "Core Capital Ratio" is defined as Tier 1 capital to total risk-weighted assets. To be considered "adequately capitalized" under this measurement, a bank must maintain a core capital ratio greater than or equal to 6.00%. For a bank to be considered "well capitalized," it must maintain a core capital ratio greater than or equal to 8.00%.

(d) The “Total Capital Ratio” is defined as total capital to total risk-weighted assets. To be considered “adequately capitalized” under this measurement, a bank must maintain a total capital ratio greater than or equal to 8.00%. For a bank to be considered “well capitalized,” it must maintain a total capital ratio greater than or equal to 10.00%.

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Peoples will be required to maintain risk-based capital ratios beginning January 1, 2019 as follows:

	Effective January 1, 2019			As of March 31, 2016		
	Fully Stated Minimum Ratios	Implemented Capital Conservation	Effective Minimum Ratios	Peoples	Peoples Bank	
						Buffer
CET1	4.50%	2.50%	7.00%	13.10%	11.62%	
Tier 1 capital	6.00%	2.50%	8.50%	13.41%	12.53%	
Total capital	8.00%	2.50%	10.50%	14.29%	13.32%	

Note 2. Fair Value of Financial Instruments

Available-for-sale securities measured at fair value on a recurring basis comprised the following:

(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)	
March 31, 2016					
Obligations of:					
U.S. government sponsored agencies	\$2,004	\$—	\$ 2,004	\$	—
States and political subdivisions	114,328	—	114,328	—	—
Residential mortgage-backed securities	650,674	—	650,674	—	—
Commercial mortgage-backed securities	24,258	—	24,258	—	—
Bank-issued trust preferred securities	4,330	—	4,330	—	—
Equity securities	6,600	6,386	214	—	—
Total available-for-sale securities	\$802,194	\$6,386	\$ 795,808	\$	—
December 31, 2015					
Obligations of:					
U.S. government sponsored agencies	\$2,966	\$—	\$ 2,966	\$	—
States and political subdivisions	114,726	—	114,726	—	—
Residential mortgage-backed securities	632,293	—	632,293	—	—
Commercial mortgage-backed securities	23,845	—	23,845	—	—
Bank-issued trust preferred securities	4,635	—	4,635	—	—
Equity securities	6,236	6,024	212	—	—
Total available-for-sale securities	\$784,701	\$6,024	\$ 778,677	\$	—

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Held-to-maturity securities reported at fair value comprised the following:

	Fair Value	Fair Value at Reporting Date Using		
		Quoted Prices in Significant Observable Inputs	Significant Unobservable Inputs	Identical Assets
(Dollars in thousands)	(Level 1)	(Level 2)	(Level 3)	
March 31, 2016				
Obligations of:				
States and political subdivisions	\$4,250	\$4,250	\$	—
Residential mortgage-backed securities	35,921	—35,921	—	—
Commercial mortgage-backed securities	6,031	—6,031	—	—
Total held-to-maturity securities	\$46,202	\$46,202	\$	—

December 31, 2015

Obligations of:				
States and political subdivisions	\$4,221	\$4,221	\$	—
Residential mortgage-backed securities	35,196	—35,196	—	—
Commercial mortgage-backed securities	6,436	—6,436	—	—
Total held-to-maturity securities	\$45,853	\$45,853	\$	—

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 volatility, LIBOR yield curves, credit spreads and prices from market makers and live trading systems (Level 2). Management reviews the valuation methodology and quality controls utilized by the pricing services in management's overall assessment of the reasonableness of the fair values provided, and challenges prices when management believes a material discrepancy in pricing exists.

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At March 31, 2016, impaired loans with an aggregate outstanding principal balance of \$52.3 million were measured and reported at a fair value of \$44.9 million. For the three months ended March 31, 2016, Peoples recognized \$0.6 million of losses on impaired loans through the allowance for loan losses.

The following table presents the fair values of financial assets and liabilities carried on Peoples' Unaudited 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)	March 31, 2016	December 31, 2015
	Fair Value	Fair Value

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	Carrying Amount		Carrying Amount	
Financial assets:				
Cash and cash equivalents	\$63,296	\$63,296	\$71,115	\$71,115
Investment securities	885,462	886,798	868,830	868,955
Loans (1)	2,088,804	2,057,998	2,057,614	2,018,482
Financial liabilities:				
Deposits	\$2,587,083	\$2,591,488	\$2,535,944	\$2,540,131
Short-term borrowings	135,068	135,068	160,386	160,386
Long-term borrowings	113,188	118,190	113,670	117,299
(1) Includes loans held for sale				

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

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

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

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

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

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
March 31, 2016				
Obligations of:				
U.S. government sponsored agencies	\$ 1,944	\$ 60	\$ —	\$ 2,004
States and political subdivisions	110,139	4,192	(3	) 114,328
Residential mortgage-backed securities	642,835	10,293	(2,454	) 650,674
Commercial mortgage-backed securities	23,668	590	—	24,258
Bank-issued trust preferred securities	5,152	—	(822	) 4,330
Equity securities	1,806	4,866	(72	) 6,600
Total available-for-sale securities	\$ 785,544	\$ 20,001	\$ (3,351	) \$ 802,194
December 31, 2015				
Obligations of:				
U.S. government sponsored agencies	\$ 2,908	\$ 58	\$ —	\$ 2,966
States and political subdivisions	111,283	3,487	(44	) 114,726
Residential mortgage-backed securities	635,504	4,905	(8,116	) 632,293
Commercial mortgage-backed securities	23,770	119	(44	) 23,845
Bank-issued trust preferred securities	5,146	—	(511	) 4,635
Equity securities	1,693	4,627	(84	) 6,236
Total available-for-sale securities	\$ 780,304	\$ 13,196	\$ (8,799	) \$ 784,701

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both March 31, 2016 and December 31, 2015. At March 31, 2016, there were no securities of a single issuer that exceeded 10% of stockholders' equity.

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The gross gains and gross losses realized by Peoples from sales of available-for-sale securities for the periods ended March 31 were as follows:

	Three Months Ended March 31, 2016	2015
(Dollars in thousands)		
Gross gains realized	\$ 96	\$ 600
Gross losses realized	—	—
Net gain realized	\$ 96	\$ 600

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.

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
March 31, 2016								
Obligations of:								
States and political subdivisions	\$ —	\$ —	—	\$ 215	\$ 3	1	\$ 215	\$ 3
Residential mortgage-backed securities	69,140	415	17	116,130	2,039	36	185,270	2,454
Bank-issued trust preferred securities	1,991	163	1	2,339	659	3	4,330	822
Equity securities	20	2	1	106	70	1	126	72
Total	\$ 71,151	\$ 580	19	\$ 118,790	\$ 2,771	41	\$ 189,941	\$ 3,351
December 31, 2015								
Obligations of:								
States and political subdivisions	\$ 7,662	\$ 38	8	\$ 213	\$ 6	1	\$ 7,875	\$ 44
Residential mortgage-backed securities	303,549	3,902	76	102,090	4,214	33	405,639	8,116
Commercial mortgage-backed securities	6,682	44	3	—	—	—	6,682	44
Bank-issued trust preferred securities	2,129	19	1	2,506	492	3	4,635	511
Equity securities	438	15	2	106	69	1	544	84
Total	\$ 320,460	\$ 4,018	90	\$ 104,915	\$ 4,781	38	\$ 425,375	\$ 8,799

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At March 31, 2016, 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 March 31, 2016 and December 31, 2015, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At March 31, 2016, approximately 97% 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 3%, or three positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the three positions had a fair value less than 100% of their book value, with an aggregate book and fair value of \$0.7 million and \$0.5 million, respectively. Management analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, the three bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at March 31, 2016 were primarily attributable to the floating-rate nature of those investments, the current interest rate environment and spreads within that sector.

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The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at March 31, 2016. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	
Amortized cost						
Obligations of:						
U.S. government sponsored agencies	\$993	\$—	\$—	\$951	\$1,944	
States and political subdivisions	239	12,322	30,930	66,648	110,139	
Residential mortgage-backed securities	1	13,866	51,865	577,103	642,835	
Commercial mortgage-backed securities	—	3,278	16,656	3,734	23,668	
Bank-issued trust preferred securities	—	—	—	5,152	5,152	
Equity securities					1,806	
Total available-for-sale securities	\$1,233	\$29,466	\$99,451	\$653,588	\$785,544	
Fair value						
Obligations of:						
U.S. government sponsored agencies	\$1,000	\$—	\$—	\$1,004	\$2,004	
States and political subdivisions	245	12,728	31,981	69,374	114,328	
Residential mortgage-backed securities	1	13,837	52,809	584,027	650,674	
Commercial mortgage-backed securities	—	3,400	17,075	3,783	24,258	
Bank-issued trust preferred securities	—	—	—	4,330	4,330	
Equity securities					6,600	
Total available-for-sale securities	\$1,246	\$29,965	\$101,865	\$662,518	\$802,194	
Total weighted-average yield	1.96	%3.12	%3.34	%2.74	%2.83	%

Held-to-Maturity

The following table summarizes Peoples' held-to-maturity investment securities:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2016				
Obligations of:				
States and political subdivisions	\$ 3,828	\$ 422	\$ —	\$4,250
Residential mortgage-backed securities	35,005	990	(74	) 35,921
Commercial mortgage-backed securities	6,033	1	(3	) 6,031
Total held-to-maturity securities	\$ 44,866	\$ 1,413	\$ (77	) \$46,202
December 31, 2015				
Obligations of:				
States and political subdivisions	\$ 3,831	\$ 394	\$ (4	) \$4,221
Residential mortgage-backed securities	35,367	363	(534	) 35,196
Commercial mortgage-backed securities	6,530	—	(94	) 6,436
Total held-to-maturity securities	\$ 45,728	\$ 757	\$ (632	) \$45,853

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three months ended March 31, 2016 and 2015.

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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
March 31, 2016								
Residential mortgage-backed securities	\$—	\$ —	—	\$10,313	\$ 74	2	\$10,313	\$ 74
Commercial mortgage-backed securities	127	3	1	—	—	—	127	3
Total	\$127	\$ 3	1	\$10,313	\$ 74	2	\$10,440	\$ 77
December 31, 2015								
Obligations of:								
States and political subdivisions	\$—	\$ —	—	\$319	\$ 4	1	\$319	\$ 4
Residential mortgage-backed securities	3,706	89	2	10,040	445	2	13,746	534
Commercial mortgage-backed securities	540	4	1	5,895	90	1	6,435	94
Total	\$4,246	\$ 93	3	\$16,254	\$ 539	4	\$20,500	\$ 632

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at March 31, 2016. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	\$ —	-\$323	\$976	\$2,529	\$3,828
Residential mortgage-backed securities	—	—	482	34,523	35,005
Commercial mortgage-backed securities	—	—	—	6,033	6,033
Total held-to-maturity securities	\$ —	-\$323	\$1,458	\$43,085	\$44,866
Fair value					
Obligations of:					
States and political subdivisions	\$ —	-\$332	\$1,116	\$2,802	\$4,250
Residential mortgage-backed securities	—	—	492	35,429	35,921
Commercial mortgage-backed securities	—	—	—	6,031	6,031