

PEOPLES BANCORP INC  
Form 10-Q  
July 29, 2015

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2015

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,  
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  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  Accelerated filer  Non-accelerated filer

Smaller reporting company

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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

No  x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 18,395,117 common shares, without par value, at July 28, 2015.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	\$ 60,370	\$ 42,230
Interest-bearing deposits in other banks	71,892	19,224
Total cash and cash equivalents	132,262	61,454
Available-for-sale investment securities, at fair value (amortized cost of \$730,632 at June 30, 2015 and \$632,967 at December 31, 2014)	736,220	636,880
Held-to-maturity investment securities, at amortized cost (fair value of \$47,626 at June 30, 2015 and \$48,442 at December 31, 2014)	47,483	48,468
Other investment securities, at cost	38,496	28,311
Total investment securities	822,199	713,659
Loans, net of deferred fees and costs	2,012,033	1,620,898
Allowance for loan losses	(18,244)	(17,881)
Net loans	1,993,789	1,603,017
Loans held for sale	4,194	4,374
Bank premises and equipment, net	50,341	40,335
Goodwill	132,252	98,562
Other intangible assets	18,917	10,596
Other assets	56,471	35,772
Total assets	\$ 3,210,425	\$ 2,567,769
Liabilities		
Non-interest-bearing deposits	\$ 681,357	\$ 493,162
Interest-bearing deposits	1,863,215	1,439,912
Total deposits	2,544,572	1,933,074
Short-term borrowings	92,711	88,277
Long-term borrowings	128,633	179,083
Accrued expenses and other liabilities	26,345	27,217
Total liabilities	2,792,261	2,227,651
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at June 30, 2015 and December 31, 2014	—	—
Common stock, no par value, 24,000,000 shares authorized, 18,930,081 shares issued at June 30, 2015 and 15,599,643 shares issued at December 31, 2014, including shares in treasury	343,035	265,742
Retained earnings	89,585	90,391
Accumulated other comprehensive income (loss), net of deferred income taxes	402	(1,301)
Treasury stock, at cost, 596,045 shares at June 30, 2015 and 590,246 shares at December 31, 2014	(14,858)	(14,714)
Total stockholders' equity	418,164	340,118
Total liabilities and stockholders' equity	\$ 3,210,425	\$ 2,567,769

See Notes to the Unaudited Consolidated Financial Statements



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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
<b>Interest Income:</b>				
Interest and fees on loans	\$ 22,146	\$ 14,070	\$ 41,306	\$ 27,443
Interest and dividends on taxable investment securities	4,553	4,140	8,916	8,480
Interest on tax-exempt investment securities	806	446	1,402	862
Other interest income (expense)	61	(42	) 101	(19
Total interest income	27,566	18,614	51,725	36,766
<b>Interest Expense:</b>				
Interest on deposits	1,618	1,466	3,177	3,034
Interest on short-term borrowings	31	36	66	68
Interest on long-term borrowings	1,124	1,069	2,270	2,141
Total interest expense	2,773	2,571	5,513	5,243
Net interest income	24,793	16,043	46,212	31,523
Provision for loan losses	672	583	1,022	591
Net interest income after provision for loan losses	24,121	15,460	45,190	30,932
<b>Other Income:</b>				
Insurance income	3,283	3,443	7,595	7,559
Deposit account service charges	2,848	2,227	5,143	4,338
Trust and investment income	2,544	1,933	4,591	3,780
Electronic banking income	2,312	1,562	4,292	3,101
Mortgage banking income	412	311	715	538
Net gain on investment securities	11	66	611	36
Net loss on asset disposals and other transactions	(136	)(187	)(1,239	)(176
Other non-interest income	527	243	1,098	698
Total other income	11,801	9,598	22,806	19,874
<b>Other Expenses:</b>				
Salaries and employee benefit costs	14,560	11,241	31,921	22,033
Net occupancy and equipment	3,138	1,739	5,433	3,555
Professional fees	1,808	1,320	4,255	2,174
Electronic banking expense	1,320	951	2,444	2,033
Amortization of other intangible assets	1,144	282	1,817	545
Data processing and software	1,025	555	1,760	1,125
Marketing expense	1,071	413	1,716	872
Communication expense	592	390	1,094	749
Franchise tax	502	442	1,050	827
FDIC insurance	530	287	954	547
Foreclosed real estate and other loan expenses	551	197	872	412
Other non-interest expense	2,537	2,187	8,376	3,949
Total other expenses	28,778	20,004	61,692	38,821
Income before income taxes	7,144	5,054	6,304	11,985
Income tax expense	2,231	1,577	2,080	3,725
Net income	\$ 4,913	\$ 3,477	\$ 4,224	\$ 8,260
Earnings per common share - basic	\$ 0.27	\$ 0.32	\$ 0.25	\$ 0.77
Earnings per common share - diluted	\$ 0.27	\$ 0.32	\$ 0.24	\$ 0.76

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Weighted-average number of common shares outstanding - basic	18,116,090	10,755,509	16,965,603	10,696,129
Weighted-average number of common shares outstanding - diluted	18,253,918	10,880,090	17,094,095	10,807,688
Cash dividends declared	\$2,758	\$1,634	\$5,030	\$3,257
Cash dividends declared per common share	\$0.15	\$0.15	\$0.30	\$0.30
See Notes to the Unaudited Consolidated Financial Statements				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Net income	\$4,913	\$3,477	\$4,224	\$8,260
Other comprehensive (loss) income:				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(6,596	)7,258	2,287	15,898
Related tax benefit (expense)	2,308	(2,541	) (800	)(5,565
Less: reclassification adjustment for net gain included in net income	11	66	611	36
Related tax expense	(4	)(24	) (214	)(13
Net effect on other comprehensive (loss) income	(4,295	)4,675	1,090	10,310
Defined benefit plans:				
Net income (loss) arising during the period	533	(126	) 507	(1,179
Related tax (expense) benefit	(186	)43	(177	)413
Amortization of unrecognized loss and service cost on benefit plans	30	34	62	65
Related tax expense	(9	)(12	) (21	)(23
Recognition of loss due to settlement and curtailment	103	536	372	1,022
Related tax expense	(36	)(188	) (130	)(358
Net effect on other comprehensive income (loss)	435	287	613	(60
Total other comprehensive (loss) income, net of tax (expense) benefit	(3,860	)4,962	1,703	10,250
Total comprehensive income	\$1,053	\$8,439	\$5,927	\$18,510

## 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, 2014	\$265,742	\$90,391	\$(1,301	)\$(14,714	)\$340,118
Net income		4,224			4,224
Other comprehensive income, net of tax			1,703		1,703
Cash dividends declared		(5,030	)		(5,030
Reissuance of treasury stock for common stock option exercises				—	—
Tax benefit from exercise of stock options	63				63
Reissuance of treasury stock for deferred compensation plan for Boards of Directors				155	155
Purchase of treasury stock				(593	)(593
Common shares issued under dividend reinvestment plan	204				204
Common shares issued under compensation plan for Board of Directors	(6	)		115	109

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Common shares issued under employee stock purchase plan	(21 )			179	158
Stock-based compensation expense	1,026				1,026
Issuance of common shares related to acquisition of NB&T Financial Group, Inc.	76,027				76,027
Balance, June 30, 2015	\$343,035	\$89,585	\$402	\$(14,858 )	\$418,164

See Notes to the Unaudited Consolidated Financial Statements

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## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	June 30,	
(Dollars in thousands)	2015	2014
Net cash provided by operating activities	\$ 14,216	\$ 14,442
Investing activities:		
Available-for-sale investment securities:		
Purchases	(64,105)	(62,800 )
Proceeds from sales	47,567	76,409
Proceeds from principal payments, calls and prepayments	59,875	36,443
Held-to-maturity investment securities:		
Purchases	—	(1,017 )
Proceeds from principal payments	762	642
Net increase in loans	(4,653)	(62,802 )
Net expenditures for premises and equipment	(5,107)	(3,355 )
Proceeds from sales of other real estate owned	191	138
Proceeds from bank owned life insurance contracts	—	6,322
Business acquisitions, net of cash received	98,147	(2,742 )
Investment in (return of) limited partnership and tax credit funds	(108)	358
Net cash provided by (used in) investing activities	132,569	(12,404 )
Financing activities:		
Net increase in non-interest-bearing deposits	62,759	1,078
Net (decrease) increase in interest-bearing deposits	(80,493)	1,079
Net increase in short-term borrowings	4,434	2,279
Payments on long-term borrowings	(57,362)	(3,023 )
Cash dividends paid	(4,785)	(3,053 )
Purchase of treasury stock	(593)	(359 )
Proceeds from issuance of common shares	—	26
Excess tax benefit from share-based payments	63	77
Net cash used in financing activities	(75,977)	(1,896 )
Net increase in cash and cash equivalents	70,808	142
Cash and cash equivalents at beginning of period	61,454	53,820
Cash and cash equivalents at end of period	\$ 132,262	\$ 53,962

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

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**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, 2014 ("2014 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' 2014 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after June 30, 2015, 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, 2014, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2014 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:** From time to time, new accounting pronouncements are issued by 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.

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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:

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015				
Obligations of:				
U.S. Treasury and government agencies	\$—	\$—	\$—	\$—
U.S. government sponsored agencies	3,934	—	3,934	—
States and political subdivisions	114,213	—	114,213	—
Residential mortgage-backed securities	579,701	—	579,701	—
Commercial mortgage-backed securities	27,200	—	27,200	—
Bank-issued trust preferred securities	4,668	—	4,668	—
Equity securities	6,504	6,295	209	—
Total available-for-sale securities	\$736,220	\$6,295	\$729,925	\$—

December 31, 2014

Obligations of:

U.S. Treasury and government agencies	\$1	\$—	\$1	\$—
U.S. government sponsored agencies	5,950	—	5,950	—
States and political subdivisions	64,743	—	64,743	—
Residential mortgage-backed securities	527,291	—	527,291	—
Commercial mortgage-backed securities	27,847	—	27,847	—
Bank-issued trust preferred securities	5,645	—	5,645	—
Equity securities	5,403	5,204	199	—
Total available-for-sale securities	\$636,880	\$5,204	\$631,676	\$—

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

(Dollars in thousands)	Fair Value	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2015				
Obligations of:				
States and political subdivisions	\$4,228	\$—	\$4,228	\$—
Residential mortgage-backed securities	35,893	—	35,893	—
Commercial mortgage-backed securities	7,505	—	7,505	—
Total held-to-maturity securities	\$47,626	\$—	\$47,626	\$—
December 31, 2014				
Obligations of:				
States and political subdivisions	\$4,282	\$—	\$4,282	\$—
Residential mortgage-backed securities	36,740	—	36,740	—
Commercial mortgage-backed securities	7,420	—	7,420	—
Total held-to-maturity securities	\$48,442	\$—	\$48,442	\$—

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). Management reviews the valuation methodology and quality controls utilized by

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the pricing services in their overall assessment of the reasonableness of the fair values provided, and challenges prices when they believe a material discrepancy in pricing exists.

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

**Impaired Loans:** Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At June 30, 2015, impaired loans with an aggregate outstanding principal balance of \$0.5 million were measured and reported at a fair value of \$0.4 million. For the three and six months ended June 30, 2015, Peoples recognized \$130,000 and \$167,000 of losses on impaired loans, respectively, through the allowance for loan losses.

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

(Dollars in thousands)	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 132,262	\$ 132,262	\$ 61,454	\$ 61,454
Investment securities	822,199	822,342	713,659	713,633
Loans	1,997,983	1,962,441	1,607,391	1,581,813
<b>Financial liabilities:</b>				
Deposits	\$ 2,544,572	\$ 2,550,034	\$ 1,933,074	\$ 1,938,021
Short-term borrowings	92,711	92,711	88,277	88,277
Long-term borrowings	128,633	134,188	179,083	183,878

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

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

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

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

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



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## Note 3. Investment Securities

## Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2015				
Obligations of:				
U.S. Treasury and government agencies	\$—	\$—	\$—	\$—
U.S. government sponsored agencies	3,885	49	—	3,934
States and political subdivisions	112,186	2,430	(403)	)114,213
Residential mortgage-backed securities	580,579	6,655	(7,533)	)579,701
Commercial mortgage-backed securities	27,262	122	(184)	)27,200
Bank-issued trust preferred securities	5,134	—	(466)	)4,668
Equity securities	1,586	4,992	(74)	)6,504
Total available-for-sale securities	\$730,632	\$14,248	\$(8,660)	)\$736,220
December 31, 2014				
Obligations of:				
U.S. Treasury and government agencies	\$1	\$—	\$—	\$1
U.S. government sponsored agencies	5,836	114	—	5,950
States and political subdivisions	62,292	2,510	(59)	)64,743
Residential mortgage-backed securities	529,245	5,910	(7,864)	)527,291
Commercial mortgage-backed securities	28,021	112	(286)	)27,847
Bank-issued trust preferred securities	6,132	3	(490)	)5,645
Equity securities	1,440	4,044	(81)	)5,403
Total available-for-sale securities	\$632,967	\$12,693	\$(8,780)	)\$636,880

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both June 30, 2015 and December 31, 2014. At June 30, 2015, there were no securities of a single issuer, other than U.S. Treasury and government agencies, and U.S. government sponsored agencies/enterprises, that exceeded 10% of stockholders' equity.

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Gross gains realized	\$32	\$220	\$632	\$734
Gross losses realized	21	154	21	698
Net gain realized	\$11	\$66	\$611	\$36

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
June 30, 2015								
Obligations of:								
States and political subdivisions	\$34,827	\$392	56	\$210	\$11	1	\$35,037	\$403
Residential mortgage-backed securities	180,761	2,836	48	119,803	4,697	35	300,564	7,533
Commercial mortgage-backed securities	19,422	184	4	—	—	—	19,422	184
Bank-issued trust preferred securities	2,131	5	—	2,537	461	3	4,668	466
Equity securities	41	1	2	102	73	1	143	74
Total	\$237,182	\$3,418	110	\$122,652	\$5,242	40	\$359,834	\$8,660
December 31, 2014								