

Form 5500 Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Annual Return/Report of Employee Benefit Plan This form is required to be filed for employee benefit plans under sections 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and sections 6047(e), 6057(b), and 6058(a) of the Internal Revenue Code (the Code). <p style="text-align: center;">▶ Complete all entries in accordance with the instructions to the Form 5500.</p>	OMB Nos. 1210-0110 1210-0089 <div style="text-align: center; font-size: 1.5em; font-weight: bold;">2012</div> This Form is Open to Public Inspection
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Part I	Annual Report Identification Information
For calendar plan year 2012 or fiscal plan year beginning <u>01/01/2012</u> and ending <u>12/31/2012</u>	
A This return/report is for:	<input type="checkbox"/> a multiemployer plan; <input type="checkbox"/> a multiple-employer plan; or <input checked="" type="checkbox"/> a single-employer plan; <input type="checkbox"/> a DFE (specify) ____
B This return/report is:	<input type="checkbox"/> the first return/report; <input type="checkbox"/> the final return/report; <input type="checkbox"/> an amended return/report; <input type="checkbox"/> a short plan year return/report (less than 12 months).
C If the plan is a collectively-bargained plan, check here.	<input type="checkbox"/>
D Check box if filing under:	<input type="checkbox"/> Form 5558; <input type="checkbox"/> automatic extension; <input type="checkbox"/> the DFVC program; <input type="checkbox"/> special extension (enter description)

Part II	Basic Plan Information —enter all requested information		
1a Name of plan	<u>PEOPLES BANK SALARY INVESTMENT & PROFIT SHARING PLAN</u>		1b Three-digit plan number (PN) ▶ <u>001</u> 1c Effective date of plan <u>01/01/1988</u>
2a Plan sponsor's name and address; include room or suite number (employer, if for a single-employer plan)	<u>PEOPLES BANCORP</u> <div style="display: flex; justify-content: space-between;"> <div> <u>3100 WOBURN STREET</u> <u>BELLINGHAM, WA 98226</u> </div> <div> <u>3100 WOBURN STREET</u> <u>BELLINGHAM, WA 98226</u> </div> </div>		2b Employer Identification Number (EIN) <u>91-1190346</u> 2c Sponsor's telephone number <u>360-715-4247</u> 2d Business code (see instructions) <u>522110</u>

Caution: A penalty for the late or incomplete filing of this return/report will be assessed unless reasonable cause is established.

Under penalties of perjury and other penalties set forth in the instructions, I declare that I have examined this return/report, including accompanying schedules, statements and attachments, as well as the electronic version of this return/report, and to the best of my knowledge and belief, it is true, correct, and complete.

SIGN HERE	Filed with authorized/valid electronic signature.	07/08/2013	MICHELLE BARRETT
	Signature of plan administrator	Date	Enter name of individual signing as plan administrator
SIGN HERE	Filed with authorized/valid electronic signature.	07/08/2013	MICHELLE BARRETT
	Signature of employer/plan sponsor	Date	Enter name of individual signing as employer or plan sponsor
SIGN HERE			
	Signature of DFE	Date	Enter name of individual signing as DFE
Preparer's name (including firm name, if applicable) and address; include room or suite number. (optional)			Preparer's telephone number (optional)

3a Plan administrator's name and address <input type="checkbox"/> Same as Plan Sponsor Name <input type="checkbox"/> Same as Plan Sponsor Address PEOPLES BANCORP 3100 WOBURN STREET BELLINGHAM, WA 98226		3b Administrator's EIN 91-1190346
		3c Administrator's telephone number 360-715-4247
4 If the name and/or EIN of the plan sponsor has changed since the last return/report filed for this plan, enter the name, EIN and the plan number from the last return/report: a Sponsor's name		4b EIN 4c PN
5 Total number of participants at the beginning of the plan year		5 426
6 Number of participants as of the end of the plan year (welfare plans complete only lines 6a , 6b , 6c , and 6d).		
a Active participants.....	6a	380
b Retired or separated participants receiving benefits.....	6b	0
c Other retired or separated participants entitled to future benefits.....	6c	71
d Subtotal. Add lines 6a , 6b , and 6c	6d	451
e Deceased participants whose beneficiaries are receiving or are entitled to receive benefits.....	6e	0
f Total. Add lines 6d and 6e	6f	451
g Number of participants with account balances as of the end of the plan year (only defined contribution plans complete this item).....	6g	361
h Number of participants that terminated employment during the plan year with accrued benefits that were less than 100% vested.....	6h	15
7 Enter the total number of employers obligated to contribute to the plan (only multiemployer plans complete this item)		7
8a If the plan provides pension benefits, enter the applicable pension feature codes from the List of Plan Characteristics Codes in the instructions: 2E 2F 2G 2J 2K 2T 3D		
b If the plan provides welfare benefits, enter the applicable welfare feature codes from the List of Plan Characteristics Codes in the instructions:		
9a Plan funding arrangement (check all that apply) (1) <input type="checkbox"/> Insurance (2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts (3) <input checked="" type="checkbox"/> Trust (4) <input type="checkbox"/> General assets of the sponsor		9b Plan benefit arrangement (check all that apply) (1) <input type="checkbox"/> Insurance (2) <input type="checkbox"/> Code section 412(e)(3) insurance contracts (3) <input checked="" type="checkbox"/> Trust (4) <input type="checkbox"/> General assets of the sponsor
10 Check all applicable boxes in 10a and 10b to indicate which schedules are attached, and, where indicated, enter the number attached. (See instructions)		
a Pension Schedules (1) <input checked="" type="checkbox"/> R (Retirement Plan Information) (2) <input type="checkbox"/> MB (Multiemployer Defined Benefit Plan and Certain Money Purchase Plan Actuarial Information) - signed by the plan actuary (3) <input type="checkbox"/> SB (Single-Employer Defined Benefit Plan Actuarial Information) - signed by the plan actuary		b General Schedules (1) <input checked="" type="checkbox"/> H (Financial Information) (2) <input type="checkbox"/> I (Financial Information – Small Plan) (3) <input type="checkbox"/> A (Insurance Information) (4) <input checked="" type="checkbox"/> C (Service Provider Information) (5) <input type="checkbox"/> D (DFE/Participating Plan Information) (6) <input type="checkbox"/> G (Financial Transaction Schedules)

SCHEDULE C (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Service Provider Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110
		2012
		This Form is Open to Public Inspection.

For calendar plan year 2012 or fiscal plan year beginning **01/01/2012** and ending **12/31/2012**

A Name of plan PEOPLES BANK SALARY INVESTMENT & PROFIT SHARING PLAN	B Three-digit plan number (PN) ▶	001
C Plan sponsor's name as shown on line 2a of Form 5500 PEOPLES BANCORP	D Employer Identification Number (EIN) 91-1190346	

Part I Service Provider Information (see instructions)

You must complete this Part, in accordance with the instructions, to report the information required for **each person** who received, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of monetary value) in connection with services rendered to the plan or the person's position with the plan during the plan year. If a person received **only** eligible indirect compensation for which the plan received the required disclosures, you are required to answer line 1 but are not required to include that person when completing the remainder of this Part.

1 Information on Persons Receiving Only Eligible Indirect Compensation

a Check "Yes" or "No" to indicate whether you are excluding a person from the remainder of this Part because they received only eligible indirect compensation for which the plan received the required disclosures (see instructions for definitions and conditions)..... ☒ Yes ☐ No

b If you answered line 1a "Yes," enter the name and EIN or address of each person providing the required disclosures for the service providers who received only eligible indirect compensation. Complete as many entries as needed (see instructions).

(b) Enter name and EIN or address of person who provided you disclosures on eligible indirect compensation
FID. INV. INST. OPS. CO.

04-2647786

(b) Enter name and EIN or address of person who provided you disclosure on eligible indirect compensation

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2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

FIDELITY INVESTMENTS INSTITUTIONAL

04-2647786

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
64 37 65 60	RECORDKEEPER	14448	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	0	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

2. Information on Other Service Providers Receiving Direct or Indirect Compensation. Except for those persons for whom you answered "Yes" to line 1a above, complete as many entries as needed to list each person receiving, directly or indirectly, \$5,000 or more in total compensation (i.e., money or anything else of value) in connection with services rendered to the plan or their position with the plan during the plan year. (See instructions).

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

(a) Enter name and EIN or address (see instructions)

(b) Service Code(s)	(c) Relationship to employer, employee organization, or person known to be a party-in-interest	(d) Enter direct compensation paid by the plan. If none, enter -0-.	(e) Did service provider receive indirect compensation? (sources other than plan or plan sponsor)	(f) Did indirect compensation include eligible indirect compensation, for which the plan received the required disclosures?	(g) Enter total indirect compensation received by service provider excluding eligible indirect compensation for which you answered "Yes" to element (f). If none, enter -0-.	(h) Did the service provider give you a formula instead of an amount or estimated amount?
			Yes <input type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input type="checkbox"/>		Yes <input type="checkbox"/> No <input type="checkbox"/>

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
FIDELITY INVESTMENTS INSTITUTIONAL	60	0
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> (d) Enter name and EIN (address) of source of indirect compensation ALZGI NFJ DIV VL ADM - BOSTON FINAN 330 W. 9TH STREET KANSAS CITY, MO 66160 </div> <div style="width: 40%;"> (e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation. 0.35% </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> (a) Enter service provider name as it appears on line 2 FIDELITY INVESTMENTS INSTITUTIONAL </div> <div style="width: 20%; text-align: center;"> (b) Service Codes (see instructions) 60 </div> <div style="width: 20%; text-align: center;"> (c) Enter amount of indirect compensation 0 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> (d) Enter name and EIN (address) of source of indirect compensation ASTON/F MID CAP N - BNY MELLON INV P.O. BOX 9793 PROVIDENCE, RI 02940 </div> <div style="width: 40%;"> (e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation. 0.40% </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> (a) Enter service provider name as it appears on line 2 FIDELITY INVESTMENTS INSTITUTIONAL </div> <div style="width: 20%; text-align: center;"> (b) Service Codes (see instructions) 60 </div> <div style="width: 20%; text-align: center;"> (c) Enter amount of indirect compensation 0 </div> </div>		
<div style="display: flex; justify-content: space-between;"> <div style="width: 60%;"> (d) Enter name and EIN (address) of source of indirect compensation BARON GROWTH - DST SYSTEMS, INC. 43-1581814 </div> <div style="width: 40%;"> (e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation. 0.40% </div> </div>		

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
FIDELITY INVESTMENTS INSTITUTIONAL	60	0
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
HARBOR INTL INV - PRINCIPAL SHAREHO 34-1953399	0.40%	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
FIDELITY INVESTMENTS INSTITUTIONAL	60	0
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
OAKMARK INTL I - BOSTON FINANCIAL D P.O. BOX 8480 BOSTON, MA 02266	0.35%	
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
FIDELITY INVESTMENTS INSTITUTIONAL	60	0
(d) Enter name and EIN (address) of source of indirect compensation	(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.	
PIMCO TOT RETURN ADM - BOSTON FINAN P.O. BOX 8480 BOSTON, MA 02266	0.27%	

Part I Service Provider Information (continued)

3 If you reported on line 2 receipt of indirect compensation, other than eligible indirect compensation, by a service provider, and the service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker, or recordkeeping services, answer the following questions for (a) each source from whom the service provider received \$1,000 or more in indirect compensation and (b) each source for whom the service provider gave you a formula used to determine the indirect compensation instead of an amount or estimated amount of the indirect compensation. Complete as many entries as needed to report the required information for each source.

(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
FIDELITY INVESTMENTS INSTITUTIONAL	60	0
(d) Enter name and EIN (address) of source of indirect compensation		(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.
RAINIER SM/MID CAP - U.S. BANCORP F P.O. BOX 701 MILWAUKEE, WI 53201	0.35%	
<hr/>		
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
FIDELITY INVESTMENTS INSTITUTIONAL	60	0
(d) Enter name and EIN (address) of source of indirect compensation		(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.
TMPL GLOBAL BOND A - FRANKLIN TEMPL 94-3167260	0.40%	
<hr/>		
(a) Enter service provider name as it appears on line 2	(b) Service Codes (see instructions)	(c) Enter amount of indirect compensation
(d) Enter name and EIN (address) of source of indirect compensation		(e) Describe the indirect compensation, including any formula used to determine the service provider's eligibility for or the amount of the indirect compensation.

Part II Service Providers Who Fail or Refuse to Provide Information

4 Provide, to the extent possible, the following information for each service provider who failed or refused to provide the information necessary to complete this Schedule.

(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide
(a) Enter name and EIN or address of service provider (see instructions)	(b) Nature of Service Code(s)	(c) Describe the information that the service provider failed or refused to provide

Part III **Termination Information on Accountants and Enrolled Actuaries (see instructions)**
(complete as many entries as needed)

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

a Name:	b EIN:
c Position:	
d Address:	e Telephone:

Explanation:

SCHEDULE H (Form 5500) <small>Department of the Treasury Internal Revenue Service</small> <small>Department of Labor Employee Benefits Security Administration</small> <small>Pension Benefit Guaranty Corporation</small>	Financial Information This schedule is required to be filed under section 104 of the Employee Retirement Income Security Act of 1974 (ERISA), and section 6058(a) of the Internal Revenue Code (the Code). ► File as an attachment to Form 5500.	OMB No. 1210-0110 <div style="font-size: 24pt; font-weight: bold;">2012</div> This Form is Open to Public Inspection
For calendar plan year 2012 or fiscal plan year beginning <u>01/01/2012</u> and ending <u>12/31/2012</u>		
A Name of plan <u>PEOPLES BANK SALARY INVESTMENT & PROFIT SHARING PLAN</u>		B Three-digit plan number (PN) ► <u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>PEOPLES BANCORP</u>		D Employer Identification Number (EIN) <u>91-1190346</u>

Part I	Asset and Liability Statement		(a) Beginning of Year	(b) End of Year
1 Current value of plan assets and liabilities at the beginning and end of the plan year. Combine the value of plan assets held in more than one trust. Report the value of the plan's interest in a commingled fund containing the assets of more than one plan on a line-by-line basis unless the value is reportable on lines 1c(9) through 1c(14). Do not enter the value of that portion of an insurance contract which guarantees, during this plan year, to pay a specific dollar benefit at a future date. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 1b(1), 1b(2), 1c(8), 1g, 1h, and 1i. CCTs, PSAs, and 103-12 IEs also do not complete lines 1d and 1e. See instructions.				
	Assets			
a	Total noninterest-bearing cash	1a		
b	Receivables (less allowance for doubtful accounts):			
	(1) Employer contributions	1b(1)		
	(2) Participant contributions	1b(2)		
	(3) Other.....	1b(3)		
c	General investments:			
	(1) Interest-bearing cash (include money market accounts & certificates of deposit)	1c(1)	2231857	2630207
	(2) U.S. Government securities.....	1c(2)		
	(3) Corporate debt instruments (other than employer securities):			
	(A) Preferred	1c(3)(A)		
	(B) All other.....	1c(3)(B)		
	(4) Corporate stocks (other than employer securities):			
	(A) Preferred	1c(4)(A)		
	(B) Common	1c(4)(B)		
	(5) Partnership/joint venture interests	1c(5)		
	(6) Real estate (other than employer real property)	1c(6)		
	(7) Loans (other than to participants)	1c(7)		
	(8) Participant loans	1c(8)	631564	606923
	(9) Value of interest in common/collective trusts.....	1c(9)		
	(10) Value of interest in pooled separate accounts.....	1c(10)		
	(11) Value of interest in master trust investment accounts	1c(11)		
	(12) Value of interest in 103-12 investment entities	1c(12)		
	(13) Value of interest in registered investment companies (e.g., mutual funds).....	1c(13)	12223331	15208083
	(14) Value of funds held in insurance company general account (unallocated contracts).....	1c(14)		
	(15) Other	1c(15)		

1d Employer-related investments:

		(a) Beginning of Year	(b) End of Year
(1) Employer securities	1d(1)		
(2) Employer real property	1d(2)		
e Buildings and other property used in plan operation	1e		
f Total assets (add all amounts in lines 1a through 1e)	1f	15086752	18445213

Liabilities

g Benefit claims payable	1g		
h Operating payables	1h		
i Acquisition indebtedness	1i		
j Other liabilities	1j		
k Total liabilities (add all amounts in lines 1g through 1j)	1k	0	0

Net Assets

l Net assets (subtract line 1k from line 1f)	1l	15086752	18445213
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Part II Income and Expense Statement

2 Plan income, expenses, and changes in net assets for the year. Include all income and expenses of the plan, including any trust(s) or separately maintained fund(s) and any payments/receipts to/from insurance carriers. Round off amounts to the nearest dollar. MTIAs, CCTs, PSAs, and 103-12 IEs do not complete lines 2a, 2b(1)(E), 2e, 2f, and 2g.

Income**a Contributions:**

		(a) Amount	(b) Total
(1) Received or receivable in cash from: (A) Employers	2a(1)(A)	832198	
(B) Participants	2a(1)(B)	1224545	
(C) Others (including rollovers)	2a(1)(C)	152966	
(2) Noncash contributions	2a(2)		
(3) Total contributions. Add lines 2a(1)(A) , (B) , (C) , and line 2a(2)	2a(3)		2209709

b Earnings on investments:**(1) Interest:**

(A) Interest-bearing cash (including money market accounts and certificates of deposit)	2b(1)(A)	232	
(B) U.S. Government securities	2b(1)(B)		
(C) Corporate debt instruments	2b(1)(C)		
(D) Loans (other than to participants)	2b(1)(D)		
(E) Participant loans	2b(1)(E)	20560	
(F) Other	2b(1)(F)		
(G) Total interest. Add lines 2b(1)(A) through (F)	2b(1)(G)		20792

(2) Dividends: (A) Preferred stock	2b(2)(A)		
(B) Common stock	2b(2)(B)		
(C) Registered investment company shares (e.g. mutual funds)	2b(2)(C)	485568	
(D) Total dividends. Add lines 2b(2)(A) , (B) , and (C)	2b(2)(D)		485568

(3) Rents	2b(3)		
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(4) Net gain (loss) on sale of assets: (A) Aggregate proceeds	2b(4)(A)		
(B) Aggregate carrying amount (see instructions)	2b(4)(B)		
(C) Subtract line 2b(4)(B) from line 2b(4)(A) and enter result	2b(4)(C)		

(5) Unrealized appreciation (depreciation) of assets: (A) Real estate	2b(5)(A)		
(B) Other	2b(5)(B)		
(C) Total unrealized appreciation of assets. Add lines 2b(5)(A) and (B)	2b(5)(C)		

		(a) Amount	(b) Total
(6) Net investment gain (loss) from common/collective trusts	2b(6)		
(7) Net investment gain (loss) from pooled separate accounts	2b(7)		
(8) Net investment gain (loss) from master trust investment accounts	2b(8)		
(9) Net investment gain (loss) from 103-12 investment entities	2b(9)		
(10) Net investment gain (loss) from registered investment companies (e.g., mutual funds).....	2b(10)		1434030
c Other income.....	2c		
d Total income. Add all income amounts in column (b) and enter total.....	2d		4150099

Expenses

e Benefit payment and payments to provide benefits:			
(1) Directly to participants or beneficiaries, including direct rollovers	2e(1)	777088	
(2) To insurance carriers for the provision of benefits	2e(2)		
(3) Other	2e(3)		
(4) Total benefit payments. Add lines 2e(1) through (3)	2e(4)		777088
f Corrective distributions (see instructions)	2f		46
g Certain deemed distributions of participant loans (see instructions).....	2g		
h Interest expense.....	2h		
i Administrative expenses: (1) Professional fees	2i(1)		
(2) Contract administrator fees	2i(2)		
(3) Investment advisory and management fees	2i(3)		
(4) Other	2i(4)	14504	
(5) Total administrative expenses. Add lines 2i(1) through (4)	2i(5)		14504
j Total expenses. Add all expense amounts in column (b) and enter total.....	2j		791638

Net Income and Reconciliation

k Net income (loss). Subtract line 2j from line 2d	2k		3358461
l Transfers of assets:			
(1) To this plan.....	2l(1)		
(2) From this plan	2l(2)		

Part III Accountant's Opinion

3 Complete lines 3a through 3c if the opinion of an independent qualified public accountant is attached to this Form 5500. Complete line 3d if an opinion is not attached.

a The attached opinion of an independent qualified public accountant for this plan is (see instructions):

(1) ☐ Unqualified (2) ☐ Qualified (3) ☒ Disclaimer (4) ☐ Adverse

b Did the accountant perform a limited scope audit pursuant to 29 CFR 2520.103-8 and/or 103-12(d)?

☒ Yes ☐ No

c Enter the name and EIN of the accountant (or accounting firm) below:

(1) Name: MOSS ADAMS

(2) EIN: 91-0189318

d The opinion of an independent qualified public accountant is **not attached** because:

(1) ☐ This form is filed for a CCT, PSA, or MTIA. (2) ☐ It will be attached to the next Form 5500 pursuant to 29 CFR 2520.104-50.

Part IV Compliance Questions

4 CCTs and PSAs do not complete Part IV. MTIAs, 103-12 IEs, and GIAs do not complete lines 4a, 4e, 4f, 4g, 4h, 4k, 4m, 4n, or 5. 103-12 IEs also do not complete lines 4j and 4l. MTIAs also do not complete line 4l.

During the plan year:

a Was there a failure to transmit to the plan any participant contributions within the time period described in 29 CFR 2510.3-102? Continue to answer "Yes" for any prior year failures until fully corrected. (See instructions and DOL's Voluntary Fiduciary Correction Program.).....

b Were any loans by the plan or fixed income obligations due the plan in default as of the close of the plan year or classified during the year as uncollectible? Disregard participant loans secured by participant's account balance. (Attach Schedule G (Form 5500) Part I if "Yes" is checked.).....

	Yes	No	Amount
4a		X	
4b		X	

	Yes	No	Amount
c Were any leases to which the plan was a party in default or classified during the year as uncollectible? (Attach Schedule G (Form 5500) Part II if "Yes" is checked.)		X	
d Were there any nonexempt transactions with any party-in-interest? (Do not include transactions reported on line 4a. Attach Schedule G (Form 5500) Part III if "Yes" is checked.).....		X	
e Was this plan covered by a fidelity bond?.....	X		1000000
f Did the plan have a loss, whether or not reimbursed by the plan's fidelity bond, that was caused by fraud or dishonesty?		X	
g Did the plan hold any assets whose current value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
h Did the plan receive any noncash contributions whose value was neither readily determinable on an established market nor set by an independent third party appraiser?		X	
i Did the plan have assets held for investment? (Attach schedule(s) of assets if "Yes" is checked, and see instructions for format requirements.).....	X		
j Were any plan transactions or series of transactions in excess of 5% of the current value of plan assets? (Attach schedule of transactions if "Yes" is checked, and see instructions for format requirements.).....		X	
k Were all the plan assets either distributed to participants or beneficiaries, transferred to another plan, or brought under the control of the PBGC?.....		X	
l Has the plan failed to provide any benefit when due under the plan?		X	
m If this is an individual account plan, was there a blackout period? (See instructions and 29 CFR 2520.101-3.).....		X	
n If 4m was answered "Yes," check the "Yes" box if you either provided the required notice or one of the exceptions to providing the notice applied under 29 CFR 2520.101-3.		X	

5a Has a resolution to terminate the plan been adopted during the plan year or any prior plan year?

If "Yes," enter the amount of any plan assets that reverted to the employer this year..... ☐ Yes ☒ No Amount:

5b If, during this plan year, any assets or liabilities were transferred from this plan to another plan(s), identify the plan(s) to which assets or liabilities were transferred. (See instructions.)

5b(1) Name of plan(s)

5b(2) EIN(s)	5b(3) PN(s)

Part V Trust Information (optional)

6a Name of trust

6b Trust's EIN

SCHEDULE R (Form 5500) Department of the Treasury Internal Revenue Service Department of Labor Employee Benefits Security Administration Pension Benefit Guaranty Corporation	Retirement Plan Information This schedule is required to be filed under section 104 and 4065 of the Employee Retirement Income Security Act of 1974 (ERISA) and section 6058(a) of the Internal Revenue Code (the Code). ▶ File as an attachment to Form 5500.	OMB No. 1210-0110 2012 This Form is Open to Public Inspection.
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For calendar plan year 2012 or fiscal plan year beginning 01/01/2012 and ending 12/31/2012

A Name of plan <u>PEOPLES BANK SALARY INVESTMENT & PROFIT SHARING PLAN</u>	B Three-digit plan number (PN) ▶ <u>001</u>
C Plan sponsor's name as shown on line 2a of Form 5500 <u>PEOPLES BANCORP</u>	D Employer Identification Number (EIN) <u>91-1190346</u>

Part I	Distributions
---------------	----------------------

All references to distributions relate only to payments of benefits during the plan year.

1 Total value of distributions paid in property other than in cash or the forms of property specified in the instructions.....	1	<u>0</u>
2 Enter the EIN(s) of payor(s) who paid benefits on behalf of the plan to participants or beneficiaries during the year (if more than two, enter EINs of the two payors who paid the greatest dollar amounts of benefits): EIN(s): <u>04-6568107</u>		
Profit-sharing plans, ESOPs, and stock bonus plans, skip line 3.		
3 Number of participants (living or deceased) whose benefits were distributed in a single sum, during the plan year.....	3	

Part II	Funding Information (If the plan is not subject to the minimum funding requirements of section 412 of the Internal Revenue Code or ERISA section 302, skip this Part)
----------------	--

4 Is the plan administrator making an election under Code section 412(d)(2) or ERISA section 302(d)(2)?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
If the plan is a defined benefit plan, go to line 8.			
5 If a waiver of the minimum funding standard for a prior year is being amortized in this plan year, see instructions and enter the date of the ruling letter granting the waiver. Date: Month _____ Day _____ Year _____ If you completed line 5, complete lines 3, 9, and 10 of Schedule MB and do not complete the remainder of this schedule.			
6 a Enter the minimum required contribution for this plan year (include any prior year accumulated funding deficiency not waived)	6a		
b Enter the amount contributed by the employer to the plan for this plan year	6b		
c Subtract the amount in line 6b from the amount in line 6a. Enter the result (enter a minus sign to the left of a negative amount).....	6c		
If you completed line 6c, skip lines 8 and 9.			
7 Will the minimum funding amount reported on line 6c be met by the funding deadline?	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A
8 If a change in actuarial cost method was made for this plan year pursuant to a revenue procedure or other authority providing automatic approval for the change or a class ruling letter, does the plan sponsor or plan administrator agree with the change?.....	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> N/A

Part III	Amendments
-----------------	-------------------

9 If this is a defined benefit pension plan, were any amendments adopted during this plan year that increased or decreased the value of benefits? If yes, check the appropriate box. If no, check the "No" box.....	<input type="checkbox"/> Increase	<input type="checkbox"/> Decrease	<input type="checkbox"/> Both	<input type="checkbox"/> No
--	-----------------------------------	-----------------------------------	-------------------------------	-----------------------------

Part IV	ESOPs (see instructions). If this is not a plan described under Section 409(a) or 4975(e)(7) of the Internal Revenue Code, skip this Part.
----------------	---

10 Were unallocated employer securities or proceeds from the sale of unallocated securities used to repay any exempt loan?.....	<input type="checkbox"/> Yes	<input type="checkbox"/> No
11 a Does the ESOP hold any preferred stock?	<input type="checkbox"/> Yes	<input type="checkbox"/> No
b If the ESOP has an outstanding exempt loan with the employer as lender, is such loan part of a "back-to-back" loan? (See instructions for definition of "back-to-back" loan.).....	<input type="checkbox"/> Yes	<input type="checkbox"/> No
12 Does the ESOP hold any stock that is not readily tradable on an established securities market?	<input type="checkbox"/> Yes	<input type="checkbox"/> No

Part V Additional Information for Multiemployer Defined Benefit Pension Plans

13 Enter the following information for each employer that contributed more than 5% of total contributions to the plan during the plan year (measured in dollars). See instructions. *Complete as many entries as needed to report all applicable employers.*

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

a Name of contributing employer

b EIN

c Dollar amount contributed by employer

d Date collective bargaining agreement expires (If employer contributes under more than one collective bargaining agreement, check box ☐ and see instructions regarding required attachment. Otherwise, enter the applicable date.) Month _____ Day _____ Year _____

e Contribution rate information (If more than one rate applies, check this box ☐ and see instructions regarding required attachment. Otherwise, complete lines 13e(1) and 13e(2).)

(1) Contribution rate (in dollars and cents) _____

(2) Base unit measure: ☐ Hourly ☐ Weekly ☐ Unit of production ☐ Other (specify): _____

- 14** Enter the number of participants on whose behalf no contributions were made by an employer as an employer of the participant for:

a The current year	14a	
b The plan year immediately preceding the current plan year	14b	
c The second preceding plan year	14c	

- 15** Enter the ratio of the number of participants under the plan on whose behalf no employer had an obligation to make an employer contribution during the current plan year to:

a The corresponding number for the plan year immediately preceding the current plan year	15a	
b The corresponding number for the second preceding plan year	15b	

- 16** Information with respect to any employers who withdrew from the plan during the preceding plan year:

a Enter the number of employers who withdrew during the preceding plan year	16a	
b If line 16a is greater than 0, enter the aggregate amount of withdrawal liability assessed or estimated to be assessed against such withdrawn employers	16b	

- 17** If assets and liabilities from another plan have been transferred to or merged with this plan during the plan year, check box and see instructions regarding supplemental information to be included as an attachment. ☐

Part VI Additional Information for Single-Employer and Multiemployer Defined Benefit Pension Plans

- 18** If any liabilities to participants or their beneficiaries under the plan as of the end of the plan year consist (in whole or in part) of liabilities to such participants and beneficiaries under two or more pension plans as of immediately before such plan year, check box and see instructions regarding supplemental information to be included as an attachment ☐

- 19** If the total number of participants is 1,000 or more, complete lines (a) through (c)

a Enter the percentage of plan assets held as:
 Stock: _____% Investment-Grade Debt: _____% High-Yield Debt: _____% Real Estate: _____% Other: _____%

b Provide the average duration of the combined investment-grade and high-yield debt:
☐ 0-3 years ☐ 3-6 years ☐ 6-9 years ☐ 9-12 years ☐ 12-15 years ☐ 15-18 years ☐ 18-21 years ☐ 21 years or more

c What duration measure was used to calculate line 19(b)?
☐ Effective duration ☐ Macaulay duration ☐ Modified duration ☐ Other (specify): _____



Report of Independent Auditors and
Financial Statements with Supplementary Schedule
Required by the Department of Labor

**Peoples Bank Salary Investment and
Profit Sharing Plan**

December 31, 2012 and 2011

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

To the Trustees
Peoples Bank Salary Investment and Profit Sharing Plan

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Peoples Bank Salary Investment and Profit Sharing Plan (the "Plan"), which comprise the statement of net assets available for plan benefits as of December 31, 2012 and 2011, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL's") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the Plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 7, which was certified by Fidelity Management Trust Company, the trustee of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the Plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The Plan administrator has obtained a certification from the trustee as of December 31, 2012 and 2011, and for the year ended December 31, 2012, that the information provided to the Plan administrator by the trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The Schedule H, Line 4i – Schedule of Assets (Held at End of Year) as of or for the year ended December 31, 2012, is required by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on this supplementary information.

Report on Form and Content in Compliance with DOL Rules and Regulations

The form and content of the information included in the financial statements and supplementary information, other than that derived from the information certified by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Bellingham, Washington
June 24, 2013

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

	December 31,	
	2012	2011
ASSETS		
Investments, at fair value		
Participant directed investments	\$ 17,838,290	\$ 14,455,188
RECEIVABLES		
Notes receivable from participants	606,923	631,564
Participant contributions	119,843	100,569
Employer contribution	233,514	175,353
Total receivables	960,280	907,486
NET ASSETS REFLECTING ALL INVESTMENTS AT FAIR VALUE	18,798,570	15,362,674
NET ASSETS AVAILABLE FOR BENEFITS	\$ 18,798,570	\$ 15,362,674

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

	Year Ended December 31, 2012
CHANGES IN NET ASSETS ATTRIBUTED TO:	
Investment income	
Net appreciation in fair value of investments	\$ 1,919,830
Interest income	
Interest income on notes receivable from participants	20,560
Contributions	
Participant salary deferral	1,243,819
Participant rollover	152,966
Employer	890,359
Total contributions	2,287,144
Total additions	4,227,534
Benefit payments and other deductions	
Benefits paid to participants	730,733
Deemed distributions	46,401
Administrative expenses	14,504
Total deductions	791,638
NET INCREASE	3,435,896
NET ASSETS AVAILABLE FOR BENEFITS	
Beginning of year	15,362,674
End of year	\$ 18,798,570

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Plan

The following description of Peoples Bank Salary Investment and Profit Sharing Plan (the “Plan”) provides only general information. Participants should refer to the Plan agreement, as amended, for a more complete description of the Plan’s provisions.

General – The Plan is a 401(k) salary deferral and profit sharing plan covering substantially all employees of Peoples Bank, and is subject to provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Peoples Bank (the “Company”) is the Plan’s sponsor and serves as Plan administrator.

Eligibility – Employees of the Company are eligible to participate in the Plan upon reaching age 21 and after completing three months of service.

Contributions – Participants may elect to contribute up to the lesser of 60 percent of eligible compensation or the maximum allowed by law to the Plan each year. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans, with the exception of rollovers of after-tax employee contributions. Participants may elect to make Roth contributions to the Plan. Participants direct the investment of their contributions into various investment options offered by the Plan. The Company may elect to make discretionary matching and profit sharing contributions to the Plan at the discretion of the Board of Directors. Contributions are invested in the same funds as elected for participant deferrals. For the year ended December 31, 2012, the Company made quarterly matching contributions equal to 100 percent of the first 6 percent of the base compensation that a participant contributed to the Plan. No profit sharing contribution was made for the year ended December 31, 2012.

Contributions are subject to regulatory limitations.

Participant accounts – Each participant’s account is credited with the participant’s contribution as well as allocations of the Company’s contribution and Plan earnings. Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account. Participants direct the investment of their contributions into various investment options offered by the Plan.

Vesting – Participants are fully vested in their salary deferrals plus actual earnings thereon. Vesting in Company matching contributions and profit sharing contribution portions of their accounts is based on years of continuous service. A participant is 100 percent vested after five years of credited service.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Plan (continued)

Notes receivable from participants – Participants may borrow from their accounts up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loans are secured by the balance of the participant's account and bear fixed, reasonable rates of interest, as determined by the Plan administrator. The maximum loan term is five years unless the loan term qualifies as a home loan, in which case the term of the loan is not to exceed ten years. Principal and interest are paid ratably through monthly deductions. As of December 31, 2012, the rates of interest on outstanding loans ranged from 3.25% to 8.25% with various maturities through December 3, 2020.

Payment of benefits – On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's account balance, or annual installments over a specified period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution. Lump-sum distributions will be made for all terminated participants with account balances of less than \$1,000. Terminated participants with account balances between \$1,000 and \$5,000 will have their balances automatically rolled into an Individual Fidelity IRA.

Forfeitures – Forfeitures are the non-vested portion of a participant's account that are lost upon termination of employment. Forfeitures are retained in the Plan and will first be used to pay Plan administrative expenses, with remaining amounts used to reduce future Company contributions. As of December 31, 2012 and 2011, forfeited nonvested accounts totaled \$63,794 and \$45,989, respectively. For the year ended December 31, 2012, forfeitures of \$10,835 were utilized to pay \$14,504 of administrative expenses.

Note 2 – Summary of Accounting Policies

Basis of accounting – The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, using the accrual basis of accounting.

Use of estimates – The preparation of financial statements requires the use of estimates and assumptions that may affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Accounting Policies (continued)

ASU No. 2011-04 – In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 requires information about all transfers between levels 1 and 2, not just significant transfers, disclosure of valuation techniques for Level 2 and Level 3 measurements and for Level 3 measurements requires disclosure of valuation processes used by the reporting entity and quantitative information about significant unobservable inputs, as well as additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. It also requires disclosure of the categorization by level for items that are not measured at fair value in the statement of net assets available for benefits but are disclosed at fair value. The new guidance is effective for reporting periods beginning after December 15, 2011. The Plan adopted the new disclosure requirements effective January 1, 2012. See Note 4.

Investment valuation – The investments are stated at fair value. The Plan’s trustee, Fidelity Management Trust Company, certifies the fair market value of all investments. If available, quoted market prices are used to value investments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of the defined-contribution Plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The statement of net assets available for benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit responsive investment contracts from fair value to contract value. The statement of changes in net assets available for benefits is prepared on a contract value basis.

Income recognition – Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. The net appreciation in fair value of investments consists of both the realized gains or losses and unrealized appreciation and depreciation of those investments.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Accounting Policies (continued)

Notes receivable from participants – Notes receivable from participants are measured at amortized cost, which represents unpaid principal balance plus accrued but unpaid interest, and are classified as notes receivable. Delinquent notes receivable from participants are recorded as distributions based on the terms of the Plan document.

Payments of benefits – Benefits are recorded when paid.

Expenses – General plan administrative expenses may be paid out of the forfeiture account or paid by the Company. Certain investment and transaction fees are paid by participants in the Plan.

Subsequent events – Subsequent events are events or transactions that occur after the statement of net assets available for benefits date but before financial statements are available to be issued. The Plan recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net assets available for benefits, including the estimates inherent in the process of preparing the financial statements. The Plan's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net assets available for benefits but arose after the statement of net assets available for benefits date and before financial statements are available to be issued.

The Plan has evaluated subsequent events through June 24, 2013, which is the date the financial statements were available to be issued.

Reclassifications – Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. Such classifications have no effect on the Statement of Net Assets Available for Plan Benefits or the Changes in Net Assets Available for Plan Benefits.

Note 3 – Investments

Investments – Investments representing 5% or more of net assets available for benefits consist of the following at December 31:

	2012 Fair Value	2011 Fair Value
Fidelity Retirement Gov Money Market	\$ 1,541,803	\$ 1,428,801
TMPL Global Bond	1,503,203	803,843
Fidelity Growth Company	1,304,631	1,124,929
Baron Growth	1,172,578	951,625
Fidelity Balanced Fund	1,111,354	1,137,594
Fidelity Retirement Money Market	1,088,403	803,056
Fidelity Blue Chip Growth	1,002,444	790,813

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments (continued)

During 2012, the Plan's investments (including gains and losses on investments purchased, sold, as well as held during the year) appreciated in fair value as follows:

Registered investment companies	<u>\$ 1,919,830</u>
Net appreciation in fair value of investments	<u>\$ 1,919,830</u>

The above amounts include interest, dividends, and both realized and unrealized gains and losses on investments. The Plan's recordkeeper does not separately account for the components of investment income.

Note 4 – Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2012 and 2011.

Registered Investment Companies (Mutual Funds) – Shares of registered investment company funds (or mutual funds) are valued at the net asset value (“NAV”) of shares held by the Plan and are valued at the closing price reported on the active market on which the individual securities are traded.

The following table discloses by level the fair value hierarchy of the Plan’s assets at fair value as of December 31, 2012 and 2011:

Investment Assets at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Growth funds	\$ 5,580,910	\$ -	\$ -	\$ 5,580,910
Balanced funds	4,950,121	-	-	4,950,121
Fixed income funds	4,223,705	-	-	4,223,705
Target dated funds	3,083,554	-	-	3,083,554
	<u>\$ 17,838,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,838,290</u>

Investment Assets at Fair Value as of December 31, 2011				
	Level 1	Level 2	Level 3	Total
Growth funds	\$ 4,668,062	\$ -	\$ -	\$ 4,668,062
Balanced funds	3,840,958	-	-	3,840,958
Fixed income funds	3,384,939	-	-	3,384,939
Target dated funds	2,561,229	-	-	2,561,229
	<u>\$ 14,455,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,455,188</u>

Gains and losses (realized and unrealized) included in changes in net assets for the period above are reported in net appreciation (depreciation) in fair value of investments in the statement of changes in net assets available for benefits.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 5 – Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated October 9, 2003, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (“IRC”). Although the Plan has been amended since receiving the determination letter, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

In accordance with guidance on accounting for uncertainty in income taxes, management has evaluated the Plan’s tax positions and does not believe the Plan has any uncertain tax positions that require disclosure or adjustment to the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2009.

Note 6 – Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market volatility, and credit risks. It is reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect a participant’s account balance and the amounts reported in the financial statements.

Note 7 – Information Certified by the Trust Company

The Plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, Fidelity Management Trust Company, the trustee of the Plan, has certified to the completeness and accuracy of:

- Investments and notes receivable from participants reflected on the accompanying statements of net assets available for benefits as of December 31, 2012 and 2011.
- Net appreciation in fair value of investments, dividends, and interest from notes receivable from participants reflected on the accompanying statement of changes in net assets available for benefits for the year ended December 31, 2012.
- Investments reflected on the supplemental schedule of assets (held at end of year).

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 8 – Party-in Interest Transactions

Plan investments include shares of registered investment Company funds managed by Fidelity Management Trust Company. Fidelity Management Trust Company is the trustee of the Plan and an affiliate of Fidelity Investments and, therefore, transactions with these entities qualify as exempt party-in-interest transactions. Fees paid by the Plan for investment management services were \$14,504 for the year ended December 31, 2012.

Note 9 – Plan Termination

Although it has not expressed any intention to do so, the Company has the right to terminate the Plan and discontinue its contributions at any time. If the Plan is terminated, amounts allocated to a participant's account become fully vested.

Note 10 – Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of the net assets available for benefits between the financial statements and the Form 5500 as of December 31:

	2012	2011
Net assets available for benefits per the financial statements	\$ 18,798,570	\$ 15,362,674
Employer and participant Plan receivables	(353,357)	(275,922)
Net assets available for benefits per Form 5500	<u>\$ 18,445,213</u>	<u>\$ 15,086,752</u>
 Total additions to net assets per the financial statements	 \$ 4,227,534	
Plus: Employer and participant Plan receivables – December 2011	275,922	
Less: Employer and participant Plan receivables – December 2012	<u>(353,357)</u>	
Total additions to net assets per Form 5500	<u>\$ 4,150,099</u>	

SUPPLEMENTARY SCHEDULE REQUIRED BY THE DEPARTMENT OF LABOR

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

EIN NUMBER 91-1190346

PLAN NUMBER 001

SCHEDULE H, LINE 4(i) – SCHEDULE OF ASSETS (HELD AT END OF YEAR)

DECEMBER 31, 2012

SCHEDULE H LINE 4(i)—SCHEDULE OF ASSETS (HELD AT END OF YEAR)

(a)	(b) Issuer	(c) Investment Description	(d) Cost	(e) Current Fair Value
Registered Investment Company:				
*	Fidelity Retirement Gov Money Market	Registered Investment Company	†	\$ 1,541,806
	TMPL Global Bond	Registered Investment Company	†	1,503,203
*	Fidelity Growth Company	Registered Investment Company	†	1,304,631
	Baron Growth	Registered Investment Company	†	1,172,578
*	Fidelity Balanced Fund	Registered Investment Company	†	1,111,354
*	Fidelity Retirement Money Market	Registered Investment Company	†	1,088,403
*	Fidelity Blue Chip Growth	Registered Investment Company	†	1,002,444
	Pimco Total Return ADM	Registered Investment Company	†	904,394
*	Fidelity Freedom 2030 Fund	Registered Investment Company	†	795,332
*	Fidelity Value Fund	Registered Investment Company	†	701,004
	Rainier Small/Mid-Cap Equity	Registered Investment Company	†	684,895
*	Fidelity Freedom 2020 Fund	Registered Investment Company	†	666,018
	Spartan 500 Index Adv	Registered Investment Company	†	638,798
*	Fidelity OTC Portfolio	Registered Investment Company	†	541,279
	Oakmark International I	Registered Investment Company	†	469,801
	Harbor International Investment	Registered Investment Company	†	454,845
*	Fidelity Freedom 2040 Fund	Registered Investment Company	†	437,779
*	Fidelity Mid-Cap Stock	Registered Investment Company	†	420,238
*	Fidelity Freedom 2025 Fund	Registered Investment Company	†	396,955
	Spartan US Bond Index Adv	Registered Investment Company	†	353,512
*	Fidelity Freedom 2010 Fund	Registered Investment Company	†	256,444
	Allianz NFJ Dividend Value Fund	Registered Investment Company	†	233,678
	Aston/F Mid Cap N	Registered Investment Company	†	228,737
	Spartan Interest TR Index Adv	Registered Investment Company	†	191,512
*	Fidelity Freedom 2035 Fund	Registered Investment Company	†	180,366
*	Fidelity Freedom 2000 Fund	Registered Investment Company	†	154,167
*	Fidelity Fund	Registered Investment Company	†	110,951
*	Fidelity Freedom 2050 Fund	Registered Investment Company	†	93,590
*	Fidelity Freedom Income Fund	Registered Investment Company	†	89,341
*	Fidelity Freedom 2015 Fund	Registered Investment Company	†	53,895
*	Fidelity Freedom 2045 Fund	Registered Investment Company	†	42,264
	Spartan Ext Mkt Index Adv	Registered Investment Company	†	5,209
*	Fidelity Freedom 2005 Fund	Registered Investment Company	†	4,062
*	Fidelity Freedom 2055 Fund	Registered Investment Company	†	2,681
	Spartan U.S. Equity Index	Registered Investment Company	†	1,170
*	Fidelity U.S. Bond Index	Registered Investment Company	†	954
*	Loans to Participants	Interest rates range from 3.25% to 8.25%, maturing through December 2020.	–	606,923
				<u>\$ 18,445,213</u>

* Represents a party in interest as defined by ERISA.

† Historical cost information not required for participant directed accounts.



MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.



Report of Independent Auditors and
Financial Statements with Supplementary Schedule
Required by the Department of Labor

**Peoples Bank Salary Investment and
Profit Sharing Plan**

December 31, 2012 and 2011

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Trustees
Peoples Bank Salary Investment and Profit Sharing Plan

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Peoples Bank Salary Investment and Profit Sharing Plan (the "Plan"), which comprise the statement of net assets available for plan benefits as of December 31, 2012 and 2011, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's ("DOL's") Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the Plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 7, which was certified by Fidelity Management Trust Company, the trustee of the Plan, except for comparing such information with the related information included in the financial statements. We have been informed by the Plan administrator that the trustee holds the Plan's investment assets and executes investment transactions. The Plan administrator has obtained a certification from the trustee as of December 31, 2012 and 2011, and for the year ended December 31, 2012, that the information provided to the Plan administrator by the trustee is complete and accurate.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Other Matter

The Schedule H, Line 4i – Schedule of Assets (Held at End of Year) as of or for the year ended December 31, 2012, is required by the DOL's Rules and Regulations for Reporting and Disclosure under ERISA and is presented for the purpose of additional analysis and is not a required part of the financial statements. Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we do not express an opinion on this supplementary information.

Report on Form and Content in Compliance with DOL Rules and Regulations

The form and content of the information included in the financial statements and supplementary information, other than that derived from the information certified by the trustee (or custodian), have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the DOL's Rules and Regulations for Reporting and Disclosure under ERISA.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Bellingham, Washington
June 24, 2013

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR PLAN BENEFITS

	December 31,	
	2012	2011
ASSETS		
Investments, at fair value		
Participant directed investments	\$ 17,838,290	\$ 14,455,188
RECEIVABLES		
Notes receivable from participants	606,923	631,564
Participant contributions	119,843	100,569
Employer contribution	233,514	175,353
Total receivables	960,280	907,486
NET ASSETS REFLECTING ALL INVESTMENTS AT FAIR VALUE	18,798,570	15,362,674
NET ASSETS AVAILABLE FOR BENEFITS	\$ 18,798,570	\$ 15,362,674

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS

	Year Ended December 31, 2012
CHANGES IN NET ASSETS ATTRIBUTED TO:	
Investment income	
Net appreciation in fair value of investments	\$ 1,919,830
Interest income	
Interest income on notes receivable from participants	20,560
Contributions	
Participant salary deferral	1,243,819
Participant rollover	152,966
Employer	890,359
Total contributions	2,287,144
Total additions	4,227,534
Benefit payments and other deductions	
Benefits paid to participants	730,733
Deemed distributions	46,401
Administrative expenses	14,504
Total deductions	791,638
NET INCREASE	3,435,896
NET ASSETS AVAILABLE FOR BENEFITS	
Beginning of year	15,362,674
End of year	\$ 18,798,570

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Plan

The following description of Peoples Bank Salary Investment and Profit Sharing Plan (the “Plan”) provides only general information. Participants should refer to the Plan agreement, as amended, for a more complete description of the Plan’s provisions.

General – The Plan is a 401(k) salary deferral and profit sharing plan covering substantially all employees of Peoples Bank, and is subject to provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Peoples Bank (the “Company”) is the Plan’s sponsor and serves as Plan administrator.

Eligibility – Employees of the Company are eligible to participate in the Plan upon reaching age 21 and after completing three months of service.

Contributions – Participants may elect to contribute up to the lesser of 60 percent of eligible compensation or the maximum allowed by law to the Plan each year. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans, with the exception of rollovers of after-tax employee contributions. Participants may elect to make Roth contributions to the Plan. Participants direct the investment of their contributions into various investment options offered by the Plan. The Company may elect to make discretionary matching and profit sharing contributions to the Plan at the discretion of the Board of Directors. Contributions are invested in the same funds as elected for participant deferrals. For the year ended December 31, 2012, the Company made quarterly matching contributions equal to 100 percent of the first 6 percent of the base compensation that a participant contributed to the Plan. No profit sharing contribution was made for the year ended December 31, 2012.

Contributions are subject to regulatory limitations.

Participant accounts – Each participant’s account is credited with the participant’s contribution as well as allocations of the Company’s contribution and Plan earnings. Participant accounts are charged with an allocation of administrative expenses that are paid by the Plan. Allocations are based on participant earnings, account balances, or specific participant transactions, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account. Participants direct the investment of their contributions into various investment options offered by the Plan.

Vesting – Participants are fully vested in their salary deferrals plus actual earnings thereon. Vesting in Company matching contributions and profit sharing contribution portions of their accounts is based on years of continuous service. A participant is 100 percent vested after five years of credited service.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Description of Plan (continued)

Notes receivable from participants – Participants may borrow from their accounts up to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loans are secured by the balance of the participant's account and bear fixed, reasonable rates of interest, as determined by the Plan administrator. The maximum loan term is five years unless the loan term qualifies as a home loan, in which case the term of the loan is not to exceed ten years. Principal and interest are paid ratably through monthly deductions. As of December 31, 2012, the rates of interest on outstanding loans ranged from 3.25% to 8.25% with various maturities through December 3, 2020.

Payment of benefits – On termination of service due to death, disability, or retirement, a participant may elect to receive either a lump-sum amount equal to the value of the participant's account balance, or annual installments over a specified period. For termination of service for other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution. Lump-sum distributions will be made for all terminated participants with account balances of less than \$1,000. Terminated participants with account balances between \$1,000 and \$5,000 will have their balances automatically rolled into an Individual Fidelity IRA.

Forfeitures – Forfeitures are the non-vested portion of a participant's account that are lost upon termination of employment. Forfeitures are retained in the Plan and will first be used to pay Plan administrative expenses, with remaining amounts used to reduce future Company contributions. As of December 31, 2012 and 2011, forfeited nonvested accounts totaled \$63,794 and \$45,989, respectively. For the year ended December 31, 2012, forfeitures of \$10,835 were utilized to pay \$14,504 of administrative expenses.

Note 2 – Summary of Accounting Policies

Basis of accounting – The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, using the accrual basis of accounting.

Use of estimates – The preparation of financial statements requires the use of estimates and assumptions that may affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Accounting Policies (continued)

ASU No. 2011-04 – In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, *Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU No. 2011-04 requires information about all transfers between levels 1 and 2, not just significant transfers, disclosure of valuation techniques for Level 2 and Level 3 measurements and for Level 3 measurements requires disclosure of valuation processes used by the reporting entity and quantitative information about significant unobservable inputs, as well as additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. It also requires disclosure of the categorization by level for items that are not measured at fair value in the statement of net assets available for benefits but are disclosed at fair value. The new guidance is effective for reporting periods beginning after December 15, 2011. The Plan adopted the new disclosure requirements effective January 1, 2012. See Note 4.

Investment valuation – The investments are stated at fair value. The Plan’s trustee, Fidelity Management Trust Company, certifies the fair market value of all investments. If available, quoted market prices are used to value investments.

Fair value is the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of the defined-contribution Plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The statement of net assets available for benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit responsive investment contracts from fair value to contract value. The statement of changes in net assets available for benefits is prepared on a contract value basis.

Income recognition – Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. The net appreciation in fair value of investments consists of both the realized gains or losses and unrealized appreciation and depreciation of those investments.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Accounting Policies (continued)

Notes receivable from participants – Notes receivable from participants are measured at amortized cost, which represents unpaid principal balance plus accrued but unpaid interest, and are classified as notes receivable. Delinquent notes receivable from participants are recorded as distributions based on the terms of the Plan document.

Payments of benefits – Benefits are recorded when paid.

Expenses – General plan administrative expenses may be paid out of the forfeiture account or paid by the Company. Certain investment and transaction fees are paid by participants in the Plan.

Subsequent events – Subsequent events are events or transactions that occur after the statement of net assets available for benefits date but before financial statements are available to be issued. The Plan recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net assets available for benefits, including the estimates inherent in the process of preparing the financial statements. The Plan's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net assets available for benefits but arose after the statement of net assets available for benefits date and before financial statements are available to be issued.

The Plan has evaluated subsequent events through June 24, 2013, which is the date the financial statements were available to be issued.

Reclassifications – Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. Such classifications have no effect on the Statement of Net Assets Available for Plan Benefits or the Changes in Net Assets Available for Plan Benefits.

Note 3 – Investments

Investments – Investments representing 5% or more of net assets available for benefits consist of the following at December 31:

	2012 Fair Value	2011 Fair Value
Fidelity Retirement Gov Money Market	\$ 1,541,803	\$ 1,428,801
TMPL Global Bond	1,503,203	803,843
Fidelity Growth Company	1,304,631	1,124,929
Baron Growth	1,172,578	951,625
Fidelity Balanced Fund	1,111,354	1,137,594
Fidelity Retirement Money Market	1,088,403	803,056
Fidelity Blue Chip Growth	1,002,444	790,813

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 3 – Investments (continued)

During 2012, the Plan's investments (including gains and losses on investments purchased, sold, as well as held during the year) appreciated in fair value as follows:

Registered investment companies	<u>\$ 1,919,830</u>
Net appreciation in fair value of investments	<u>\$ 1,919,830</u>

The above amounts include interest, dividends, and both realized and unrealized gains and losses on investments. The Plan's recordkeeper does not separately account for the components of investment income.

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The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 4 – Fair Value Measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2012 and 2011.

Registered Investment Companies (Mutual Funds) – Shares of registered investment company funds (or mutual funds) are valued at the net asset value (“NAV”) of shares held by the Plan and are valued at the closing price reported on the active market on which the individual securities are traded.

The following table discloses by level the fair value hierarchy of the Plan’s assets at fair value as of December 31, 2012 and 2011:

Investment Assets at Fair Value as of December 31, 2012				
	Level 1	Level 2	Level 3	Total
Growth funds	\$ 5,580,910	\$ -	\$ -	\$ 5,580,910
Balanced funds	4,950,121	-	-	4,950,121
Fixed income funds	4,223,705	-	-	4,223,705
Target dated funds	3,083,554	-	-	3,083,554
	<u>\$ 17,838,290</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,838,290</u>

Investment Assets at Fair Value as of December 31, 2011				
	Level 1	Level 2	Level 3	Total
Growth funds	\$ 4,668,062	\$ -	\$ -	\$ 4,668,062
Balanced funds	3,840,958	-	-	3,840,958
Fixed income funds	3,384,939	-	-	3,384,939
Target dated funds	2,561,229	-	-	2,561,229
	<u>\$ 14,455,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,455,188</u>

Gains and losses (realized and unrealized) included in changes in net assets for the period above are reported in net appreciation (depreciation) in fair value of investments in the statement of changes in net assets available for benefits.

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

Note 5 – Tax Status

The Internal Revenue Service has determined and informed the Company by a letter dated October 9, 2003, that the Plan and related trust are designed in accordance with applicable sections of the Internal Revenue Code (“IRC”). Although the Plan has been amended since receiving the determination letter, the Plan administrator believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

In accordance with guidance on accounting for uncertainty in income taxes, management has evaluated the Plan’s tax positions and does not believe the Plan has any uncertain tax positions that require disclosure or adjustment to the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2009.

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The Plan invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market volatility, and credit risks. It is reasonably possible, given the level of risk associated with investment securities, that changes in the near term could materially affect a participant’s account balance and the amounts reported in the financial statements.

Note 7 – Information Certified by the Trust Company

The Plan administrator has elected the method of compliance permitted by 29 CFR 2520.103-8 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under ERISA. Accordingly, Fidelity Management Trust Company, the trustee of the Plan, has certified to the completeness and accuracy of:

- Investments and notes receivable from participants reflected on the accompanying statements of net assets available for benefits as of December 31, 2012 and 2011.
- Net appreciation in fair value of investments, dividends, and interest from notes receivable from participants reflected on the accompanying statement of changes in net assets available for benefits for the year ended December 31, 2012.
- Investments reflected on the supplemental schedule of assets (held at end of year).

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

NOTES TO FINANCIAL STATEMENTS

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Plan investments include shares of registered investment Company funds managed by Fidelity Management Trust Company. Fidelity Management Trust Company is the trustee of the Plan and an affiliate of Fidelity Investments and, therefore, transactions with these entities qualify as exempt party-in-interest transactions. Fees paid by the Plan for investment management services were \$14,504 for the year ended December 31, 2012.

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Although it has not expressed any intention to do so, the Company has the right to terminate the Plan and discontinue its contributions at any time. If the Plan is terminated, amounts allocated to a participant's account become fully vested.

Note 10 – Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of the net assets available for benefits between the financial statements and the Form 5500 as of December 31:

	2012	2011
Net assets available for benefits per the financial statements	\$ 18,798,570	\$ 15,362,674
Employer and participant Plan receivables	(353,357)	(275,922)
Net assets available for benefits per Form 5500	<u>\$ 18,445,213</u>	<u>\$ 15,086,752</u>
 Total additions to net assets per the financial statements	 \$ 4,227,534	
Plus: Employer and participant Plan receivables – December 2011	275,922	
Less: Employer and participant Plan receivables – December 2012	<u>(353,357)</u>	
Total additions to net assets per Form 5500	<u>\$ 4,150,099</u>	

SUPPLEMENTARY SCHEDULE REQUIRED BY THE DEPARTMENT OF LABOR

PEOPLES BANK SALARY INVESTMENT AND PROFIT SHARING PLAN

EIN NUMBER 91-1190346

PLAN NUMBER 001

SCHEDULE H, LINE 4(i) – SCHEDULE OF ASSETS (HELD AT END OF YEAR)

DECEMBER 31, 2012

SCHEDULE H LINE 4(i)—SCHEDULE OF ASSETS (HELD AT END OF YEAR)

(a)	(b) Issuer	(c) Investment Description	(d) Cost	(e) Current Fair Value
Registered Investment Company:				
*	Fidelity Retirement Gov Money Market	Registered Investment Company	†	\$ 1,541,806
	TMPL Global Bond	Registered Investment Company	†	1,503,203
*	Fidelity Growth Company	Registered Investment Company	†	1,304,631
	Baron Growth	Registered Investment Company	†	1,172,578
*	Fidelity Balanced Fund	Registered Investment Company	†	1,111,354
*	Fidelity Retirement Money Market	Registered Investment Company	†	1,088,403
*	Fidelity Blue Chip Growth	Registered Investment Company	†	1,002,444
	Pimco Total Return ADM	Registered Investment Company	†	904,394
*	Fidelity Freedom 2030 Fund	Registered Investment Company	†	795,332
*	Fidelity Value Fund	Registered Investment Company	†	701,004
	Rainier Small/Mid-Cap Equity	Registered Investment Company	†	684,895
*	Fidelity Freedom 2020 Fund	Registered Investment Company	†	666,018
	Spartan 500 Index Adv	Registered Investment Company	†	638,798
*	Fidelity OTC Portfolio	Registered Investment Company	†	541,279
	Oakmark International I	Registered Investment Company	†	469,801
	Harbor International Investment	Registered Investment Company	†	454,845
*	Fidelity Freedom 2040 Fund	Registered Investment Company	†	437,779
*	Fidelity Mid-Cap Stock	Registered Investment Company	†	420,238
*	Fidelity Freedom 2025 Fund	Registered Investment Company	†	396,955
	Spartan US Bond Index Adv	Registered Investment Company	†	353,512
*	Fidelity Freedom 2010 Fund	Registered Investment Company	†	256,444
	Allianz NFJ Dividend Value Fund	Registered Investment Company	†	233,678
	Aston/F Mid Cap N	Registered Investment Company	†	228,737
	Spartan Interest TR Index Adv	Registered Investment Company	†	191,512
*	Fidelity Freedom 2035 Fund	Registered Investment Company	†	180,366
*	Fidelity Freedom 2000 Fund	Registered Investment Company	†	154,167
*	Fidelity Fund	Registered Investment Company	†	110,951
*	Fidelity Freedom 2050 Fund	Registered Investment Company	†	93,590
*	Fidelity Freedom Income Fund	Registered Investment Company	†	89,341
*	Fidelity Freedom 2015 Fund	Registered Investment Company	†	53,895
*	Fidelity Freedom 2045 Fund	Registered Investment Company	†	42,264
	Spartan Ext Mkt Index Adv	Registered Investment Company	†	5,209
*	Fidelity Freedom 2005 Fund	Registered Investment Company	†	4,062
*	Fidelity Freedom 2055 Fund	Registered Investment Company	†	2,681
	Spartan U.S. Equity Index	Registered Investment Company	†	1,170
*	Fidelity U.S. Bond Index	Registered Investment Company	†	954
*	Loans to Participants	Interest rates range from 3.25% to 8.25%, maturing through December 2020.	–	606,923
				<u>\$ 18,445,213</u>

* Represents a party in interest as defined by ERISA.

† Historical cost information not required for participant directed accounts.



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