

PEOPLES BANCORP INC  
Form 10-Q  
November 01, 2011  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

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

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

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

138 Putnam Street, P. O. Box 738,

45750

Marietta, Ohio

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

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

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

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

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

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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,612,353 common shares, without par value, at October 31, 2011.

---

Table of Contents

|  |           |
|--|-----------|
| Table of Contents  |           |
| <u>PART I – FINANCIAL INFORMATION</u>  | <u>3</u>  |
| <u>ITEM 1. FINANCIAL STATEMENTS</u>  | <u>3</u>  |
| <u>CONSOLIDATED BALANCE SHEETS (Unaudited)</u>   | <u>3</u>  |
| <u>CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>   | <u>4</u>  |
| <u>CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY (Unaudited)</u>                                    | <u>5</u>  |
| <u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u>                                   | <u>5</u>  |
| <u>NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>                                      | <u>6</u>  |
| <u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u> | <u>21</u> |
| <u>SELECTED FINANCIAL DATA</u>   | <u>21</u> |
| <u>EXECUTIVE SUMMARY</u>   | <u>25</u> |
| <u>RESULTS OF OPERATIONS</u>   | <u>26</u> |
| <u>FINANCIAL CONDITION</u>   | <u>34</u> |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | <u>45</u> |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>   | <u>45</u> |
| <u>PART II – OTHER INFORMATION</u>   | <u>46</u> |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>   | <u>46</u> |
| <u>ITEM 1A. RISK FACTORS</u>   | <u>46</u> |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | <u>46</u> |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>   | <u>46</u> |
| <u>ITEM 4. (REMOVED AND RESERVED)</u>  | <u>46</u> |
| <u>ITEM 5. OTHER INFORMATION</u>   | <u>46</u> |
| <u>ITEM 6. EXHIBITS</u>  | <u>46</u> |
| <u>SIGNATURES</u>  | <u>47</u> |
| <u>EXHIBIT INDEX</u>   | <u>48</u> |

Table of Contents

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

## PART I – FINANCIAL INFORMATION

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

| (Dollars in thousands)   | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Cash and cash equivalents:   |                       |                      |
| Cash and due from banks  | \$29,335              | \$28,324             |
| Interest-bearing deposits in other banks   | 2,422                 | 46,320               |
| Total cash and cash equivalents  | 31,757                | 74,644               |
| Available-for-sale investment securities, at fair value (amortized cost of \$633,279 at September 30, 2011 and \$617,122 at December 31, 2010)   | 642,659               | 613,986              |
| Held-to-maturity investment securities, at amortized cost (fair value of \$3,043 at September 30, 2011 and \$2,954 at December 31, 2010)   | 2,966                 | 2,965                |
| Other investment securities, at cost   | 24,356                | 24,356               |
| Total investment securities  | 669,981               | 641,307              |
| Loans, net of deferred fees and costs  | 950,793               | 960,718              |
| Allowance for loan losses  | (25,213)              | (26,766)             |
| Net loans  | 925,580               | 933,952              |
| Loans held for sale  | 3,825                 | 4,755                |
| Bank premises and equipment, net   | 24,294                | 24,934               |
| Bank owned life insurance  | 53,807                | 53,532               |
| Goodwill   | 62,520                | 62,520               |
| Other intangible assets  | 1,969                 | 2,350                |
| Other assets   | 32,010                | 39,991               |
| Total assets   | \$1,805,743           | \$1,837,985          |
| Liabilities  |                       |                      |
| Deposits:  |                       |                      |
| Non-interest-bearing   | \$235,585             | \$215,069            |
| Interest-bearing   | 1,106,981             | 1,146,531            |
| Total deposits   | 1,342,566             | 1,361,600            |
| Short-term borrowings  | 58,555                | 51,509               |
| Long-term borrowings   | 143,970               | 157,703              |
| Junior subordinated notes held by subsidiary trust   | 22,592                | 22,565               |
| Accrued expenses and other liabilities   | 13,530                | 13,927               |
| Total liabilities  | 1,581,213             | 1,607,304            |
| Stockholders' Equity   |                       |                      |
| Preferred stock, no par value, 50,000 shares authorized, 18,000 shares issued at September 30, 2011, and 39,000 issued at December 31, 2010  | 17,875                | 38,645               |
| Common stock, no par value, 24,000,000 shares authorized, 11,100,125 shares issued at September 30, 2011 and 11,070,022 shares issued at December 31, 2010, including shares in treasury | 166,799               | 166,298              |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|   |             |             |   |
|---|-------------|-------------|---|
| Retained earnings   | 51,142      | 45,547      |   |
| Accumulated other comprehensive income (loss), net of deferred income taxes                           | 3,984       | (4,453      | ) |
| Treasury stock, at cost, 610,725 shares at September 30, 2011 and 612,695 shares at December 31, 2010 | (15,270     | )(15,356    | ) |
| Total stockholders' equity  | 224,530     | 230,681     |   |
| Total liabilities and stockholders' equity  | \$1,805,743 | \$1,837,985 |   |

See Notes to the Unaudited Consolidated Financial Statements

3

---

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

| (Dollars in thousands, except per share data)                  | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |          |
|--|---|----------|--|----------|
|  | 2011  | 2010     | 2011                                       | 2010     |
| <b>Interest Income:</b>  |   |          |  |          |
| Interest and fees on loans                                     | \$12,147                                    | \$14,262 | \$37,214                                   | \$43,656 |
| Interest and dividends on taxable investment securities        | 5,871                                       | 7,688    | 18,237                                     | 23,392   |
| Interest on tax-exempt investment securities                   | 378   | 590      | 1,187                                      | 1,850    |
| Other interest income  | 4   | 32       | 20   | 57       |
| Total interest income  | 18,400                                      | 22,572   | 56,658                                     | 68,955   |
| <b>Interest Expense:</b>                                       |   |          |  |          |
| Interest on deposits   | 3,332                                       | 4,693    | 10,991                                     | 14,790   |
| Interest on short-term borrowings                              | 24  | 62       | 85   | 209      |
| Interest on long-term borrowings                               | 1,285                                       | 2,058    | 3,912                                      | 6,630    |
| Interest on junior subordinated notes held by subsidiary trust | 495   | 495      | 1,480                                      | 1,485    |
| Total interest expense   | 5,136                                       | 7,308    | 16,468                                     | 23,114   |
| Net interest income  | 13,264                                      | 15,264   | 40,190                                     | 45,841   |
| Provision for loan losses                                      | (865  | )(8,005  | )(8,471                                    | )(19,964 |
| Net interest income after provision for loan losses            | 12,399                                      | 7,259    | 31,719                                     | 25,877   |
| Gross impairment losses on investment securities               | —   | —        | —  | (1,620   |
| Less: Non-credit losses included in other comprehensive income | —   | —        | —  | 166      |
| Net impairment losses on investment securities                 | —   | —        | —  | (1,786   |
| <b>Other Income:</b>   |   |          |  |          |
| Deposit account service charges                                | 2,628                                       | 2,415    | 7,256                                      | 7,170    |
| Insurance income   | 2,324                                       | 2,216    | 7,321                                      | 6,888    |
| Trust and investment income                                    | 1,385                                       | 1,226    | 4,119                                      | 3,991    |
| Electronic banking income                                      | 1,313                                       | 1,180    | 3,818                                      | 3,443    |
| Mortgage banking income  | 370   | 354      | 1,030                                      | 856      |
| Bank owned life insurance                                      | 96  | 137      | 275  | 495      |
| Net gain on investment securities                              | 57  | 3,818    | 473  | 6,852    |
| Net gain (loss) on asset disposals and other transactions      | 389   | (4,638   | )(107                                      | )(5,969  |
| Other non-interest income                                      | 275   | 183      | 837  | 691      |
| Total other income   | 8,837                                       | 6,891    | 25,022                                     | 24,417   |
| <b>Other Expenses:</b>   |   |          |  |          |
| Salaries and employee benefit costs                            | 8,701                                       | 7,232    | 24,281                                     | 22,105   |
| Net occupancy and equipment                                    | 1,453                                       | 1,383    | 4,426                                      | 4,341    |
| Professional fees  | 807   | 847      | 2,615                                      | 2,140    |
| FDIC insurance   | 440   | 617      | 1,552                                      | 1,846    |
| Electronic banking expense                                     | 713   | 668      | 2,016                                      | 1,830    |
| Data processing and software                                   | 490   | 461      | 1,406                                      | 1,558    |
| Foreclosed real estate and other loan expenses                 | 251   | 282      | 825  | 1,400    |
| Franchise tax  | 369   | 373      | 1,128                                      | 1,120    |
| Amortization of other intangible assets                        | 141   | 224      | 455  | 704      |
| Other non-interest expense                                     | 2,065                                       | 1,871    | 6,063                                      | 5,798    |
| Total other expenses   | 15,430                                      | 13,958   | 44,767                                     | 42,842   |
| Income before income taxes                                     | 5,806                                       | 192      | 11,974                                     | 5,666    |
| Income tax (expense) benefit                                   | (1,885                                      | )221     | (3,263                                     | )(653    |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Net income   | \$3,921    | \$413      | \$8,711    | \$5,013    |
| Preferred dividends  | (237)      | (514)      | (998)      | (1,539)    |
| Net income (loss) available to common shareholders             | \$3,684    | \$(101)    | \$7,713    | \$3,474    |
| Earnings (loss) per common share - basic                       | \$0.35     | \$(0.01)   | \$0.74     | \$0.33     |
| Earnings (loss) per common share - diluted                     | \$0.35     | \$(0.01)   | \$0.73     | \$0.33     |
| Weighted-average number of common shares outstanding - basic   | 10,484,609 | 10,437,770 | 10,478,310 | 10,417,316 |
| Weighted-average number of common shares outstanding - diluted | 10,519,673 | 10,437,770 | 10,498,708 | 10,425,463 |
| Cash dividends declared on common shares                       | \$1,060    | \$1,053    | \$2,118    | \$3,158    |
| Cash dividends declared per common share                       | \$0.10     | \$0.10     | \$0.20     | \$0.30     |
| See Notes to the Unaudited Consolidated Financial Statements   |            |            |            |            |

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands)   | Preferred<br>Stock | Common<br>Stock | Retained<br>Earnings | Accumulated<br>Comprehensive<br>Income (Loss) | Other<br>Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|--|--------------------|-----------------|----------------------|---|----------------------------|----------------------------------|
| Balance, December 31, 2010                                       | \$38,645           | \$166,298       | \$45,547             | \$(4,453)                                     | \$(15,356)                 | \$230,681                        |
| Net income   |                    |                 | 8,711                |   |                            | 8,711                            |
| Other comprehensive income, net of tax                           |                    |                 |                      | 8,437   |                            | 8,437                            |
| Preferred stock dividends  |                    |                 | (768)                | )   |                            | (768)                            |
| Amortization of discount on preferred stock                      | 230                |                 | (230)                | )   |                            | —                                |
| Common stock cash dividends declared                             |                    |                 | (2,118)              | )   |                            | (2,118)                          |
| Reissuance of treasury stock for deferred compensation plan      |                    |                 |                      |   | 176                        | 176                              |
| Purchase of treasury stock                                       |                    |                 |                      |   | (90)                       | (90)                             |
| Common shares issued under dividend reinvestment plan            |                    | 240             |                      |   |                            | 240                              |
| Common shares issued under Board of Directors' compensation plan |                    | 75              |                      |   |                            | 75                               |
| Stock-based compensation expense                                 |                    | 186             |                      |   |                            | 186                              |
| Repurchase of preferred stock                                    | (21,000)           | )               |                      |   |                            | (21,000)                         |
| Balance, September 30, 2011                                      | \$17,875           | \$166,799       | \$51,142             | \$3,984                                       | \$(15,270)                 | \$224,530                        |

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| (Dollars in thousands)                                 | Nine Months Ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2011                               | 2010      |
| Net cash provided by operating activities              | \$32,800                           | \$33,280  |
| Investing activities:                                  |                                    |           |
| Available-for-sale securities:                         |                                    |           |
| Purchases  | (174,082)                          | (207,754) |
| Proceeds from sales                                    | 59,868                             | 150,617   |
| Proceeds from maturities, calls and prepayments        | 88,989                             | 152,995   |
| Purchase of held-to-maturity securities                | —                                  | (2,000)   |
| Net decrease in loans                                  | 47                                 | 18,819    |
| Net expenditures for premises and equipment            | (1,100)                            | (1,447)   |
| Proceeds from sales of other real estate owned         | 1,534                              | 444       |
| Investment in limited partnership and tax credit funds | (234)                              | (249)     |
| Net cash (used in) provided by investing activities    | (24,978)                           | 111,425   |
| Financing activities:                                  |                                    |           |
| Net increase in non-interest-bearing deposits          | 20,516                             | 11,693    |
| Net decrease in interest-bearing deposits              | (39,619)                           | (15,214)  |
| Net increase (decrease) in short-term borrowings       | 7,046                              | (27,861)  |
| Proceeds from long-term borrowings                     | —                                  | 5,000     |
| Payments on long-term borrowings                       | (13,732)                           | (81,392)  |
| Repurchase of preferred shares                         | (21,000)                           | —         |



Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|  |          |            |   |
|--|----------|------------|---|
| Preferred stock dividends                            | (899     | ) (1,463   | ) |
| Cash dividends paid on common shares                 | (2,940   | ) (2,844   | ) |
| Purchase of treasury stock                           | (90      | ) (136     | ) |
| Proceeds from issuance of common shares              | 9        | 445        |   |
| Excess tax expense for stock-based compensation      | —        | (46        | ) |
| Net cash used in financing activities                | (50,709  | ) (111,818 | ) |
| Net (decrease) increase in cash and cash equivalents | (42,887  | ) 32,887   |   |
| Cash and cash equivalents at beginning of period     | 74,644   | 41,773     |   |
| Cash and cash equivalents at end of period           | \$31,757 | \$74,660   |   |

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

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

Note 1 Summary of Significant Accounting Policies

---

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2010 ("2010 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2010 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2011, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2010, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2010 Form 10-K.

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

New Accounting Pronouncements: In April 2011, the FASB issued an accounting update that clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. The update supersedes the FASB's previous deferral of additional disclosures about troubled debt restructurings. For a loan restructuring to constitute a troubled debt restructuring ("TDR"), a creditor must conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. Peoples adopted this new guidance on July 1, 2011, as required. As a result of this adoption, commercial real estate loans with an aggregate recorded value of \$3.0 million were deemed to be TDRs. These loans previously were considered impaired.

As described in Note 1 of Peoples' 2010 Form 10-K, impaired loans are placed on nonaccrual status and are allocated a specific portion of the allowance for loan losses, if necessary, to reduce the net reported value of the loan to its estimated net realizable value. The net realizable value of the restructured loan is based upon a discounted cash flow analysis or the estimated value of the collateral that is securing the loan, if repayment of the loan is dependent upon the sale of the collateral. If a restructuring of a loan occurs subsequent to the loan being considered impaired, the restructuring will not have an impact on Peoples' financial statements as the loan will already be recorded at its net realizable value. If a loan is restructured prior to the loan being classified as impaired, the loan will be valued in the same manner as an impaired loan. Therefore, there will be an adjustment to the allowance for loan losses based upon the net realizable value of the restructured loan. All of the loans classified as TDRs under the new accounting were considered impaired prior to being restructured. Thus, the determination of these loans being TDRs had no impact on the recorded values of these loans or the related valuation allowance.

Note 2 Fair Value of Financial Instruments

---

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

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

Table of Contents

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.

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

Assets measured at fair value on a recurring basis comprised the following at September 30, 2011:

| (Dollars in thousands)                 | Fair Value | Fair Value Measurements at Reporting Date Using                |   |   |
|--|------------|--|---|---|
|  |            | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| September 30, 2011                     |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| U.S. Treasury and government agencies  | \$34       | \$—  | \$34  | \$—                                       |
| U.S. government sponsored agencies     | 13,004     | —  | 13,004  | —   |
| States and political subdivisions      | 38,112     | —  | 38,112  | —   |
| Residential mortgage-backed securities | 539,094    | —  | 539,094                                       | —   |
| Commercial mortgage-backed securities  | 36,401     | —  | 36,401  | —   |
| Bank-issued trust preferred securities | 12,681     | —  | 12,681  | —   |
| Equity securities                      | 3,333      | 3,208  | 125   | —   |
| Total available-for-sale securities    | \$642,659  | \$3,208  | \$639,451                                     | \$—                                       |
| December 31, 2010                      |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| U.S. Treasury and government agencies  | \$39       | \$—  | \$39  | \$—                                       |
| U.S. government sponsored agencies     | 12,262     | —  | 12,262  | —   |
| States and political subdivisions      | 47,379     | —  | 47,379  | —   |
| Residential mortgage-backed securities | 507,534    | 18,179   | 489,355                                       | —   |
| Commercial mortgage-backed securities  | 30,700     | 3,545  | 27,155  | —   |
| Bank-issued trust preferred securities | 12,984     | —  | 12,984  | —   |
| Equity securities                      | 3,088      | 2,960  | 128   | —   |
| Total available-for-sale securities    | \$613,986  | \$24,684   | \$589,302                                     | \$—                                       |

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2). The fair values of the residential and commercial mortgage-backed securities measured at fair value using Level 1 inputs at December 31, 2010 represented the purchase price of the securities since they were acquired near year-end 2010. At September 30, 2011, these securities were classified as Level 2 as a pricing model was used to value the securities, which was consistent with the rest of the

classification for the sector.

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

7

---

Table of Contents

**Impaired Loans:** Impaired loans are measured and reported at fair value when management believes collection of contractual interest and principal payments is doubtful. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2011, impaired loans with an aggregate outstanding principal balance of \$9.4 million were measured and reported at a fair value of \$7.9 million. For the three and nine months ended September 30, 2011, Peoples recognized losses on impaired loans of \$0.6 million and \$1.5 million, respectively, through the allowance for loan losses.

**Other Real Estate Owned:** Other real estate owned ("OREO") is measured and reported at fair value when the current book value exceeds the estimated fair value of the property. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the property based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 Inputs). At September 30, 2011, Peoples had \$3.6 million of OREO which was measured and reported at a fair value of \$2.3 million. As a result, Peoples recorded losses of \$60,000 and \$1.3 million through earnings for the three and nine months ended September 30, 2011, respectively.

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

| (Dollars in thousands)                             | September 30, 2011 |             | December 31, 2010 |             |
|--|--------------------|-------------|-------------------|-------------|
|  | Carrying Amount    | Fair Value  | Carrying Amount   | Fair Value  |
| <b>Financial assets:</b>                           |                    |             |                   |             |
| Cash and cash equivalents                          | \$31,757           | \$31,757    | \$74,644          | \$74,644    |
| Investment securities                              | 669,981            | 670,058     | 641,307           | 641,296     |
| Loans  | 929,405            | 838,720     | 938,707           | 825,547     |
| <b>Financial liabilities:</b>                      |                    |             |                   |             |
| Deposits   | \$1,342,566        | \$1,357,069 | \$1,361,600       | \$1,380,336 |
| Short-term borrowings                              | 58,555             | 58,555      | 51,509            | 51,509      |
| Long-term borrowings                               | 143,970            | 157,256     | 157,703           | 164,075     |
| Junior subordinated notes held by subsidiary trust | 22,592             | 23,785      | 22,565            | 23,861      |

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

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

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

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

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

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

Table of Contents

## Note 3 Investment Securities

## Available-for-sale

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

| (Dollars in thousands)                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|------------|
| September 30, 2011                     |                   |                              |                               |            |
| Obligations of:                        |                   |                              |                               |            |
| U.S. Treasury and government agencies  | \$34              | \$—                          | \$—                           | \$34       |
| U.S. government sponsored agencies     | 12,400            | 604                          | —                             | 13,004     |
| States and political subdivisions      | 35,697            | 2,415                        | —                             | 38,112     |
| Residential mortgage-backed securities | 534,200           | 15,639                       | (10,745)                      | 539,094    |
| Commercial mortgage-backed securities  | 35,852            | 549                          | —                             | 36,401     |
| Bank-issued trust preferred securities | 13,883            | 2                            | (1,204)                       | 12,681     |
| Equity securities                      | 1,213             | 2,216                        | (96)                          | 3,333      |
| Total available-for-sale securities    | \$633,279         | \$21,425                     | \$(12,045)                    | \$642,659  |
| December 31, 2010                      |                   |                              |                               |            |
| Obligations of:                        |                   |                              |                               |            |
| U.S. Treasury and government agencies  | \$38              | \$1                          | \$—                           | \$39       |
| U.S. government sponsored agencies     | 12,753            | 55                           | (546)                         | 12,262     |
| States and political subdivisions      | 46,717            | 1,063                        | (401)                         | 47,379     |
| Residential mortgage-backed securities | 512,399           | 14,155                       | (19,020)                      | 507,534    |
| Commercial mortgage-backed securities  | 30,124            | 648                          | (72)                          | 30,700     |
| Bank-issued trust preferred securities | 13,877            | 79                           | (972)                         | 12,984     |
| Equity securities                      | 1,214             | 1,970                        | (96)                          | 3,088      |
| Total available-for-sale securities    | \$617,122         | \$17,971                     | \$(21,107)                    | \$613,986  |

Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both September 30, 2011 and December 31, 2010.

At September 30, 2011, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies that exceeded 10% of stockholders' equity. Peoples had pledged investment securities with a carrying value of \$366.1 million and \$394.7 million at September 30, 2011 and December 31, 2010, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged investment securities with carrying values of \$69.5 million and \$28.1 million at September 30, 2011 and December 31, 2010, respectively, to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

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

| (Dollars in thousands) | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|------------------------|-------------------------------------|---------|------------------------------------|---------|
|                        | 2011                                | 2010    | 2011                               | 2010    |
| Gross gains realized   | \$612                               | \$5,272 | \$1,110                            | \$8,306 |
| Gross losses realized  | 555                                 | 1,454   | 637                                | 1,454   |
| Net gain realized      | \$57                                | \$3,818 | \$473                              | \$6,852 |

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





Table of Contents

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

| (Dollars in thousands)                 | Less than 12 Months |                 |                   | 12 Months or More |                 |                   | Total      |                 |
|--|---------------------|-----------------|-------------------|-------------------|-----------------|-------------------|------------|-----------------|
|  | Fair Value          | Unrealized Loss | No. of Securities | Fair Value        | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| September 30, 2011                     |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| U.S. government sponsored agencies     | \$—                 | \$—             | —                 | \$—               | \$—             | —                 | \$—        | \$—             |
| States and political subdivisions      | —                   | —               | —                 | —                 | —               | —                 | —          | —               |
| Residential mortgage-backed securities | 57,381              | 1,064           | 12                | 84,245            | 9,681           | 14                | 141,626    | 10,745          |
| Commercial mortgage-backed securities  | —                   | —               | —                 | —                 | —               | —                 | —          | —               |
| Bank-issued trust preferred securities | 7,981               | 432             | 6                 | 2,225             | 772             | 3                 | 10,206     | 1,204           |
| Equity securities                      | —                   | —               | —                 | 80                | 96              | 1                 | 80         | 96              |
| Total                                  | \$65,362            | \$1,496         | 18                | \$86,550          | \$10,549        | 18                | \$151,912  | \$12,045        |
| December 31, 2010                      |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| U.S. government sponsored agencies     | \$11,202            | \$546           | 1                 | \$—               | \$—             | —                 | \$11,202   | \$546           |
| States and political subdivisions      | 13,055              | 401             | 19                | —                 | —               | —                 | 13,055     | 401             |
| Residential mortgage-backed securities | 152,075             | 13,080          | 23                | 39,540            | 5,939           | 9                 | 191,615    | 19,019          |
| Commercial mortgage-backed securities  | 21,388              | 72              | 4                 | —                 | —               | —                 | 21,388     | 72              |
| Bank-issued trust preferred securities | 4,290               | 47              | 3                 | 5,144             | 925             | 5                 | 9,434      | 972             |
| Equity securities                      | —                   | —               | —                 | 80                | 96              | 1                 | 80         | 96              |
| Total                                  | \$202,010           | \$14,146        | 50                | \$44,764          | \$6,960         | 15                | \$246,774  | \$21,106        |

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2011, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2011 and December 31, 2010, were attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2011, the residential mortgage-backed securities that have been at an unrealized loss position for less than twelve months consisted almost entirely of securities issued by U.S government sponsored agencies. Additionally, approximately 96% of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more were issued by U.S government sponsored agencies. Of the remaining mortgage-backed securities, all of the underlying mortgages were originated prior to 2004. Furthermore, six of the nine bank-issued trust preferred securities were within 90% of book value, while the unrealized losses for the remaining three were primarily attributable to the floating nature of these investments and the current interest rate environment. Of the positions with a fair value less than 90% of their book value, four of the ten securities were mortgage-backed securities issued by U.S government sponsored agencies. The remaining securities were limited to three variable rate bank-issued trust preferred securities, which had an aggregate book value of \$3.0 million and fair value of \$2.2

million at September 30, 2011, and three variable rate residential mortgage-backed securities with book and market values of \$2.3 million and \$1.6 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and current market interest rates.

Table of Contents

The table below presents the amortized cost, fair value and weighted-average yield of securities by contractual maturity at September 30, 2011. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

| (Dollars in thousands)                 | Within 1 Year | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total     |   |
|--|---------------|--------------|---------------|---------------|-----------|---|
| Amortized cost                         |               |              |               |               |           |   |
| Obligations of:                        |               |              |               |               |           |   |
| U.S. Treasury and government agencies  | \$—           | \$12         | \$22          | \$—           | \$34      |   |
| U.S. government sponsored agencies     | —             | 783          | 11,617        | —             | 12,400    |   |
| States and political subdivisions      | 3,037         | 5,892        | 9,817         | 16,951        | 35,697    |   |
| Residential mortgage-backed securities | —             | 5,885        | 49,627        | 478,688       | 534,200   |   |
| Commercial mortgage-backed securities  | —             | —            | 34,575        | 1,277         | 35,852    |   |
| Bank-issued trust preferred securities | —             | —            | —             | 13,883        | 13,883    |   |
| Equity securities                      | —             | —            | —             | 1,213         | 1,213     |   |
| Total available-for-sale securities    | \$3,037       | \$12,572     | \$105,658     | \$512,012     | \$633,279 |   |
| Fair value                             |               |              |               |               |           |   |
| Obligations of:                        |               |              |               |               |           |   |
| U.S. Treasury and government agencies  | \$—           | \$12         | \$22          | \$—           | \$34      |   |
| U.S. government sponsored agencies     | —             | 846          | 12,158        | —             | 13,004    |   |
| States and political subdivisions      | 3,066         | 6,092        | 10,784        | 18,170        | 38,112    |   |
| Residential mortgage-backed securities | —             | 6,531        | 51,662        | 480,901       | 539,094   |   |
| Commercial mortgage-backed securities  | —             | —            | 34,995        | 1,406         | 36,401    |   |
| Bank-issued trust preferred securities | —             | —            | —             | 12,681        | 12,681    |   |
| Equity securities                      | —             | —            | —             | 3,333         | 3,333     |   |
| Total available-for-sale securities    | \$3,066       | \$13,481     | \$109,621     | \$516,491     | \$642,659 |   |
| Total average yield                    | 5.76          | % 5.66       | % 4.32        | % 3.75        | % 3.89    | % |

**Held-to-Maturity**

At September 30, 2011, Peoples' held-to-maturity investments consisted of two qualified school construction bonds that are classified as held-to-maturity because of Peoples' intent and ability to hold the securities to maturity given uncertainty regarding ownership rights of associated tax credits. These securities are carried at an aggregate amortized cost of \$3.0 million and have gross unrealized gains totaling \$76,831; weighted average cash coupon and tax credit rates of 1.83% and 6.09%, respectively, and remaining contractual maturity over 10 years.

**Other Securities**

Peoples' other investment securities on the Consolidated Balance Sheets consisted solely of restricted equity securities of the FHLB and the FRB. These securities are carried at cost since they do not have readily determinable fair values due to their restricted nature and Peoples does not exercise significant influence over the entities.

Table of Contents

## Note 4 Loans

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

|                             | September 30,<br>2011 | December 31,<br>2010 |
|-----------------------------|-----------------------|----------------------|
| (Dollars in thousands)      |                       |                      |
| Commercial real estate      | \$424,741             | \$425,528            |
| Commercial and industrial   | 140,058               | 153,713              |
| Real estate construction    | 26,751                | 27,595               |
| Residential real estate     | 222,374               | 219,833              |
| Home equity lines of credit | 48,085                | 48,525               |
| Consumer                    | 87,072                | 83,323               |
| Deposit account overdrafts  | 1,712                 | 2,201                |
| Total loans                 | \$950,793             | \$960,718            |

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

|                           | September 30,<br>2011 | December 31,<br>2010 |
|---------------------------|-----------------------|----------------------|
| (Dollars in thousands)    |                       |                      |
| Commercial real estate    | \$3,878               | \$3,616              |
| Commercial and industrial | 202                   | 200                  |
| Residential real estate   | 14,917                | 17,893               |
| Consumer                  | 119                   | 123                  |
| Total outstanding balance | \$19,116              | \$21,832             |
| Net carrying amount       | \$18,515              | \$21,229             |

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$185.6 million and \$181.8 million at September 30, 2011 and December 31, 2010, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$133.4 million and \$195.6 million at September 30, 2011 and December 31, 2010, respectively.

**Nonaccrual and Past Due Loans**

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

|                             | Nonaccrual Loans      |                      | Accruing Loans<br>90+ Days Past Due |                      |
|-----------------------------|-----------------------|----------------------|-------------------------------------|----------------------|
|                             | September 30,<br>2011 | December 31,<br>2010 | September 30,<br>2011               | December 31,<br>2010 |
| (Dollars in thousands)      |                       |                      |                                     |                      |
| Commercial real estate      | \$25,658              | \$34,392             | \$—                                 | \$—                  |
| Commercial and industrial   | 2,468                 | 1,714                | 20                                  | —                    |
| Real estate construction    | —                     | —                    | —                                   | —                    |
| Residential real estate     | 4,558                 | 3,790                | 126                                 | 27                   |
| Home equity lines of credit | 271                   | 554                  | —                                   | —                    |
| Consumer                    | 2                     | —                    | —                                   | —                    |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|       |          |          |       |      |
|-------|----------|----------|-------|------|
| Total | \$32,957 | \$40,450 | \$146 | \$27 |
|-------|----------|----------|-------|------|

At December 31, 2010, nonaccrual commercial real estate loans with an aggregate carrying amount of \$951,000 were classified as held-for-sale and thus excluded for the table above. During the second quarter of 2011, one loan with a carrying value of \$379,000 was sold for a gain of \$371,000, while the remaining loans were transferred to OREO.

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

| (Dollars in thousands)      | Loans Past Due |              |           | Total    | Current<br>Loans | Total<br>Loans |
|-----------------------------|----------------|--------------|-----------|----------|------------------|----------------|
|                             | 30 - 59 days   | 60 - 89 days | 90 + Days |          |                  |                |
| September 30, 2011          |                |              |           |          |                  |                |
| Commercial real estate      | \$1,944        | \$887        | \$11,746  | \$14,577 | \$410,164        | \$424,741      |
| Commercial and industrial   | 390            | 3            | 20        | 413      | 139,645          | 140,058        |
| Real estate construction    | —              | —            | —         | —        | 26,751           | 26,751         |
| Residential real estate     | 4,897          | 902          | 3,023     | 8,822    | 213,552          | 222,374        |
| Home equity lines of credit | 237            | —            | 271       | 508      | 47,577           | 48,085         |
| Consumer                    | 448            | 82           | 2         | 532      | 86,540           | 87,072         |
| Deposit account overdrafts  | 57             | —            | —         | 57       | 1,655            | 1,712          |
| Total                       | \$7,973        | \$1,874      | \$15,062  | \$24,909 | \$925,884        | \$950,793      |
| December 31, 2010           |                |              |           |          |                  |                |
| Commercial real estate      | \$2,952        | \$5,171      | \$13,816  | \$21,939 | \$403,589        | \$425,528      |
| Commercial and industrial   | 563            | 12           | 247       | 822      | 152,891          | 153,713        |
| Real estate construction    | 100            | —            | 872       | 972      | 26,623           | 27,595         |
| Residential real estate     | 4,481          | 2,229        | 2,739     | 9,449    | 210,384          | 219,833        |
| Home equity lines of credit | 186            | 58           | 458       | 702      | 47,823           | 48,525         |
| Consumer                    | 725            | 119          | —         | 844      | 82,479           | 83,323         |
| Deposit account overdrafts  | —              | —            | —         | —        | 2,201            | 2,201          |
| Total                       | \$9,007        | \$7,589      | \$18,132  | \$34,728 | \$925,990        | \$960,718      |

#### Credit Quality Indicators

As discussed in Note 1 of Peoples' 2010 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

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

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

“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that Peoples will sustain some loss if the deficiencies are not corrected.

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



Table of Contents

“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category. Consumer loans and other smaller-balance loans are evaluated and categorized as “substandard”, “doubtful” or “loss” based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually nor meeting the regulatory conditions to be categorized as describe above would be considered as being “not rated”.

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

| (Dollars in thousands)      | Pass Rated<br>(Grades 1 - 4) | Watch<br>(Grade 5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade 7) | Not<br>Rated | Total<br>Loans |
|-----------------------------|------------------------------|--------------------|--------------------------|-----------------------|--------------|----------------|
| September 30, 2011          |                              |                    |                          |                       |              |                |
| Commercial real estate      | \$ 317,570                   | \$ 39,060          | \$ 60,228                | \$ —                  | \$ 7,883     | \$ 424,741     |
| Commercial and industrial   | 102,731                      | 9,804              | 7,308                    | —                     | 20,215       | 140,058        |
| Real estate construction    | 19,936                       | 2,950              | 2,081                    | —                     | 1,784        | 26,751         |
| Residential real estate     | 28,348                       | 3,508              | 10,981                   | 18                    | 179,519      | 222,374        |
| Home equity lines of credit | 1,290                        | 280                | 1,368                    | —                     | 45,147       | 48,085         |
| Consumer                    | 80                           | —                  | —                        | —                     | 86,992       | 87,072         |
| Deposit account overdrafts  | —                            | —                  | —                        | —                     | 1,712        | 1,712          |
| Total                       | \$ 469,955                   | \$ 55,602          | \$ 81,966                | \$ 18                 | \$ 343,252   | \$ 950,793     |
| December 31, 2010           |                              |                    |                          |                       |              |                |
| Commercial real estate      | \$ 303,997                   | \$ 47,203          | \$ 71,765                | \$ —                  | \$ 2,563     | \$ 425,528     |
| Commercial and industrial   | 123,612                      | 6,340              | 9,446                    | 247                   | 14,068       | 153,713        |
| Real estate construction    | 17,284                       | 3,545              | 4,010                    | —                     | 2,756        | 27,595         |
| Residential real estate     | 19,326                       | 4,144              | 10,035                   | —                     | 186,328      | 219,833        |
| Home equity lines of credit | 284                          | 340                | 2,108                    | —                     | 45,793       | 48,525         |
| Consumer                    | 89                           | —                  | —                        | —                     | 83,234       | 83,323         |
| Deposit account overdrafts  | —                            | —                  | —                        | —                     | 2,201        | 2,201          |
| Total                       | \$ 464,592                   | \$ 61,572          | \$ 97,364                | \$ 247                | \$ 336,943   | \$ 960,718     |

## Impaired Loans

The following tables summarize loans classified as impaired:

| (Dollars in thousands)      | Unpaid<br>Principal<br>Balance | Recorded<br>With<br>Allowance | Investment<br>Without<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-----------------------------|--------------------------------|-------------------------------|------------------------------------|---------------------------------|----------------------|-----------------------------------|----------------------------------|
| September 30, 2011          |                                |                               |                                    |                                 |                      |                                   |                                  |
| Commercial real estate      | \$ 53,398                      | \$ 3,176                      | \$ 22,258                          | \$ 25,434                       | \$ 1,095             | \$ 25,153                         | \$ —                             |
| Commercial and industrial   | 2,511                          | 1,822                         | 640                                | 2,462                           | 522                  | 1,204                             | —                                |
| Real estate construction    | —                              | —                             | —                                  | —                               | —                    | —                                 | —                                |
| Residential real estate     | 4,154                          | 800                           | 1,951                              | 2,751                           | 242                  | 2,031                             | —                                |
| Home equity lines of credit | 422                            | —                             | 271                                | 271                             | —                    | 333                               | —                                |
| Total                       | \$ 60,485                      | \$ 5,798                      | \$ 25,120                          | \$ 30,918                       | \$ 1,859             | \$ 28,721                         | \$ —                             |
| December 31, 2010           |                                |                               |                                    |                                 |                      |                                   |                                  |
| Commercial real estate      | \$ 58,178                      | \$ 6,403                      | \$ 27,550                          | \$ 33,953                       | \$ 1,789             | \$ 21,361                         | \$ 10                            |
| Commercial and industrial   | 2,333                          | 1,086                         | 729                                | 1,815                           | 572                  | 1,713                             | 5                                |
| Real estate construction    | 1,755                          | 330                           | 485                                | 815                             | 22                   | 913                               | —                                |
| Residential real estate     | 1,170                          | 631                           | 506                                | 1,137                           | 320                  | 867                               | 9                                |



Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|                             |          |         |          |          |         |          |      |
|-----------------------------|----------|---------|----------|----------|---------|----------|------|
| Home equity lines of credit | 522      | 520     | —        | 520      | 254     | 535      | —    |
| Total                       | \$63,958 | \$8,970 | \$29,270 | \$38,240 | \$2,957 | \$25,389 | \$24 |

At September 30, 2011, Peoples' impaired loans shown in the table above included loans that were classified as TDRs. The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

In assessing whether or not a borrower is experiencing financial difficulties, Peoples considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is sufficient to satisfy contractual payments due under the original terms of the loan without a modification.

Peoples considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by Peoples include the debtor's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by Peoples generally include one or more modifications to the terms of the debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or remaining term of the loan.

The following table summarizes the loans that were modified as a TDR during the three and nine months ended September 30, 2011:

|                        | Three Months Ended  |                  |                       | Nine Months Ended   |                  |                       |
|------------------------|---------------------|------------------|-----------------------|---------------------|------------------|-----------------------|
|                        | Number of Contracts | Pre-Modification | Post-Modification     | Number of Contracts | Pre-Modification | Post-Modification     |
| Commercial Real Estate | —                   | \$—              | \$ —                  | 4                   | \$3,197          | \$ 3,197              |
|                        |                     |                  | At September 30, 2011 |                     |                  | At September 30, 2011 |
|                        |                     |                  | \$—                   |                     |                  | \$3,001               |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs. Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

All of these loans were identified as being impaired prior to January 1, 2011 and no portion of the debt was forgiven, thus, the determination of these loans being categorized as TDRs had no impact on the recorded values of these loans or the related allowance during the nine months ended September 30, 2011. Therefore, the Pre-Modification and Post-Modification recorded investment is the same amount. The concessions granted to the borrowers included either acceptance of interest only payments or a reduction to the monthly payments as part of a short-term forbearance period.

The following table presents those loans modified in a TDR over the last twelve months that subsequently defaulted (i.e., 90 days or more past due following a modification) during the three and nine months ended September 30, 2011:

|                         | Three Months Ended  |                         |   | Nine Months Ended   |                         |   |
|-------------------------|---------------------|-------------------------|---|---------------------|-------------------------|---|
|                         | Number of Contracts | Recorded Investment (1) | Impact on the Allowance for Loan Losses | Number of Contracts | Recorded Investment (1) | Impact on the Allowance for Loan Losses |
| Commercial Real Estate  | 2                   | \$676                   | \$—                                     | 2                   | 676                     | —                                       |
| Residential Real Estate | 2                   | 193                     | —                                       | 2                   | 193                     | —                                       |
| Total                   | 4                   | \$869                   | \$—                                     | 4                   | 869                     | —                                       |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs. Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Peoples' has no additional commitments to lend additional funds to any of the related debtors whose terms have been modified in a TDR.

Table of Contents

## Allowance for Loan Losses

Changes in the allowance for loan losses in the periods ended September 30, were as follows:

| (Dollars in thousands)                            | Commercial<br>Real Estate | Commercial<br>and<br>Industrial | Residential Real Estate<br>Real Estate | Real Estate<br>Construction | Home<br>Equity<br>Lines of<br>Credit | Consumer | Deposit<br>Account<br>Overdrafts | Total    |
|---|---------------------------|---------------------------------|--|-----------------------------|--------------------------------------|----------|----------------------------------|----------|
| Balance, January 1, 2011                          | \$21,806                  | \$2,160                         | \$1,400                                | \$—                         | \$431                                | \$721    | \$248                            | \$26,766 |
| Charge-offs                                       | (9,715)                   | (1,004)                         | (1,253)                                | —                           | (345)                                | (687)    | (488)                            | (13,492) |
| Recoveries  | 1,453                     | 629                             | 598                                    | —                           | 37                                   | 560      | 191                              | 3,468    |
| Net (charge-offs)                                 | (8,262)                   | (375)                           | (655)                                  | —                           | (308)                                | (127)    | (297)                            | (10,024) |
| Provision for loan losses                         | 6,541                     | 578                             | 676                                    | —                           | 425                                  | (20)     | 271                              | 8,471    |
| Balance, September 30,<br>2011                    | \$20,085                  | \$2,363                         | \$1,421                                | \$—                         | \$548                                | \$574    | \$222                            | \$25,213 |
| Period-end amount allocated to:                   |                           |                                 |  |                             |                                      |          |                                  |          |
| Loans individually<br>evaluated for<br>impairment | \$1,095                   | \$522                           | \$242                                  | \$—                         | \$—                                  | \$—      | \$—                              | \$1,859  |
| Loans collectively<br>evaluated for<br>impairment | 18,990                    | 1,841                           | 1,179                                  | —                           | 548                                  | 574      | 222                              | 23,354   |
| Ending balance                                    | \$20,085                  | \$2,363                         | \$1,421                                | \$—                         | \$548                                | \$574    | \$222                            | \$25,213 |
| Balance, January 1, 2010                          | \$22,125                  | \$1,586                         | \$1,619                                | \$—                         | \$528                                | \$1,074  | \$325                            | \$27,257 |
| Charge-offs                                       | (18,655)                  | (1,173)                         | (729)                                  | (68)                        | (58)                                 | (838)    | (735)                            | (22,256) |
| Recoveries  | 1,134                     | 173                             | 114                                    | —                           | 27                                   | 544      | 253                              | 2,245    |
| Net (charge-offs)                                 | (17,521)                  | (1,000)                         | (615)                                  | (68)                        | (31)                                 | (294)    | (482)                            | (20,011) |
| Provision for loan losses                         | 16,778                    | 2,240                           | 410                                    | 68                          | —                                    | 50       | 418                              | 19,964   |
| Balance, September 30,<br>2010                    | \$21,382                  | \$2,826                         | \$1,414                                | \$—                         | \$497                                | \$830    | \$261                            | \$27,210 |
| Period-end amount allocated to:                   |                           |                                 |  |                             |                                      |          |                                  |          |
| Loans individually<br>evaluated for<br>impairment | \$1,854                   | \$1,003                         | \$—                                    | \$—                         | \$—                                  | \$—      | \$—                              | \$2,857  |
| Loans collectively<br>evaluated for<br>impairment | 19,528                    | 1,823                           | 1,414                                  | —                           | 497                                  | 830      | 261                              | 24,353   |
| Ending balance                                    | \$21,382                  | \$2,826                         | \$1,414                                | \$—                         | \$497                                | \$830    | \$261                            | \$27,210 |

Table of Contents

## Note 5 Stockholders' Equity

The following table details the progression in shares of Peoples' preferred, common and treasury stock during the period presented:

|  | Preferred Stock | Common Stock | Treasury Stock |
|--|-----------------|--------------|----------------|
| Shares at December 31, 2010                                      | 39,000          | 11,070,022   | 612,695        |
| Changes related to stock-based compensation awards:              |                 |              |                |
| Release of restricted common shares                              |                 | 5,337        | 647            |
| Changes related to deferred compensation plan:                   |                 |              |                |
| Purchase of treasury stock                                       |                 |              | 6,592          |
| Reissuance of treasury stock                                     |                 |              | (9,209)        |
| Repurchase of preferred shares                                   | (21,000)        | )            |                |
| Common shares issued under dividend reinvestment plan            |                 | 18,821       |                |
| Common shares issued under Board of Directors' compensation plan |                 | 5,945        |                |
| Shares at September 30, 2011                                     | 18,000          | 11,100,125   | 610,725        |

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by the Board of Directors. In 2009, Peoples' Board of Directors created a series of preferred shares designated as Peoples' Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of \$1,000 per share, and fixed 39,000 shares as the authorized number of such shares (the "Series A Preferred Shares"). These Series A Preferred Shares subsequently were sold to the United States Department of the Treasury (the "U.S. Treasury"), along with a ten-year warrant (the "Warrant") to purchase 313,505 Peoples common shares at an exercise price of \$18.66 per share (subject to certain anti-dilution and other adjustments), for an aggregate purchase price of \$39 million in cash in connection with Peoples' participation in the U.S. Treasury's TARP Capital Purchase Program.

The Series A Preferred Shares accrue cumulative quarterly dividends at a rate of 5% per annum from January 30, 2009 to, but excluding February 15, 2014, and 9% per annum thereafter. These dividends will be paid only if, as and when declared by Peoples' Board of Directors. The Series A Preferred Shares have no maturity date and rank senior to the common shares with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding up of Peoples. Peoples has the option to redeem the Series A Preferred Shares at 100% of their liquidation preference plus accrued and unpaid dividends, subject to the approval of the Board of Governors of the Federal Reserve System and the Office of the Comptroller of Currency. The Series A Preferred Shares are generally non-voting.

The U.S. Treasury has agreed not to exercise voting power with respect to any common shares issued to it upon exercise of the Warrant. Any common shares issued by Peoples upon exercise of the Warrant will be issued from common shares held in treasury to the extent available. If no treasury shares are available, common shares will be issued from authorized but unissued common shares.

The Securities Purchase Agreement, pursuant to which the Series A Preferred Shares and the Warrant were sold, contains limitations on the payment of dividends on the common shares after January 30, 2009. Prior to the earlier of (i) January 30, 2012 and (ii) the date on which the Series A Preferred Shares have been redeemed in whole or the U.S. Treasury has transferred the Series A Preferred Shares to third parties which are not Affiliates (as defined in the Securities Purchase Agreement) of the U.S. Treasury, any increase in common share dividends by Peoples or any of its subsidiaries would be prohibited without the prior approval of the U.S. Treasury.

If the Series A Preferred Shares were repurchased in full, Peoples has the right to repurchase the Warrant at its appraised value. Otherwise, the U.S. Treasury must liquidate the related Warrant at the current market price.

On February 2, 2011, Peoples completed the repurchase of 21,000 of the Series A Preferred Shares held by the U.S. Treasury, for an aggregate purchase price of \$21,224,583, which included a pro rata accrued dividend of approximately \$224,583. In connection with this repurchase, Peoples recognized the pro rata unamortized discount originally recorded at the time of issuance, which totaled \$186,000.

Table of Contents

In the second quarter of 2011, Peoples' Board of Directors adopted a new schedule for considering the declaration of dividends payable to common shareholders. Beginning with the second quarter 2011 dividend, Peoples' Board of Directors will determine whether to declare future dividends payable to common shareholders, if financial conditions warrant, during the first month of the following calendar quarter. Prior to the second quarter of 2011, the Board of Directors declared dividends in the final month of each calendar quarter. On July 28, 2011, the Board of Directors declared a cash dividend of \$0.10 per common share with respect to second quarter 2011 results at a regularly scheduled Board meeting. This dividend was paid on August 22, 2011, to shareholders of record on August 8, 2011. On October 27, 2011, the Board of Directors declared a cash dividend of \$0.10 per common share with respect to third quarter 2011 results at a regularly scheduled Board meeting. This dividend will be paid on November 21, 2011, to shareholders of record on November 7, 2011.

## Note 6 Comprehensive Income (Loss)

The components of other comprehensive income (loss) were as follows:

| (Dollars in thousands)  | Three Months Ended    |            | Nine Months Ended     |            |
|---|-----------------------|------------|-----------------------|------------|
|   | September 30,<br>2011 | 2010       | September 30,<br>2011 | 2010       |
| Net income  | \$3,921               | \$413      | \$8,711               | \$5,013    |
| Other comprehensive income (loss):                                    |                       |            |                       |            |
| Available-for-sale investment securities:                             |                       |            |                       |            |
| Gross unrealized holding gain (loss) arising in the period            | 4,505                 | (4,915 )   | 12,989                | (12,681 )  |
| Related tax (expense) benefit   | (1,577 )              | 1,720      | (4,546 )              | 4,438      |
| Less: reclassification adjustment for net gain included in net income | 57                    | 3,818      | 473                   | 5,066      |
| Related tax expense   | (21 )                 | (1,337 )   | (166 )                | (1,773 )   |
| Net effect on other comprehensive income (loss)                       | 2,892                 | (5,676 )   | 8,136                 | (11,536 )  |
| Defined benefit plans:  |                       |            |                       |            |
| Amortization of unrecognized loss and service cost on pension plan    | 387                   | 38         | 464                   | 115        |
| Related tax expense   | (136 )                | (13 )      | (163 )                | (40 )      |
| Net effect on other comprehensive income                              | 251                   | 25         | 301                   | 75         |
| Total other comprehensive income (loss), net of tax                   | 3,143                 | (5,651 )   | 8,437                 | (11,461 )  |
| Total comprehensive income (loss)                                     | \$7,064               | \$(5,238 ) | \$17,148              | \$(6,448 ) |

The following details the change in the components of Peoples' accumulated other comprehensive income (loss) for the nine months ended September 30, 2011:

| (Dollars in thousands)            | Unrealized (Loss) Gain<br>on Securities | Unrecognized Net<br>Pension and<br>Postretirement Costs | Accumulated<br>Comprehensive (Loss)<br>Income |
|-----------------------------------|---|---|---|
| Balance, December 31, 2010        | \$(2,038                                | )(2,415   | )(4,453                                       |
| Current period change, net of tax | 8,136                                   | 301   | 8,437   |
| Balance, September 30, 2011       | \$6,098                                 | \$(2,114  | )\$3,984                                      |

## Note 7 Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before

January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation pay over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. On November 18, 2010, Peoples' Board of Directors authorized a freeze of the accrual of pension plans benefits, which was effective March 1, 2011. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Peoples also has a contributory post-retirement benefit plan for former employees who were retired as of December 31, 1992. The plan provides health and life insurance benefits. Peoples' policy is to fund the cost of the benefits as they are incurred.

Table of Contents

The following tables detail the components of the net periodic benefit cost for the plans:

| (Dollars in thousands)             | Pension Benefits   |       |                   |       |
|------------------------------------|--------------------|-------|-------------------|-------|
|                                    | Three Months Ended |       | Nine Months Ended |       |
|                                    | September 30,      |       | September 30,     |       |
|                                    | 2011               | 2010  | 2011              | 2010  |
| Service cost                       | \$—                | \$188 | \$—               | \$563 |
| Interest cost                      | 180                | 196   | 553               | 588   |
| Expected return on plan assets     | (254               | )(287 | )(810             | )(861 |
| Amortization of prior service cost | —                  | 1     | —                 | 3     |
| Amortization of net loss           | 19                 | 37    | 49                | 112   |
| Settlement of benefit obligation   | 408                | —     | 408               | —     |
| Net periodic benefit cost          | \$353              | \$135 | \$200             | \$405 |

Under US GAAP, Peoples is required to recognize a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the unrealized gain or loss existing immediately prior to the settlement. In general, both the projected benefit obligation and fair value of plan assets are required to be remeasured in order to determine the settlement gain or loss.

In the third quarter of 2011, the total lump-sum distributions made to participants, when added to the lump-sum distributions made in the first two quarters of 2011, caused the total settlements through nine months of 2011 to exceed the recognition threshold for settlement gains or losses. As a result, Peoples remeasured its pension obligation and plan assets as of July 1, 2011 as part of the calculation of the settlement loss recognized. The following table summarizes the change in pension obligation and funded status as a result of this remeasurement and the aggregate settlements for the nine months ended September 30, 2011:

| (Dollars in thousands)       | September 30, 2011            |                      |                          |                      |
|------------------------------|-------------------------------|----------------------|--------------------------|----------------------|
|                              | As of<br>December 31,<br>2010 | Before<br>Settlement | Impact of<br>Settlements | After<br>Settlements |
| Funded status:               |                               |                      |                          |                      |
| Projected benefit obligation | \$12,501                      | \$14,730             | \$(820                   | )\$13,910            |
| Fair value of plan assets    | 12,543                        | 11,433               | (820                     | )10,613              |
| Funded status                | \$42                          | \$(3,297             | ) \$—                    | \$(3,297             |
| Gross unrealized loss        | \$3,723                       | \$7,290              | \$(408                   | )\$6,882             |

## Assumptions:

|                                |      |       |   |      |   |
|--------------------------------|------|-------|---|------|---|
| Discount rate                  | 5.70 | %5.10 | % | 5.10 | % |
| Expected return on plan assets | 8.50 | %7.50 | % | 7.50 | % |

The reduction in discount rate corresponds with the decrease in market interest rates experienced since year-end 2010. The determination of the expected return on plan assets continues to be based upon the expected return of each category of the plan's assets. Peoples' investment strategy for the plan's assets continues to allocate 60% to 75% to equity securities. The returns generated by equity securities over the last 10 years have been significantly lower than their long-term historical annual returns due in part to unfavorable economic conditions. Thus, Peoples lowered its expected return on equity securities from their long-term historical rate, which had a corresponding impact on overall expected return on plan assets. These assumption changes caused the net periodic expense for the third and fourth quarters of 2011 to increase by approximately \$25,000 and \$50,000, respectively, compared to the amounts that would have been recorded had the original assumptions been maintained.



Table of Contents

| (Dollars in thousands)             | Postretirement Benefits |      |                   |      |     |   |
|------------------------------------|-------------------------|------|-------------------|------|-----|---|
|                                    | Three Months Ended      |      | Nine Months Ended |      |     |   |
|                                    | September 30,           |      | September 30,     |      |     |   |
|                                    | 2011                    | 2010 | 2011              | 2010 |     |   |
| Service cost                       | \$—                     | \$—  | \$—               | \$—  |     |   |
| Interest cost                      | 3                       | 4    | 9                 | 10   |     |   |
| Expected return on plan assets     | —                       | —    | —                 | —    |     |   |
| Amortization of prior service cost | —                       | (1   | )                 | (2   | )   |   |
| Amortization of net loss           | (3                      | )(2  | )                 | (7   | )(7 | ) |
| Net periodic benefit cost          | \$—                     | \$1  | \$2               | \$1  |     |   |

## Note 8 Stock-Based Compensation

Under the Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan (the “2006 Equity Plan”), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights or any combination thereof covering up to 500,000 common shares to employees and non-employee directors. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights (“SARs”) to be settled in common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan.

In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

## Stock Options

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

The following table summarizes Peoples’ stock options outstanding at September 30, 2011:

| Range of Exercise Prices |    | Options Outstanding & Exercisable            |   |                                 |         |
|--------------------------|----|--|---|---------------------------------|---------|
|                          |    | Common Shares Subject to Options Outstanding | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price |         |
| \$15.55                  | to | \$21.71                                      | 9,876                                       | 0.7 years                       | \$20.08 |
| \$21.72                  | to | \$23.58                                      | 47,640                                      | 1.3 years                       | 22.32   |
| \$23.59                  | to | \$25.94                                      | 41,343                                      | 0.7 years                       | 23.96   |
| \$26.01                  | to | \$27.74                                      | 41,354                                      | 2.6 years                       | 27.08   |
| \$28.25                  | to | \$28.26                                      | 34,028                                      | 3.4 years                       | 28.25   |
| \$28.57                  | to | \$30.00                                      | 31,410                                      | 3.2 years                       | 29.02   |
| Total                    |    |  | 205,651                                     | 2.0 years                       | \$25.50 |

## Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples’ common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted will vest three years from the grant date and expire ten years from the date of grant.



Table of Contents

The following table summarizes Peoples' SARs outstanding at September 30, 2011:

| Exercise Price | Number of Common Shares Subject to SARs Outstanding & Exercisable | Weighted-Average Remaining Contractual Life |
|----------------|---|---|
| \$23.26        | 5,000   | 2.3 years                                   |
| \$23.77        | 18,936  | 6.3 years                                   |
| \$23.80        | 1,000   | 6.2 years                                   |
| \$29.25        | 17,506  | 4.2 years                                   |
| Total          | 42,442  | 5.0 years                                   |

## Restricted Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on common shares awarded to non-employee directors expire after six months, while the restrictions on common shares awarded to employees expire after three years. In the first quarter of 2011, Peoples granted restricted shares to officers and key employees with both a two-year time-based vesting period and a two-year performance-based vesting period. For the restricted shares subject to performance-based vesting, the restrictions on these restricted shares will lapse after two years upon the achievement of cumulative diluted earnings per common share of \$3.10 for the three-year period ending December 31, 2012.

The following summarizes the changes to Peoples' restricted common shares for the period ended September 30, 2011:

|                             | Time Vesting     |  | Performance Vesting |  |
|-----------------------------|------------------|--|---------------------|--|
|                             | Number of Shares | Weighted-Average Grant Date Fair Value | Number of Shares    | Weighted-Average Grant Date Fair Value |
| Outstanding at January 1    | 7,337            | \$19.88                                | —                   | \$—                                    |
| Awarded                     | 41,423           | 13.01                                  | 3,531               | 13.14                                  |
| Released                    | 5,337            | 22.09                                  | —                   | —                                      |
| Outstanding at September 30 | 43,423           | \$13.06                                | 3,531               | \$13.14                                |

For the nine months ended September 30, 2011, the total intrinsic value of restricted common shares released was \$72,000.

## Stock-Based Compensation

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

| (Dollars in thousands)         | Three Months Ended September 30, |      | Nine Months Ended September 30, |      |
|--------------------------------|----------------------------------|------|---------------------------------|------|
|                                | 2011                             | 2010 | 2011                            | 2010 |
| Total stock-based compensation | \$90                             | \$23 | \$186                           | \$74 |
| Recognized tax benefit         | (31)                             | (8)  | (65)                            | (26) |
| Net expense recognized         | \$59                             | \$15 | \$121                           | \$48 |

Total unrecognized stock-based compensation expense related to unvested awards was \$234,000 at September 30, 2011, which will be recognized over a weighted-average period of 1.3 years.



Table of Contents

## Note 9 Earnings Per Common Share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental common shares issuable upon exercise of outstanding stock options, SARs and non-vested restricted common shares using the treasury stock method. As disclosed in Note 5, Peoples had a Warrant to purchase 313,505 common shares outstanding at September 30, 2011. This Warrant was excluded from the calculation of diluted earnings (loss) per common share since it was anti-dilutive. In addition, stock options and SARs covering 248,093 and 251,319 common shares were excluded from the calculations for the nine months ended September 30, 2011 and 2010, respectively, since they were anti-dilutive.

The calculation of basic and diluted earnings (loss) per common share was as follows:

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
| (Dollars in thousands, except per common share data)     | 2011                                | 2010       | 2011                               | 2010       |
| Net income   | \$3,921                             | \$413      | \$8,711                            | \$5,013    |
| Preferred dividends                                      | 237                                 | 514        | 998                                | 1,539      |
| Net income (loss) available to common shareholders       | \$3,684                             | \$(101)    | \$7,713                            | \$3,474    |
| Weighted-average common shares outstanding               | 10,484,609                          | 10,437,770 | 10,478,310                         | 10,417,316 |
| Effect of potentially dilutive common shares             | 35,064                              | —          | 20,398                             | 8,147      |
| Total weighted-average diluted common shares outstanding | 10,519,673                          | 10,437,770 | 10,498,708                         | 10,425,463 |
| Earnings (loss) per common share:                        |                                     |            |                                    |            |
| Basic  | \$0.35                              | \$(0.01)   | \$0.74                             | \$0.33     |
| Diluted  | \$0.35                              | \$(0.01)   | \$0.73                             | \$0.33     |

Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

## SELECTED FINANCIAL DATA

The following data should be read in conjunction with the Unaudited Consolidated Financial Statements and the Management's Discussion and Analysis that follows:

|   | At or For the Three Months Ended |             | At or For the Nine Months Ended |             |   |
|---|----------------------------------|-------------|---------------------------------|-------------|---|
|   | September 30, 2011               | 2010        | September 30, 2011              | 2010        |   |
| <b>SIGNIFICANT RATIOS</b>                                       |                                  |             |                                 |             |   |
| Return on average stockholders' equity                          | 7.03                             | %0.69       | % 5.35                          | %2.78       | % |
| Return on average common stockholders' equity                   | 7.19                             | %(0.20)     | )% 5.22                         | %2.29       | % |
| Return on average assets  | 0.86                             | %0.08       | % 0.64                          | %0.34       | % |
| Net interest margin   | 3.39                             | %3.58       | % 3.42                          | %3.54       | % |
| Efficiency ratio (a)  | 69.70                            | %58.78      | % 67.44                         | %59.71      | % |
| Average stockholders' equity to average assets                  | 12.27                            | %12.14      | % 12.02                         | %12.13      | % |
| Average loans to average deposits                               | 69.95                            | %72.00      | % 69.84                         | %73.47      | % |
| Dividend payout ratio   | 28.77                            | %n/a        | 27.46                           | %90.90      | % |
| <b>ASSET QUALITY RATIOS</b>                                     |                                  |             |                                 |             |   |
| Nonperforming loans as a percent of total loans (b)(c)          | 3.47                             | %3.67       | % 3.47                          | %3.67       | % |
| Nonperforming assets as a percent of total assets (b)(c)        | 2.04                             | %2.21       | % 2.04                          | %2.21       | % |
| Allowance for loan losses to loans net of unearned interest (c) | 2.65                             | %2.69       | % 2.65                          | %2.69       | % |
| Allowance for loan losses to nonperforming loans (b)(c)         | 76.16                            | %73.12      | % 76.16                         | %73.12      | % |
| Provision for loan losses to average loans (annualized)         | 0.36                             | %3.12       | % 1.19                          | %2.57       | % |
| Net charge-offs as a percentage of average loans (annualized)   | 0.34                             | %3.11       | % 1.41                          | %2.57       | % |
| <b>CAPITAL INFORMATION (c)</b>                                  |                                  |             |                                 |             |   |
| Tier 1 common capital ratio                                     | 12.40                            | %11.13      | % 12.40                         | %11.13      | % |
| Tier 1 capital ratio  | 15.98                            | %16.22      | % 15.98                         | %16.22      | % |
| Total risk-based capital ratio                                  | 17.33                            | %17.55      | % 17.33                         | %17.55      | % |
| Leverage ratio  | 10.37                            | %10.26      | % 10.37                         | %10.26      | % |
| Tangible equity to tangible assets (d)                          | 9.19                             | %9.28       | % 9.19                          | %9.28       | % |
| Tangible common equity to tangible assets (d)                   | 8.16                             | %7.16       | % 8.16                          | %7.16       | % |
| Tangible assets (d)   | \$1,741,254                      | \$1,818,755 | \$1,741,254                     | \$1,818,755 |   |
| Tangible equity (d)   | 160,041                          | 168,825     | 160,041                         | 168,825     |   |
| Tangible common equity (d)                                      | \$142,166                        | \$130,206   | \$142,166                       | \$130,206   |   |
| <b>PER COMMON SHARE DATA</b>                                    |                                  |             |                                 |             |   |
| Earnings (loss) per share – Basic                               | \$0.35                           | \$(0.01)    | ) \$0.74                        | \$0.33      |   |
| Earnings (loss) per share – Diluted                             | 0.35                             | (0.01)      | ) 0.73                          | 0.33        |   |
| Cash dividends declared per share                               | 0.10                             | 0.10        | 0.20                            | 0.30        |   |
| Book value per share (c)  | 19.70                            | 18.69       | 19.70                           | 18.69       |   |
| Tangible book value per share (c) (d)                           | \$13.55                          | \$12.47     | \$13.55                         | \$12.47     |   |
| Weighted-average common shares outstanding – Basic              | 10,484,609                       | 10,437,770  | 10,478,310                      | 10,417,316  |   |
| Weighted-average common shares outstanding – Diluted            | 10,519,673                       | 10,437,770  | 10,498,708                      | 10,425,463  |   |

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Common shares outstanding at end of period | 10,489,400 | 10,438,510 | 10,489,400 | 10,438,510 |
|--|------------|------------|------------|------------|

- (a) Non-interest expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities and asset disposals).
- (b) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans. Nonperforming assets include nonperforming loans and other real estate owned.
- (c) Data presented as of the end of the period indicated.  
 These amounts represent non-GAAP financial measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of these measures can be found later in this discussion under the caption "Capital/Stockholders' Equity".
- (d)

Table of Contents

Forward-Looking Statements

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

- deterioration in the credit quality of Peoples’ loan portfolio could occur due to a number of factors, such as adverse changes in economic conditions that impair the ability of borrowers to repay their loans, the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected, which may adversely impact the provision for loan losses;
- (1) competitive pressures among financial institutions or from non-financial institutions, which may increase significantly, impacting product and pricing pressures and Peoples' ability to attract, develop and retain qualified professionals;
- (2) changes in the interest rate environment, which may adversely impact interest margins;
- (3) changes in prepayment speeds, loan originations, sale volumes and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (4) economic conditions, either nationally or in the areas where Peoples and its subsidiaries do business, may be less favorable than expected, which could decrease the demand for loans, deposits and other financial services and increase loan delinquencies and defaults;
- (5) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;
- (6) legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations to be promulgated thereunder, which may adversely affect the business of Peoples and its subsidiaries;
- (7) changes in accounting standards, policies, estimates or procedures may adversely affect Peoples’ reported financial condition or results of operations;
- (8) adverse changes in the conditions and trends in the financial markets, which may adversely affect the fair value of securities within Peoples’ investment portfolio and interest rate sensitivity of Peoples' Consolidated Balance Sheets;
- (9) Peoples’ ability to receive dividends from its subsidiaries;
- (10) Peoples’ ability to maintain required capital levels and adequate sources of funding and liquidity;
- (11) the impact of larger or similar financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples;
- (12) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- (13) the costs and effects of regulatory and legal developments, including the outcome of regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations; and
- (14) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under the headings “ITEM 1A. RISK FACTORS” of Peoples’ Annual Report on Form 10-K for the year ended December 31, 2010 (the “2010 Form 10-K”).
- (15)

All forward-looking statements speak only as of the execution date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management’s knowledge of Peoples’ business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date



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

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and notes thereto, contained in Peoples' 2010 Form 10-K, as well as the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

## Table of Contents

### Business Overview

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

Peoples offers diversified financial products and services through 47 financial service locations and 42 ATMs in southeastern Ohio, northwestern West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association ("Peoples Bank"), Peoples Financial Advisors (a division of Peoples Bank) and Peoples Insurance Agency, LLC, a subsidiary of Peoples Bank. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

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

### Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples' Unaudited Consolidated Financial Statements and Management's Discussion and Analysis at September 30, 2011, which were unchanged from the policies disclosed in Peoples' 2010 Form 10-K.

### Goodwill and Other Intangible Assets

As more fully discussed in Peoples' 2010 Form 10-K, goodwill is not amortized but is tested for impairment at least annually and updated quarterly if management believes there are indicators of potential impairment. Peoples performs its required annual impairment test as of June 30 each year.

At June 30, 2011, management performed its annual impairment test of Peoples' recorded goodwill. The methodology and significant assumptions made by management were consistent with those disclosed in Peoples' 2010 Form 10-K. Based on its analysis at June 30, 2011, management concluded the fair value of Peoples' single reporting unit exceeded its carrying value. However, the excess fair value was not significant enough to provide management with a reasonable basis on which to conclude no goodwill impairment existed without further evaluation. Consequently, management performed additional analyses to estimate the fair value of goodwill and concluded the estimated fair value of goodwill exceeded the carrying value of goodwill and, therefore, no impairment was recorded.

Management's analysis of goodwill at June 30, 2011, indicated that a decline in the fair value of Peoples' single reporting unit of 24% or more would result in goodwill impairment. The analysis also indicated any of the following situations would cause a decline in the fair value of Peoples' reporting unit resulting in goodwill impairment: (1) a 25% sustained decline in future cash flows or (2) a 250 basis point increase in the discount rate.

At September 30, 2011, Peoples' market capitalization continued to be less than its book value, which management considers to be an indicator of possible goodwill impairment. However, management ultimately concluded no goodwill was impaired given the results of Peoples' annual impairment goodwill test and trends experienced during the third quarter. Specifically, the continued improvement in loan related credit losses and the generally improving trend in overall credit quality during the third quarter are expected to have positive impacts on Peoples' future cash flows rather than the decline needed for goodwill impairment to exist.

### Summary of Recent Transactions and Events

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

As described in Note 7 of the Notes to the Unaudited Consolidated Financial Statements, Peoples incurred settlement charges of \$408,000 during the third quarter of 2011 due to lump-sum distributions to participants exceeding the threshold for recognizing such charges during the quarter. No such charges were recognized in prior quarters.

Table of Contents

As described in Note 5 of the Notes to the Unaudited Consolidated Financial Statements, no dividends were declared on common shares during the second quarter of 2011 as a result of Peoples' Board of Directors adopting a new schedule for declaring such dividends. The lack of dividends declared on common shares due to this change had a positive impact on Peoples' common equity and corresponding capital ratios at September 30, 2011. On July 28, 2011, the Board of Directors declared a cash dividend of \$0.10 per common share with respect to second quarter 2011 results at a regularly scheduled Board meeting. This dividend was paid on August 22, 2011, to shareholders of record on August 8, 2011.

As described in Note 5 of the Notes to the Unaudited Consolidated Financial Statements, on January 30, 2009, Peoples received \$39.0 million of new equity capital under the U.S. Treasury's TARP Capital Purchase Program. The investment was in the form of newly-issued non-voting cumulative perpetual preferred shares and a related 10-year warrant to purchase common shares sold by Peoples to the U.S. Treasury (the "TARP Capital Investment"). On February 2, 2011, Peoples completed a partial redemption of the TARP Capital Investment by repurchasing \$21.0 million of the preferred shares held by the U.S. Treasury (the "Partial TARP Capital Redemption"). In connection with the Partial TARP Capital Redemption, Peoples recognized the portion of the unamortized discount associated with the preferred shares repurchased, which was \$186,000 and reduced diluted earnings per common share by \$0.02. Future quarterly preferred dividends are expected to approximate \$240,000 compared to \$513,000 in prior quarters. Since 2008, Peoples periodically has taken actions to reduce interest rate exposures within the investment portfolio and entire balance sheet, which have included the sale of low yielding investment securities and repayment of high-cost borrowings. These actions included the sale of \$86.6 million of investment securities, primarily low yielding U.S. agency mortgage-backed securities and U.S. government-backed student loan pools, during the third quarter of 2010. The proceeds from these investment sales were used to prepay \$60.0 million of wholesale repurchase agreements thereby deleveraging the balance sheet. The repurchase agreements had a weighted-average cost of 4.53% and originally were scheduled to mature in or before 2012.

In the first quarter of 2010, Peoples recognized a non-cash pre-tax other-than-temporary impairment ("OTTI") loss of \$1.0 million on its then remaining investment in collateralized debt obligation ("CDO") securities. These securities were equity tranche CDO securities comprised mostly of bank-issued trust preferred securities. The OTTI loss reflected management's estimation of credit losses incurred during the first quarter of 2010 based upon actual defaults, its evaluation of the credit quality of the issuers and corresponding analysis of cash flows to be received from the securities. After recognition of the first quarter 2010 OTTI loss, Peoples no longer had any exposure to CDO securities within its investment portfolio.

Since early 2008, Peoples' loan quality has been impacted negatively by adverse conditions within the commercial real estate market and economy as a whole, which has caused declines in commercial real estate values and deterioration in the financial condition of various commercial borrowers. These conditions led Peoples to downgrade the loan quality ratings of various commercial real estate loans through its normal loan review process. In addition, several impaired loans became under-collateralized due to reductions in the estimated net realizable fair value of the underlying collateral. As a result, Peoples' provision for loan losses, net charge-offs and nonperforming loans in prior quarters were significantly higher than long-term historical levels. Peoples has also recognized losses on other real estate owned ("OREO") due to declining commercial real estate values.

During the second and third quarters of 2011, Peoples has experienced generally improving trends in several asset quality metrics. Additionally, the amount of criticized loans has decreased due in part to Peoples upgrading the loan quality ratings of various commercial loans. These conditions have resulted in lower provisions for loan losses. However, unfavorable economic conditions within Peoples' market area, coupled with sustained weakness in commercial real estate values, continues to place stress on certain industries and segments of Peoples' loan portfolio, such as the hospitality sector.

In 2009, the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") took steps to restore the Deposit Insurance Fund, which affected all FDIC-insured depository institutions. These actions included increasing base assessment rates, imposing a one-time special assessment and requiring the prepayment of assessments for fourth quarter 2009 and full years 2010 through 2012. As a result, Peoples has incurred higher FDIC insurance costs compared to historical amounts. On April 1, 2011, new regulations required by the Dodd-Frank Act became effective

changing the deposit insurance assessment base from total domestic deposits to average total assets minus average tangible equity, as well as changing the assessment system for large institutions and the assessment rate schedule. The new assessment base reduced Peoples' FDIC insurance costs beginning with the amount recorded for the second quarter of 2011.

Table of Contents

Peoples' net interest income and margin are impacted by changes in market interest rates based upon actions taken by the Federal Reserve either directly or through its Open Market Committee. Between August 2007 and December 2008, the Federal Reserve reduced the target Federal Funds rate 500 basis points to a range of 0% to 0.25% and reduced the Discount Rate 575 basis points to 0.50%. These actions caused a corresponding downward shift in short-term market interest rates. In 2009, the Federal Reserve maintained the target Federal Funds Rate and Discount Rate at their historically low levels of 0% to 0.25% and 0.50%, respectively. In February 2010, the Federal Reserve increased the Discount Rate by 25 basis points to 0.75% while leaving its target Federal Funds Rate range unchanged, thereby widening the spread between the Discount Rate and the high end of the target Federal Funds Rate. Both the Federal Funds Rate and Discount Rate have remained unchanged since February 2010.

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

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

**EXECUTIVE SUMMARY**

For the third quarter of 2011, net income available to common shareholders was \$3.7 million, or \$0.35 per diluted common share, versus a loss of \$0.1 million and \$0.01 per diluted common share a year ago and \$2.7 million, or \$0.26 per diluted common share for the second quarter of 2011 (or "linked quarter"). The improvement in earnings was a result of significant reductions in loan-related losses, specifically the provision for loan losses. On a year-to-date basis, earnings per diluted common share were \$0.73 compared to \$0.33 for the nine months of 2010.

Provision for loan losses totaled \$0.9 million in the third quarter of 2011, versus \$2.3 million for the linked quarter and \$8.0 million for the third quarter of 2010. On a year-to-date basis, provision for loan losses totaled \$8.5 million in 2011, versus \$20.0 million in 2010. The recorded provision reflects the amount needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis.

Third quarter 2011 net interest income was comparable with the linked quarter as decreased interest income was matched by a reduction in interest expense. Net interest margin compressed four basis points due to the impact of lower reinvestment rates. Year-over-year, net interest income decreased 13% and net interest margin compressed nineteen basis points in the third quarter of 2011, attributable to the combination of declining loan balances and lower reinvestment rates with limited opportunities for offsetting reductions in funding costs. These factors also accounted for the 12% reduction in net interest income and twelve basis points compression of net interest margin on a year-to-date comparative basis.

Total non-interest income, which excludes gains and losses on securities and asset disposals, increased 9% in the third quarter of 2011, compared to the prior year, and 6% compared to the linked quarter. The increase was a result of growth in both deposit account service charges and insurance income. Stronger trust and investment income and increased electronic banking income also contributed to the year-over-year growth. Through nine months of 2011, total non-interest income was up 5% over the same period last year due to growth in nearly every major revenue category.

Total non-interest expense was up 5% and 11% in the third quarter, compared to the linked and prior year quarters, respectively. Key drivers of these increases were pension settlement charges of \$408,000 due to lump-sum distributions to participants and higher employee medical benefit costs. Other significant factors for the year-over-year increase included additional incentive plan expense corresponding with the stronger third quarter operating results and annual adjustments to base salaries in early 2011. Marketing expense also was higher in the third quarter of 2011 versus both the linked quarter and third quarter of 2010, due primarily to a \$100,000 contribution to Peoples Bancorp

Foundation Inc. Professional fees were substantially lower than those for the linked quarter due to the timing of the external legal services, and more than offset the increase in marketing expenses. Peoples' FDIC insurance costs benefited, when compared to the third quarter of 2010, from the change in assessment calculation that became effective for the second quarter of 2011.

## Table of Contents

Total assets were \$1.81 billion at September 30, 2011, comparable to the prior quarter-end and down 2% versus year-end 2010. Cash and cash equivalents decreased \$5.9 million during the third quarter and \$42.9 million since December 31, 2010. These changes were due primarily to using short-term assets for the Partial TARP Capital Redemption and redeployment into longer-term investments and loans. Total investment securities were essentially unchanged for the quarter, as the impact of principal paydowns was offset by market value improvement, but remained \$28.7 million higher than year-end 2010, reflecting the redeployment of short-term assets and market value improvement. Total portfolio loan balances increased \$10.7 million, to \$950.8 million, during the third quarter of 2011, but remain \$9.9 million below the year-end 2010 balances. The linked quarter growth occurred as a result of commercial real estate lending opportunities within Peoples' market area, while paydowns and charge-offs during the first half of the year were the key drivers of the decrease during the nine months of 2011.

Total liabilities decreased \$26.1 million during the nine months ended September 30, 2011, to \$1.58 billion. Retail deposit balances decreased \$12.8 million during the quarter as growth in low-cost core deposit balances was more than offset by a reduction in higher-cost funding sources, specifically certificates of deposit, money market balances and governmental deposit balances. The lower interest-bearing deposit balances were a result of management maintaining its focus on reducing higher-cost, non-core deposits. At September 30, 2011, total borrowed funds were \$225.1 million, up \$11.6 million from the prior quarter, due to higher short-term borrowings and down \$6.7 million since December 31, 2010, as Peoples repaid maturing wholesale borrowings.

Total stockholders' equity of \$224.5 million at September 30, 2011, was \$6.0 million higher than the prior quarter-end but down \$6.2 million versus December 31, 2010. During 2011, the market value of Peoples' available-for-sale investment portfolio has improved, while earnings have exceeded dividends declared. Both of these conditions have had a positive impact on total stockholders' equity during the third quarter and through nine months of 2011, although the year-to-date increase was more than offset by the impact of the Partial TARP Capital Redemption. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio increased to 12.40% at September 30, 2011, while the Total Capital ratio was 17.33% versus 18.24% at December 31, 2010, with the decrease the result of the Partial TARP Capital Redemption.

## RESULTS OF OPERATIONS

### Net Interest Income

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



Table of Contents

The following table details Peoples' average balance sheets for the periods presented:

| (Dollars in thousands)           | For the Three Months Ended |                |            |                 |                |            |                    |                |            |
|----------------------------------|----------------------------|----------------|------------|-----------------|----------------|------------|--------------------|----------------|------------|
|                                  | September 30, 2011         |                |            | June 30, 2011   |                |            | September 30, 2010 |                |            |
|                                  | Average Balance            | Income/Expense | Yield/Cost | Average Balance | Income/Expense | Yield/Cost | Average Balance    | Income/Expense | Yield/Cost |
| Short-term investments           | \$8,225                    | \$4            | 0.21 %     | \$9,200         | \$5            | 0.20 %     | \$50,149           | \$32           | 0.25 %     |
| Investment Securities (1):       |                            |                |            |                 |                |            |                    |                |            |
| Taxable                          | 634,288                    | 5,918          | 3.73 %     | 632,657         | 6,209          | 3.93 %     | 648,458            | 7,734          | 4.77 %     |
| Nontaxable (2)                   | 38,058                     | 580            | 6.10 %     | 38,050          | 591            | 6.21 %     | 58,738             | 907            | 6.18 %     |
| Total investment securities      | 672,346                    | 6,498          | 3.86 %     | 670,707         | 6,800          | 4.06 %     | 707,196            | 8,641          | 4.89 %     |
| Loans (3):                       |                            |                |            |                 |                |            |                    |                |            |
| Commercial                       | 609,152                    | 7,412          | 4.83 %     | 614,173         | 7,618          | 4.98 %     | 672,037            | 9,017          | 5.32 %     |
| Real estate (4)                  | 245,941                    | 3,240          | 5.27 %     | 246,716         | 3,271          | 5.30 %     | 259,710            | 3,606          | 5.56 %     |
| Consumer                         | 89,304                     | 1,526          | 6.78 %     | 86,731          | 1,528          | 7.07 %     | 85,175             | 1,667          | 7.76 %     |
| Total loans                      | 944,397                    | 12,178         | 5.13 %     | 947,620         | 12,417         | 5.25 %     | 1,016,922          | 14,290         | 5.60 %     |
| Less: Allowance for loan losses  | (27,197 )                  |                |            | (27,835 )       |                |            | (28,749 )          |                |            |
| Net loans                        | 917,200                    | 12,178         | 5.28 %     | 919,785         | 12,417         | 5.41 %     | 988,173            | 14,290         | 5.75 %     |
| Total earning assets             | 1,597,771                  | 18,680         | 4.66 %     | 1,599,692       | 19,222         | 4.81 %     | 1,745,518          | 22,963         | 5.24 %     |
| Intangible assets                | 64,538                     |                |            | 64,682          |                |            | 65,029             |                |            |
| Other assets                     | 139,909                    |                |            | 144,357         |                |            | 146,521            |                |            |
| Total assets                     | \$1,802,218                |                |            | \$1,808,731     |                |            | \$1,957,068        |                |            |
| Deposits:                        |                            |                |            |                 |                |            |                    |                |            |
| Savings accounts                 | \$135,942                  | \$47           | 0.14 %     | \$137,518       | \$62           | 0.18 %     | \$121,878          | \$49           | 0.16 %     |
| Interest-bearing demand accounts | 249,787                    | 316            | 0.50 %     | 248,258         | 440            | 0.71 %     | 238,902            | 671            | 1.11 %     |
| Money market accounts            | 258,102                    | 185            | 0.28 %     | 264,195         | 225            | 0.34 %     | 297,140            | 509            | 0.68 %     |
| Brokered deposits                | 66,074                     | 557            | 3.34 %     | 69,747          | 570            | 3.28 %     | 100,863            | 733            | 2.88 %     |
| Retail certificates of deposit   | 413,785                    | 2,227          | 2.14 %     | 420,497         | 2,377          | 2.27 %     | 443,806            | 2,731          | 2.44 %     |
| Total interest-bearing deposits  | 1,123,690                  | 3,332          | 1.18 %     | 1,140,215       | 3,674          | 1.29 %     | 1,202,589          | 4,693          | 1.55 %     |
| Borrowed Funds:                  |                            |                |            |                 |                |            |                    |                |            |
| Short-term FHLB advances         | 7,615                      | 2              | 0.08 %     | 2,216           | 1              | 0.11 %     | 978                | 1              | 0.16 %     |
| Retail repurchase agreements     | 41,241                     | 22             | 0.22 %     | 40,320          | 25             | 0.26 %     | 50,026             | 61             | 0.49 %     |
| Total short-term borrowings      | 48,856                     | 24             | 0.20 %     | 42,536          | 26             | 0.25 %     | 51,004             | 62             | 0.48 %     |
| Long-term FHLB advances          | 82,889                     | 716            | 3.42 %     | 86,771          | 754            | 3.49 %     | 103,842            | 924            | 3.53 %     |
| Wholesale repurchase agreements  | 65,000                     | 569            | 3.43 %     | 65,000          | 563            | 3.43 %     | 114,457            | 1,133          | 3.87 %     |
| Other borrowings                 | 22,587                     | 495            | 8.58 %     | 22,579          | 493            | 8.64 %     | 22,552             | 496            | 8.59 %     |
| Total long-term borrowings       | 170,476                    | 1,780          | 4.11 %     | 174,350         | 1,810          | 4.13 %     | 240,851            | 2,553          | 4.17 %     |
| Total borrowed funds             | 219,332                    | 1,804          | 3.24 %     | 216,886         | 1,836          | 3.37 %     | 291,855            | 2,615          | 3.52 %     |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|  |             |          |        |             |          |        |             |          |        |
|--|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|
| Total interest-bearing liabilities         | 1,343,022   | 5,136    | 1.51 % | 1,357,101   | 5,510    | 1.63 % | 1,494,444   | 7,308    | 1.94 % |
| Non-interest-bearing deposits              | 226,506     |          |        | 226,669     |          |        | 210,031     |          |        |
| Other liabilities                          | 11,524      |          |        | 11,257      |          |        | 15,008      |          |        |
| Total liabilities                          | 1,581,052   |          |        | 1,595,027   |          |        | 1,719,483   |          |        |
| Preferred equity                           | 17,869      |          |        | 17,856      |          |        | 38,607      |          |        |
| Common equity                              | 203,297     |          |        | 195,848     |          |        | 198,978     |          |        |
| Total stockholders' equity                 | 221,166     |          |        | 213,704     |          |        | 237,585     |          |        |
| Total liabilities and stockholders' equity | \$1,802,218 |          |        | \$1,808,731 |          |        | \$1,957,068 |          |        |
| Interest rate spread                       |             | \$13,544 | 3.15 % |             | \$13,712 | 3.18 % |             | \$15,655 | 3.30 % |
| Net interest margin                        |             |          | 3.39 % |             |          | 3.43 % |             |          | 3.58 % |

Table of Contents

| (Dollars in thousands)                     | For the Nine Months Ended |                |            |                    |                 |                |            |   |
|--|---------------------------|----------------|------------|--------------------|-----------------|----------------|------------|---|
|  | September 30, 2011        |                |            | September 30, 2010 |                 |                |            |   |
|  | Average Balance           | Income/Expense | Yield/Cost |                    | Average Balance | Income/Expense | Yield/Cost |   |
| Short-term investments                     | \$ 12,499                 | \$ 20          | 0.21       | %                  | \$ 30,671       | \$ 57          | 0.25       | % |
| Investment Securities (1):                 |                           |                |            |                    |                 |                |            |   |
| Taxable                                    | 628,346                   | 18,374         | 3.90       | %                  | 677,338         | 23,516         | 4.63       | % |
| Nontaxable (2)                             | 39,132                    | 1,826          | 6.22       | %                  | 60,509          | 2,846          | 6.27       | % |
| Total investment securities                | 667,478                   | 20,200         | 4.04       | %                  | 737,847         | 26,362         | 4.76       | % |
| Loans (3):                                 |                           |                |            |                    |                 |                |            |   |
| Commercial                                 | 617,825                   | 22,865         | 4.95       | %                  | 689,859         | 27,659         | 5.36       | % |
| Real estate (4)                            | 247,673                   | 9,885          | 5.32       | %                  | 262,742         | 11,019         | 5.59       | % |
| Consumer                                   | 86,246                    | 4,549          | 7.05       | %                  | 86,893          | 5,054          | 7.78       | % |
| Total loans                                | 951,744                   | 37,299         | 5.24       | %                  | 1,039,494       | 43,732         | 5.63       | % |
| Less: Allowance for loan losses            | (27,786)                  | )              |            |                    | (29,581)        | )              |            |   |
| Net loans                                  | 923,958                   | 37,299         | 5.39       | %                  | 1,009,913       | 43,732         | 5.79       | % |
| Total earning assets                       | 1,603,935                 | 57,519         | 4.79       | %                  | 1,778,431       | 70,151         | 5.27       | % |
| Intangible assets                          | 64,679                    |                |            |                    | 65,252          |                |            |   |
| Other assets                               | 143,195                   |                |            |                    | 144,922         |                |            |   |
| Total assets                               | \$ 1,811,809              |                |            |                    | \$ 1,988,605    |                |            |   |
| Deposits:                                  |                           |                |            |                    |                 |                |            |   |
| Savings accounts                           | \$ 134,108                | \$ 164         | 0.16       | %                  | \$ 119,842      | \$ 144         | 0.16       | % |
| Interest-bearing demand accounts           | 243,721                   | 1,378          | 0.76       | %                  | 235,298         | 1,982          | 1.13       | % |
| Money market accounts                      | 266,912                   | 655            | 0.33       | %                  | 288,369         | 1,820          | 0.84       | % |
| Brokered deposits                          | 72,446                    | 1,759          | 3.25       | %                  | 106,076         | 2,297          | 2.90       | % |
| Retail certificates of deposit             | 420,352                   | 7,035          | 2.24       | %                  | 457,708         | 8,547          | 2.50       | % |
| Total interest-bearing deposits            | 1,137,539                 | 10,991         | 1.29       | %                  | 1,207,293       | 14,790         | 1.64       | % |
| Borrowed Funds:                            |                           |                |            |                    |                 |                |            |   |
| Short-term FHLB advances                   | 3,767                     | 3              | 0.09       | %                  | 11,648          | 10             | 0.11       | % |
| Retail repurchase agreements               | 42,148                    | 82             | 0.26       | %                  | 50,249          | 199            | 0.52       | % |
| Total short-term borrowings                | 45,915                    | 85             | 0.25       | %                  | 61,897          | 209            | 0.45       | % |
| Long-term FHLB advances                    | 86,164                    | 2,234          | 3.47       | %                  | 104,159         | 2,761          | 3.54       | % |
| Wholesale repurchase agreements            | 65,000                    | 1,678          | 3.40       | %                  | 129,469         | 3,869          | 3.94       | % |
| Other borrowings                           | 22,579                    | 1,480          | 8.64       | %                  | 22,544          | 1,485          | 8.69       | % |
| Total long-term borrowings                 | 173,743                   | 5,392          | 4.12       | %                  | 256,172         | 8,115          | 4.20       | % |
| Total borrowed funds                       | 219,658                   | 5,477          | 3.31       | %                  | 318,069         | 8,324          | 3.47       | % |
| Total interest-bearing liabilities         | 1,357,197                 | 16,468         | 1.62       | %                  | 1,525,362       | 23,114         | 2.02       | % |
| Non-interest-bearing deposits              | 225,291                   |                |            |                    | 207,622         |                |            |   |
| Other liabilities                          | 11,590                    |                |            |                    | 14,344          |                |            |   |
| Total liabilities                          | 1,594,078                 |                |            |                    | 1,747,328       |                |            |   |
| Preferred equity                           | 20,297                    |                |            |                    | 38,581          |                |            |   |
| Common equity                              | 197,434                   |                |            |                    | 202,696         |                |            |   |
| Total stockholders' equity                 | 217,731                   |                |            |                    | 241,277         |                |            |   |
| Total liabilities and stockholders' equity | \$ 1,811,809              |                |            |                    | \$ 1,988,605    |                |            |   |
| Interest rate spread                       |                           | \$ 41,051      | 3.17       | %                  |                 | \$ 47,037      | 3.25       | % |
| Net interest margin                        |                           |                | 3.42       | %                  |                 |                | 3.54       | % |



Table of Contents

- (1) Average balances are based on carrying value.
- (2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal statutory tax rate. Nonaccrual and impaired loans are included in the average loan balances. Related interest income earned on
- (3) nonaccrual loans prior to the loans being placed on nonaccrual is included in loan interest income. Loan fees included in interest income were immaterial for all periods presented.
- (4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

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

| (Dollars in thousands)                   | Three Months Ended |               |                    | Nine Months Ended  |          |
|--|--------------------|---------------|--------------------|--------------------|----------|
|  | September 30, 2011 | June 30, 2011 | September 30, 2010 | September 30, 2011 | 2010     |
| Net interest income, as reported         | \$13,264           | \$13,431      | \$15,264           | \$40,190           | \$45,841 |
| Taxable equivalent adjustments           | 280                | 281           | 391                | 861                | 1,196    |
| Fully tax-equivalent net interest income | \$13,544           | \$13,712      | \$15,655           | \$41,051           | \$47,037 |

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

| (Dollars in thousands)                | Three Months Ended September 30, 2011 Compared to |        |                      |                    |        |                      | Nine Months Ended September 30, 2011 Compared to |        |                      |
|---------------------------------------|---|--------|----------------------|--------------------|--------|----------------------|--|--------|----------------------|
|                                       | June 30, 2011                                     |        |                      | September 30, 2010 |        |                      | September 30, 2010                               |        |                      |
| Increase (decrease) in:               | Rate  | Volume | Total <sup>(1)</sup> | Rate               | Volume | Total <sup>(1)</sup> | Rate   | Volume | Total <sup>(1)</sup> |
| <b>INTEREST INCOME:</b>               |   |        |                      |                    |        |                      |  |        |                      |
| Short-term investments                | \$1   | \$(2)  | \$(1)                | \$(4)              | \$(24) | \$(28)               | \$(8)  | \$(29) | \$(37)               |
| Investment Securities: <sup>(2)</sup> |   |        |                      |                    |        |                      |  |        |                      |
| Taxable                               | (398)   | )107   | (291)                | (1,651)            | )165   | (1,816)              | (3,525)  | )1,617 | (5,142)              |
| Nontaxable                            | (12)  | )1     | (11)                 | (12)               | )315   | (327)                | (23)   | )997   | (1,020)              |
| Total investment income               | (410)   | )108   | (302)                | (1,663)            | )480   | (2,143)              | (3,548)  | )2,614 | (6,162)              |
| Loans:                                |   |        |                      |                    |        |                      |  |        |                      |
| Commercial                            | (161)   | )45    | (206)                | (796)              | )809   | (1,605)              | (2,027)  | )2,767 | (4,794)              |
| Real estate                           | (21)  | )10    | (31)                 | (182)              | )184   | (366)                | (518)  | )616   | (1,134)              |
| Consumer                              | (211)   | )209   | (2)                  | (565)              | )424   | (141)                | (468)  | )37    | (505)                |
| Total loan income                     | (393)   | )154   | (239)                | (1,543)            | )569   | (2,112)              | (3,013)  | )3,420 | (6,433)              |
| Total interest income                 | (802)   | )260   | (542)                | (3,210)            | )1,073 | (4,283)              | (6,569)  | )6,063 | (12,632)             |
| <b>INTEREST EXPENSE:</b>              |   |        |                      |                    |        |                      |  |        |                      |
| Deposits:                             |   |        |                      |                    |        |                      |  |        |                      |
| Savings accounts                      | (14)  | )1     | (15)                 | (24)               | )22    | (2)                  | —  | 20     | 20                   |
| Interest-bearing demand accounts      | (143)   | )19    | (124)                | (551)              | )196   | (355)                | (716)  | )112   | (604)                |
| Money market accounts                 | (36)  | )4     | (40)                 | (265)              | )59    | (324)                | (1,038)  | )127   | (1,165)              |
| Brokered certificates of deposit      | 60  | (73)   | (13)                 | 579                | (755)  | (176)                | 389  | (927)  | (538)                |
| Retail certificates of deposit        | (117)   | )33    | (150)                | (325)              | )179   | (504)                | (847)  | )665   | (1,512)              |
| Total deposit cost                    | (250)   | )92    | (342)                | (586)              | )775   | (1,361)              | (2,212)  | )1,587 | (3,799)              |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Borrowed funds:

|                           |       |        |       |   |         |        |         |   |         |          |          |   |
|---------------------------|-------|--------|-------|---|---------|--------|---------|---|---------|----------|----------|---|
| Short-term borrowings     | (8    | )6     | (2    | ) | (31     | )7     | )38     | ) | (89     | )35      | )124     | ) |
| Long-term borrowings      | (4    | )26    | )30   | ) | (148    | )625   | )773    | ) | (536    | )2,187   | )2,723   | ) |
| Total borrowed funds cost | (12   | )20    | )32   | ) | (179    | )632   | )811    | ) | (625    | )2,222   | )2,847   | ) |
| Total interest expense    | (262  | )112   | )374  | ) | (765    | )1,407 | )2,172  | ) | (2,837  | )3,809   | )6,646   | ) |
| Net interest income       | \$540 | )\$372 | \$168 | ) | \$2,445 | )\$334 | \$2,111 | ) | \$3,732 | )\$2,254 | )\$5,986 | ) |

Table of Contents

- (1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the change in each.
- (2) Presented on a fully tax-equivalent basis.

Third quarter 2011 net interest income was consistent with the linked quarter, as lower interest income was nearly matched by a decrease in interest expense. The yield curve flattening experienced during the third quarter of 2011 put downward pressure on Peoples' asset yields, due to the corresponding decline in reinvestment rates. However, management has intensified its disciplined approach to loan and deposit pricing, which lowered funding costs and mitigated much of the impact of lower market interest rates on net interest income and margin. Peoples' deposit costs also benefited from \$36.7 million in high-cost certificates of deposit ("CDs") maturing during the third quarter of 2011 and being replaced with lower-cost funds. Most of these CDs were part of a special product offering in 2008 and had an average cost of 3.57%. An additional \$30.1 million of high-cost CDs, with an average rate of 4.05%, will mature in the fourth quarter, while another \$25.6 million at an average rate of 4.16% will mature during the first quarter of 2012. Compared to the prior year, net interest income was down 13% in the third quarter and 12% through nine months of 2011, while net interest margin compressed nineteen and twelve basis points, respectively. The main driver of these reductions was the sustained low interest rate environment, coupled with a decline in average loan balances experienced as a result of significant payoffs and charge-offs in prior quarters. Peoples' deposit pricing strategy over the past several quarters has caused a moderate decrease in money market balances and high-cost retail certificates of deposit.

Modest loan growth late in the third quarter of 2011, coupled with the expectation of flat to increasing balances during the fourth quarter, should help stabilize average earning assets and ease some of the net interest margin pressure.

However, opportunities to reduce funding costs will remain limited by the amount of high-cost funding scheduled to mature. In addition, the Federal Reserve's current strategy of maintaining a flatter interest rate environment will put downward pressure on net interest income and margin. As a result, Peoples' balance sheet strategies will continue to emphasize growing loans profitably, remaining disciplined with loan and deposit pricing and maintaining good liquidity. Management also may take other actions in future quarters to enhance Peoples' net interest income and margin through changes in Peoples' balance sheet mix if opportunities exist based upon market conditions.

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

## Provision for Loan Losses

The following table details Peoples' provision for loan losses:

| (Dollars in thousands)                     | Three Months Ended |               | Nine Months Ended  |                    |                    |
|--|--------------------|---------------|--------------------|--------------------|--------------------|
|  | September 30, 2011 | June 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Provision for checking account overdrafts  | \$ 165             | \$ 95         | \$ 219             | \$ 271             | \$ 418             |
| Provision for other loan losses            | 700                | 2,200         | 7,786              | 8,200              | 19,546             |
| Total provision for loan losses            | \$ 865             | \$ 2,295      | \$ 8,005           | \$ 8,471           | \$ 19,964          |
| As a percentage of average gross loans (a) | 0.36               | % 0.97        | % 3.12             | % 1.19             | % 2.57             |

(a) Presented on an annualized basis

The provision for loan losses reflects amounts needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions. The lower provision for loan losses during the third quarter of 2011 was driven mostly by continued improving trends in various credit quality metrics, including

historical loss trends and level of criticized loans.

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



Table of Contents

## Net Other Gains (Losses)

The following table details the other gains and losses recognized for the three and nine months ended September 30:

| (Dollars in thousands)                         | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|--|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2011 | June 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Net gain (loss) on OREO                        | \$419                 | \$(1,002)        | \$(453)               | \$(526)               | \$(1,683)             |
| Gain (loss) on loans held-for-sale             | —                     | 468              | (564)                 | 468                   | (658)                 |
| Loss on debt extinguishment                    | —                     | —                | (3,630)               | —                     | (3,630)               |
| Net (loss) gain on bank premises and equipment | (30)                  | (22)             | 9                     | (49)                  | 2                     |
| Net other gains (losses)                       | \$389                 | \$(556)          | \$(4,638)             | \$(107)               | \$(5,969)             |

The net gain on OREO for the third quarter of 2011 was the result of the sale of a single commercial property. In comparison, net losses were incurred in the second quarter of 2011 and third quarter of 2010, due to write-downs on commercial properties whose fair value had declined. The loss in the second quarter of 2011 was partially offset by \$248,000 in gains from sales of other properties.

## Non-Interest Income

Deposit account service charges comprised the largest portion of third quarter 2011 non-interest income. The following table details Peoples' deposit account service charges:

| (Dollars in thousands)                  | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2011 | June 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Overdraft and non-sufficient funds fees | \$2,235               | \$2,070          | \$2,124               | \$6,023               | \$6,234               |
| Account maintenance fees                | 359                   | 353              | 230                   | 965                   | 638                   |
| Other fees and charges                  | 34                    | 31               | 61                    | 268                   | 298                   |
| Total deposit account service charges   | \$2,628               | \$2,454          | \$2,415               | \$7,256               | \$7,170               |

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. New regulations governing overdraft fees limiting the ability of banks to impose overdraft fees on certain transactions became effective during the third quarter of 2010. These regulations have had a minimal impact on Peoples as reflected in the lack of significant changes in overdraft and non-sufficient funds fees versus the prior year. Account maintenance fees during the second and third quarters of 2011 reflect the full impact of Peoples' new consumer checking account product offering and pricing structure implemented during the first quarter of 2011.

Insurance income continued to comprise a significant portion of Peoples' non-interest income. The following table details Peoples' insurance income:

| (Dollars in thousands)                      | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2011 | June 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Property and casualty insurance commissions | \$2,083               | \$1,949          | \$1,969               | \$5,710               | \$5,667               |
| Performance-based commissions               | —                     | 1                | —                     | 944                   | 585                   |
| Life and health insurance commissions       | 168                   | 125              | 173                   | 454                   | 435                   |
| Credit life and A&H insurance commissions   | 49                    | 43               | 40                    | 122                   | 88                    |
| Other fees and charges                      | 24                    | 47               | 34                    | 91                    | 113                   |
| Total insurance income                      | \$2,324               | \$2,165          | \$2,216               | \$7,321               | \$6,888               |



Table of Contents

During the third quarter of 2011, Peoples was successful at adding several new insurance customers, which had a positive impact on property and casualty insurance commissions. Future growth in property and casualty insurance commission levels may be limited by the effects of a weak economy on commercial insurance needs. The performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers.

The following tables detail Peoples' trust and investment income and related assets under management:

| (Dollars in thousands)            | Three Months Ended |               | Nine Months Ended  |                    |                    |
|-----------------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
|                                   | September 30, 2011 | June 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Fiduciary                         | \$1,050            | \$1,103       | \$1,006            | \$3,192            | \$3,295            |
| Brokerage                         | 335                | 306           | 220                | 927                | 696                |
| Total trust and investment income | \$1,385            | \$1,409       | \$1,226            | \$4,119            | \$3,991            |

| (Dollars in thousands)            | September 30, 2011            | June 30, 2011 | March 31, 2011 | December 31, 2010 | September 30, 2010 |
|-----------------------------------|-------------------------------|---------------|----------------|-------------------|--------------------|
|                                   | Trust assets under management | \$776,165     | \$846,052      | \$852,972         | \$836,587          |
| Brokerage assets under management | 249,550                       | 265,384       | 260,134        | 256,579           | 233,308            |
| Total managed assets              | \$1,025,715                   | \$1,111,436   | \$1,113,106    | \$1,093,166       | \$1,028,643        |
| Quarterly average                 | \$1,077,804                   | \$1,119,484   | \$1,105,329    | \$1,055,936       | \$998,307          |

Peoples' fiduciary and brokerage revenues are primarily driven by the value of assets under management. Over the last several quarters, Peoples has continued to attract new managed funds, due in part to the addition of experienced financial advisors in previously underserved market areas. Second quarter 2011 fiduciary revenues included annual tax compliance fees of \$78,000, which accounted for most of the linked quarter decline. On a year-to-date basis, fiduciary revenues were lower than the prior year due to the non-recurrence of estate management fees, which totaled \$256,000 in 2010. The overall market value of managed assets was negatively impacted by the general downturn in the financial markets during the third quarter of 2011, which could adversely affect the level of trust and investment income for the fourth quarter of 2011.

Third quarter 2011 mortgage banking income, while comparable with the prior year, was up 29% over the linked quarter. On a year-to-date basis, mortgage banking income was up 20% year-over-year through September 30, 2011. In the third quarter of 2011, Peoples sold approximately \$19 million of loans to the secondary market compared to \$10 million in the linked quarter and \$13 million for the third quarter of 2010. On a year-to-date basis, Peoples has sold approximately \$45 million of loans to the secondary market in 2011 versus \$32 million in 2010. Much of the increased production in 2011 has been a result of refinancing activity in response to historically low mortgage interest rates available in the secondary market and continued customer preference for long-term, fixed rate loans.

**Non-Interest Expense**

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for approximately half of total non-interest expense. The following table details Peoples' salaries and employee benefit costs:

| (Dollars in thousands)                    | Three Months Ended |               | Nine Months Ended  |                    |                    |
|---|--------------------|---------------|--------------------|--------------------|--------------------|
|   | September 30, 2011 | June 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| Base salaries and wages                   | \$5,309            | \$5,116       | \$5,060            | \$15,701           | \$15,179           |
| Sales-based and incentive compensation    | 1,201              | 1,172         | 876                | 3,278              | 2,479              |
| Employee benefits                         | 1,831              | 1,235         | 1,156              | 4,011              | 3,810              |
| Stock-based compensation                  | 90                 | 63            | 23                 | 186                | 74                 |
| Deferred personnel costs                  | (365)              | (333)         | (335)              | (990)              | (903)              |
| Payroll taxes and other employment costs  | 635                | 700           | 452                | 2,095              | 1,466              |
| Total salaries and employee benefit costs | \$8,701            | \$7,953       | \$7,232            | \$24,281           | \$22,105           |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Full-time equivalent employees:

|                           |     |     |     |     |     |
|---------------------------|-----|-----|-----|-----|-----|
| Actual at end of period   | 540 | 537 | 532 | 540 | 532 |
| Average during the period | 540 | 537 | 529 | 538 | 531 |

32

---

Table of Contents

Base salaries and wages for the three and nine months ended September 30, 2011, were higher than the same periods in 2010, due to annual base salary adjustments plus an increase in full-time equivalent employees. In the third quarter of 2011, sales-based and incentive compensation was impacted by increased expense accruals associated with corporate incentive plans, which are based in part on Peoples' performance. Employee benefit costs for the third quarter of 2011 included pension settlement charges of \$408,000 relating to lump-sum payments to participants, while no such charges were incurred in prior periods. The remaining linked quarter increase in employee benefit costs was attributable to higher employee medical benefit plan expenses. Year-over-year, employee benefit costs have benefited from the impact of Peoples freezing pension benefits effective on March 1, 2011, which partially offset the settlement charges. However, the freeze of pension benefits significantly reduced the threshold for recognizing settlement charges corresponding with lump-sum distributions to participants. Peoples will incur additional settlement charges in the fourth quarter of 2011 should any lump-sum distributions be made, although to a lesser extent than the third quarter 2011 amount. During 2011, Peoples has incurred higher costs associated with the recruitment and retention of various senior management positions, which was the key driver of the increase in payroll taxes and other employment costs from the prior year.

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

|   | Three Months Ended |               | Nine Months Ended  |                    |                    |
|---|--------------------|---------------|--------------------|--------------------|--------------------|
|   | September 30, 2011 | June 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| (Dollars in thousands)                    |                    |               |                    |                    |                    |
| Depreciation                              | \$485              | \$505         | \$466              | \$1,479            | \$1,456            |
| Repairs and maintenance costs             | 383                | 398           | 386                | 1,196              | 1,215              |
| Net rent expense                          | 228                | 221           | 232                | 674                | 673                |
| Property taxes, utilities and other costs | 357                | 348           | 299                | 1,077              | 997                |
| Total net occupancy and equipment expense | \$1,453            | \$1,472       | \$1,383            | \$4,426            | \$4,341            |

Depreciation expense was held relatively flat during the first nine months of 2011 due in large part to management limiting capital expenditures during 2010 in connection with various cost saving initiatives. The reduction during the third quarter of 2011 was the result of assets becoming fully depreciated.

In the third quarter of 2011, professional fees were down compared to the linked quarter. The key driver of this variance was the timing of external legal services for problem loan workouts and external consulting services for various strategic initiatives. Contributing to the higher year-over-year professional fees in 2011 has been the costs related to Peoples' new Power checking product, which was introduced at the start of the year.

Marketing expense, which includes advertising, donation and other public relations costs, increased significantly in the third quarter of 2011, compared to both the linked and prior year quarters. Most of the additional expense was attributable to a \$100,000 contribution to Peoples Bancorp Foundation Inc., a private foundation established by Peoples in 2004 to make charitable contributions to organizations within Peoples' primary market area. Peoples had limited such contributions in prior periods as part of its efforts to control operating costs. Future contributions to Peoples Bancorp Foundation Inc. will be evaluated on a quarterly basis, with the amount of any contribution determined based largely on the level of need within the communities Peoples serves.

Foreclosed real estate and other loan expenses, which include costs associated with maintaining foreclosed assets, were lower during the nine months of 2011 compared to the prior year, due mostly to costs associated with commercial properties acquired through foreclosure in the fourth quarter of 2009. While management believes these costs in future quarters should remain comparable with the third quarter 2011 amount, the actual costs incurred will continue to be dependent upon the level and nature of Peoples' problem assets.

Management continues to implement several strategic initiatives designed to increase lending activity, enhance revenue generation, enhance the sales and sale management discipline across all lines of business and position Peoples for long-term growth. These actions are expected to add costs in various non-interest expense categories, such as personnel costs from adding associates in key positions, depreciation expense and marketing expenses. However, management believes opportunities exist to offset these incremental costs through cost savings from a combination of process improvements, operating efficiency enhancements and continued branch network rationalization.



Table of Contents

Peoples also continues to explore market expansion opportunities in or near its current market areas. Management's primary focus will be on increasing market share in existing markets, while taking advantage of potential growth opportunities within its insurance and wealth management areas. These growth efforts may include the consolidation of existing offices or opening new offices in under-served areas. Management also believes mergers and acquisitions remain a viable means of expanding Peoples' core financial service businesses of banking, insurance and wealth management. Consequently, management could explore the acquisition of companies engaged in these activities, emphasizing opportunities to complement Peoples' core competencies and strategic intent, with a lesser emphasis being placed on geographic location, size or nature of business.

**Income Tax Expense**

For the nine months ended September 30, 2011, Peoples recorded income tax expense of \$3.3 million, for an effective tax rate of 27.3%. This effective tax rate represents management's current estimate of the rate for the entire year. In comparison, Peoples recorded income tax expense of \$653,000 for the same period in 2010, which included the entire \$625,000 tax benefit associated with the investment impairment losses recognized in both the first and second quarters of 2010.

**FINANCIAL CONDITION****Cash and Cash Equivalents**

At September 30, 2011, Peoples' interest-bearing deposits in other banks did not include any excess cash reserves at the Federal Reserve Bank, compared to \$4.6 million at June 30, 2011 and \$44.6 million at December 31, 2010. The decline since year-end 2010 occurred largely as a result of Peoples using these funds in the Partial TARP Capital Redemption. The remaining decline occurred as the funds have been redeployed into the investment and loan portfolios.

Through nine months of 2011, Peoples' total cash and cash equivalents decreased \$42.9 million, due mostly to cash used in financing activities for the Partial TARP Redemption and \$6.7 million reduction in borrowed funds. Investing activities used net cash of \$25.0 million, primarily purchases of securities for the investment portfolio, which was more than offset by cash from operating activities of \$32.8 million.

In comparison, Peoples' operating and investing activities in the nine months of 2010 provided net cash of \$33.3 million and \$111.4 million, respectively, of which \$111.8 million was used in financing activities, producing a \$32.9 million increase in total cash and cash equivalents. Net cash provided by investing activities consisted primarily of proceeds from securities sales and principal runoff from the investment portfolio. The funds from investing activities were used to reduce borrowed funds, which accounted for virtually all of the net cash used by financing activities. Further information regarding the management of Peoples' liquidity position can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."

**Investment Securities**

The following table details Peoples' available-for-sale investment portfolio:

| (Dollars in thousands)                 | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Fair value:                            |                       |                  |                   |                      |                       |
| Obligations of:                        |                       |                  |                   |                      |                       |
| U.S. Treasury and government agencies  | \$34                  | \$36             | \$38              | \$39                 | \$60                  |
| U.S. government sponsored agencies     | 13,004                | 12,321           | 12,084            | 12,262               | 13,005                |
| States and political subdivisions      | 38,112                | 38,091           | 38,401            | 47,379               | 51,288                |
| Residential mortgage-backed securities | 539,094               | 540,931          | 523,844           | 507,534              | 485,663               |
| Commercial mortgage-backed securities  | 36,401                | 35,288           | 41,189            | 30,700               | 44,854                |
| Bank-issued trust preferred securities | 12,681                | 13,385           | 13,266            | 12,984               | 12,904                |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|                            |           |           |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| Equity securities          | 3,333     | 3,546     | 3,318     | 3,088     | 3,009     |
| Total fair value           | \$642,659 | \$643,598 | \$632,140 | \$613,986 | \$610,783 |
| Total amortized cost       | \$633,279 | \$638,667 | \$635,218 | \$617,122 | \$608,427 |
| Net unrealized gain (loss) | \$9,380   | \$4,931   | \$(3,078  | )\$(3,136 | )\$2,356  |

34

---



Table of Contents

In the first quarter of 2011, management redeployed short-term assets into longer-term investments, which accounts for the increase in amortized cost compared to September 30, 2010. This higher level was maintained in the second and third quarters of 2011 to offset the impact of lower loan balances on Peoples' earnings. During the first quarter of 2011 and fourth quarter of 2010, Peoples sold selected municipal securities, which accounts for the lower investment in obligations of states and political subdivisions at September 30, 2011. Further changes in the size and composition of the investment portfolio may occur in future quarters, as management may reinvest principal runoff from mortgage-backed securities into other security types or to fund loan growth.

Peoples' investment in residential and commercial mortgage-backed securities largely consists of securities either guaranteed by the U.S. government or issued by U.S. government-sponsored agencies, such as Fannie Mae and Freddie Mac. The remaining portion of Peoples' mortgage-backed securities consists of securities issued by other entities, including other financial institutions, which are not guaranteed by the U.S. government. The amount of these "non-agency" securities included in the residential and commercial mortgage-backed securities totals above were as follows:

| (Dollars in thousands) | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Residential            | \$68,686              | \$87,697         | \$101,760         | \$113,559            | \$141,779             |
| Commercial             | 1,407                 | 1,663            | 2,734             | 26,090               | 23,749                |
| Total fair value       | \$70,093              | \$89,360         | \$104,494         | \$139,649            | \$165,528             |
| Total amortized cost   | \$68,690              | \$86,747         | \$102,295         | \$136,997            | \$162,066             |
| Net unrealized gain    | \$1,403               | \$2,613          | \$2,199           | \$2,652              | \$3,462               |

In the third quarter of 2011, Peoples sold residential mortgage-backed securities which were showing signs of increased stress, causing the linked quarter decline in this portion of the portfolio. Over the last year, management has reinvested the principal runoff from the non-agency securities into U.S. agency investments, which accounted for the decline experienced in prior quarters. At September 30, 2011, Peoples' non-agency portfolio consisted entirely of first lien residential and commercial mortgages, with nearly all of the underlying loans in these securities originated in 2003 or earlier and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

## Loans

The following table provides information regarding outstanding loan balances:

| (Dollars in thousands)           | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |   |
|----------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Gross portfolio loans:           |                       |                  |                   |                      |                       |   |
| Commercial real estate           | \$424,741             | \$411,355        | \$413,011         | \$425,528            | \$428,053             |   |
| Commercial and industrial        | 140,058               | 145,625          | 147,825           | 153,713              | 176,121               |   |
| Real estate construction         | 26,751                | 29,259           | 38,154            | 27,595               | 45,731                |   |
| Residential real estate          | 222,374               | 215,242          | 215,040           | 219,833              | 225,631               |   |
| Home equity lines of credit      | 48,085                | 48,148           | 48,281            | 48,525               | 49,839                |   |
| Consumer                         | 87,072                | 88,345           | 84,078            | 83,323               | 84,213                |   |
| Deposit account overdrafts       | 1,712                 | 2,145            | 1,640             | 2,201                | 1,291                 |   |
| Total portfolio loans            | \$950,793             | \$940,119        | \$948,029         | \$960,718            | \$1,010,879           |   |
| Percent of loans to total loans: |                       |                  |                   |                      |                       |   |
| Commercial real estate           | 44.6                  | % 43.8           | % 43.5            | % 44.2               | % 42.4                | % |
| Commercial and industrial        | 14.7                  | % 15.5           | % 15.6            | % 16.0               | % 17.4                | % |
| Real estate construction         | 2.8                   | % 3.1            | % 4.0             | % 2.9                | % 4.5                 | % |
| Residential real estate          | 23.4                  | % 22.9           | % 22.7            | % 22.9               | % 22.4                | % |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|  |           |           |           |           |           |   |
|--|-----------|-----------|-----------|-----------|-----------|---|
| Home equity lines of credit                                | 5.1       | %5.1      | %5.1      | %5.1      | %4.9      | % |
| Consumer   | 9.2       | %9.4      | %8.9      | %8.7      | %8.3      | % |
| Deposit account overdrafts                                 | 0.2       | %0.2      | %0.2      | %0.2      | %0.1      | % |
| Total percentage   | 100.0     | %100.0    | %100.0    | %100.0    | %100.0    | % |
| Residential real estate loans<br>being serviced for others | \$262,992 | \$259,352 | \$258,626 | \$250,630 | \$235,538 |   |

Table of Contents

The growth in commercial real estate loans during the third quarter of 2011 occurred as a result of lending opportunities within Peoples' primary market area. In comparison, total commercial loan balances have been negatively impacted by elevated charge-offs and payoffs over the last several quarters, including the payoff of a single \$10 million commercial and industrial loan in the first quarter of 2011. Consumer loan balances, although down slightly compared to the linked quarter, remained higher than a year ago due to growth during the second quarter of 2011 mostly attributable to targeted promotions.

Quality loan growth through increased lending activity remains one of Peoples' strategic priorities. Given the current level of concentration in commercial real estate loans, the primary emphasis of future lending activity will be on other commercial lending opportunities, including small business lending and new niches, such as health care and oil and gas lending. Peoples also is focused on adjusting its loan mix by making consumer loans a larger portion of the portfolio. As such, management will be working to expand Peoples' consumer lending activities by making investments in this area over the next several quarters. Management intends to balance loan growth with prudent risk management and sound underwriting standards.

**Loan Concentration**

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

Table of Contents

Loans secured by commercial real estate, including commercial construction loans, continue to comprise approximately half of Peoples' loan portfolio. The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at September 30, 2011:

| (Dollars in thousands)                               | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of Total |   |
|--|------------------------|---------------------|-------------------|------------|---|
| <b>Commercial Real Estate Loans:</b>                 |                        |                     |                   |            |   |
| Lodging and lodging related                          | \$66,509               | \$170               | \$66,679          | 15.4       | % |
| Apartment complexes                                  | 53,938                 | 503                 | 54,441            | 12.6       | % |
| <b>Office buildings and complexes:</b>               |                        |                     |                   |            |   |
| Owner occupied                                       | 6,404                  | 251                 | 6,655             | 1.5        | % |
| Non-owner occupied                                   | 36,285                 | 1,337               | 37,622            | 8.7        | % |
| Total office buildings and complexes                 | 42,689                 | 1,588               | 44,277            | 10.2       | % |
| <b>Retail facilities:</b>                            |                        |                     |                   |            |   |
| Owner occupied                                       | 11,228                 | 35                  | 11,263            | 2.6        | % |
| Non-owner occupied                                   | 23,434                 | 364                 | 23,798            | 5.5        | % |
| Total retail facilities                              | 34,662                 | 399                 | 35,061            | 8.1        | % |
| Assisted living facilities and nursing homes         | 32,111                 | —                   | 32,111            | 7.4        | % |
| <b>Light industrial facilities:</b>                  |                        |                     |                   |            |   |
| Owner occupied                                       | 19,533                 | 23                  | 19,556            | 4.5        | % |
| Non-owner occupied                                   | 10,939                 | —                   | 10,939            | 2.5        | % |
| Total light industrial facilities                    | 30,472                 | 23                  | 30,495            | 7.0        | % |
| <b>Mixed commercial use facilities:</b>              |                        |                     |                   |            |   |
| Owner occupied                                       | 10,528                 | 227                 | 10,755            | 2.5        | % |
| Non-owner occupied                                   | 14,663                 | 12                  | 14,675            | 3.4        | % |
| Total mixed commercial use facilities                | 25,191                 | 239                 | 25,430            | 5.9        | % |
| <b>Day care facilities:</b>                          |                        |                     |                   |            |   |
| Owner occupied                                       | 5,461                  | —                   | 5,461             | 1.3        | % |
| Non-owner occupied                                   | 14,717                 | —                   | 14,717            | 3.4        | % |
| Total day care facilities                            | 20,178                 | —                   | 20,178            | 4.7        | % |
| <b>Restaurant facilities:</b>                        |                        |                     |                   |            |   |
| Owner occupied                                       | 11,002                 | 618                 | 11,620            | 2.7        | % |
| Non-owner occupied                                   | 3,316                  | —                   | 3,316             | 0.8        | % |
| Total restaurant facilities                          | 14,318                 | 618                 | 14,936            | 3.5        | % |
| Other  | 104,673                | 4,003               | 108,676           | 25.2       | % |
| Total commercial real estate                         | \$424,741              | \$7,543             | \$432,284         | 100.0      | % |
| <b>Real Estate Construction Loans:</b>               |                        |                     |                   |            |   |
| Health care facilities                               | \$3,644                | \$8,893             | \$12,537          | 32.4       | % |
| Assisted living facilities and nursing homes         | 9,499                  | 424                 | 9,923             | 25.6       | % |
| Restaurants  | 1,103                  | 2,328               | 3,431             | 8.9        | % |
| Mixed commercial use facilities - non-owner occupied | 2,950                  | 117                 | 3,067             | 7.9        | % |
| <b>Day care facilities:</b>                          |                        |                     |                   |            |   |
| Owner occupied                                       | 1,224                  | —                   | 1,224             | 3.2        | % |
| Non-owner occupied                                   | 1,730                  | —                   | 1,730             | 4.5        | % |
| Total day care facilities                            | 2,954                  | —                   | 2,954             | 7.7        | % |
| Other  | 6,601                  | 176                 | 6,777             | 17.5       | % |
| Total real estate construction                       | \$26,751               | \$11,938            | \$38,689          | 100.0      | % |

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balance in each

state was less than \$4.0 million at both September 30, 2011 and December 31, 2010.

Table of Contents

## Allowance for Loan Losses

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

| (Dollars in thousands)          | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |   |
|---------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Commercial real estate          | \$20,085              | \$19,361         | \$19,613          | \$21,806             | \$21,382              |   |
| Commercial and industrial       | 2,363                 | 3,069            | 1,734             | 2,160                | 2,826                 |   |
| Residential real estate         | 1,421                 | 1,187            | 1,642             | 1,400                | 1,414                 |   |
| Home equity lines of credit     | 548                   | 552              | 444               | 431                  | 497                   |   |
| Consumer                        | 574                   | 783              | 790               | 721                  | 830                   |   |
| Deposit account overdrafts      | 222                   | 214              | 226               | 248                  | 261                   |   |
| Total allowance for loan losses | \$25,213              | \$25,166         | \$24,449          | \$26,766             | \$27,210              |   |
| As a percentage of total loans  | 2.65                  | %2.68            | %2.58             | %2.79                | %2.69                 | % |

The significant allocations to commercial loans reflect the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. At September 30, 2011, the allowance for loan losses was lower than the prior year-end, reflecting the upgrade of several criticized loans to a pass rating during 2011. Criticized loans are those classified as watch, substandard or doubtful. In contrast to the overall improving trend in the credit quality, certain segments of Peoples' loan portfolio, such as the hospitality sector, remain stressed due to the continuation of unfavorable economic conditions and weakness in commercial real estate values. As a result, management has increased the qualitative factors for its lodging and lodging related loans in 2011, which has offset the benefit of lower historical loss rates in other segments of the commercial loan portfolio.

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

Table of Contents

The following table summarizes Peoples' net charge-offs:

| (Dollars in thousands)   | Three Months Ended    |                  |                   |                      |                       |   |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
|  | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |   |
| <b>Gross charge-offs:</b>                                      |                       |                  |                   |                      |                       |   |
| Commercial real estate   | \$440                 | \$2,197          | \$7,078           | \$6,913              | \$7,557               |   |
| Commercial and industrial                                      | 67                    | 102              | 835               | 109                  | 97                    |   |
| Residential real estate  | 296                   | 756              | 201               | 400                  | 382                   |   |
| Real estate construction                                       | —                     | —                | —                 | —                    | —                     |   |
| Home equity lines of credit                                    | 15                    | 83               | 247               | 72                   | 40                    |   |
| Consumer   | 229                   | 175              | 283               | 236                  | 247                   |   |
| Deposit account overdrafts                                     | 195                   | 157              | 136               | 194                  | 282                   |   |
| Total gross charge-offs  | 1,242                 | 3,470            | 8,780             | 7,924                | 8,605                 |   |
| <b>Recoveries:</b>   |                       |                  |                   |                      |                       |   |
| Commercial real estate   | 93                    | 1,045            | 315               | 187                  | 355                   |   |
| Commercial and industrial                                      | 83                    | 487              | 59                | 48                   | 28                    |   |
| Residential real estate  | 29                    | 126              | 443               | 111                  | 28                    |   |
| Real estate construction                                       | —                     | —                | —                 | —                    | —                     |   |
| Home equity lines of credit                                    | 11                    | 16               | 10                | 7                    | 2                     |   |
| Consumer   | 170                   | 168              | 222               | 127                  | 156                   |   |
| Deposit account overdrafts                                     | 38                    | 50               | 103               | 48                   | 73                    |   |
| Total recoveries   | 424                   | 1,892            | 1,152             | 528                  | 642                   |   |
| <b>Net charge-offs (recoveries):</b>                           |                       |                  |                   |                      |                       |   |
| Commercial real estate   | 347                   | 1,152            | 6,763             | 6,726                | 7,202                 |   |
| Commercial and industrial                                      | (16                   | ) (385           | ) 776             | 61                   | 69                    |   |
| Residential real estate  | 267                   | 630              | (242              | ) 289                | 354                   |   |
| Real estate construction                                       | —                     | —                | —                 | —                    | —                     |   |
| Home equity lines of credit                                    | 4                     | 67               | 237               | 65                   | 38                    |   |
| Consumer   | 59                    | 7                | 61                | 109                  | 91                    |   |
| Deposit account overdrafts                                     | 157                   | 107              | 33                | 146                  | 209                   |   |
| Total net charge-offs  | \$818                 | \$1,578          | \$7,628           | \$7,396              | \$7,963               |   |
| <b>Ratio of net charge-offs to average loans (annualized):</b> |                       |                  |                   |                      |                       |   |
| Commercial real estate   | 0.15                  | % 0.49           | % 2.84            | % 2.72               | % 2.81                | % |
| Commercial and industrial                                      | (0.01                 | )% (0.16         | )% 0.33           | % 0.02               | % 0.03                | % |
| Residential real estate  | 0.11                  | % 0.27           | % (0.10           | )% 0.12              | % 0.14                | % |
| Real estate construction                                       | —                     | % —              | % —               | % —                  | % —                   | % |
| Home equity lines of credit                                    | —                     | % 0.03           | % 0.10            | % 0.02               | % 0.01                | % |
| Consumer   | 0.02                  | % —              | % 0.03            | % 0.04               | % 0.04                | % |
| Deposit account overdrafts                                     | 0.07                  | % 0.04           | % 0.01            | % 0.01               | % 0.08                | % |
| Total  | 0.34                  | % 0.67           | % 3.21            | % 2.93               | % 3.11                | % |

Table of Contents

The following table details Peoples' nonperforming assets:

| (Dollars in thousands)                         | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |   |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Loans 90+ days past due and accruing:          |                       |                  |                   |                      |                       |   |
| Commercial real estate                         | \$—                   | \$—              | \$—               | \$—                  | \$—                   |   |
| Commercial and industrial                      | 20                    | —                | 37                | —                    | 31                    |   |
| Residential real estate                        | 126                   | 124              | —                 | 27                   | —                     |   |
| Total  | 146                   | 124              | 37                | 27                   | 31                    |   |
| Nonaccrual loans:                              |                       |                  |                   |                      |                       |   |
| Commercial real estate                         | 22,657                | 27,455           | 27,934            | 34,392               | 30,083                |   |
| Commercial and industrial                      | 2,468                 | 1,325            | 1,536             | 1,714                | 2,051                 |   |
| Residential real estate                        | 3,996                 | 1,784            | 1,906             | 3,197                | 4,481                 |   |
| Real estate construction                       | —                     | —                | —                 | —                    | —                     |   |
| Home equity                                    | 271                   | 283              | 361               | 554                  | 562                   |   |
| Consumer                                       | 2                     | —                | —                 | —                    | 7                     |   |
| Total  | 29,394                | 30,847           | 31,737            | 39,857               | 37,184                |   |
| Troubled debt restructurings:                  |                       |                  |                   |                      |                       |   |
| Commercial real estate                         | 3,001                 | —                | —                 | —                    | —                     |   |
| Residential real estate                        | 562                   | 574              | 585               | 593                  | —                     |   |
| Total  | 3,563                 | 574              | 585               | 593                  | —                     |   |
| Total nonperforming loans (NPLs)               | 33,103                | 31,545           | 32,359            | 40,477               | 37,215                |   |
| Other real estate owned (OREO)                 |                       |                  |                   |                      |                       |   |
| Commercial                                     | 3,552                 | 3,546            | 4,220             | 4,280                | 4,305                 |   |
| Residential                                    | 115                   | —                | 180               | 215                  | 30                    |   |
| Total  | 3,667                 | 3,546            | 4,400             | 4,495                | 4,335                 |   |
| Total nonperforming assets (NPAs)              | \$36,770              | \$35,091         | \$36,759          | \$44,972             | \$41,550              |   |
| NPLs as a percent of total loans               | 3.47                  | %3.35            | %3.41             | %4.19                | %3.67                 | % |
| NPAs as a percent of total assets              | 2.04                  | %1.95            | %2.04             | %2.45                | %2.21                 | % |
| NPAs as a percent of gross loans and OREO      | 3.84                  | %3.71            | %3.85             | %4.64                | %4.08                 | % |
| Allowance for loan losses as a percent of NPLs | 76.16                 | %79.78           | %75.56            | %66.10               | %73.12                | % |

In the third quarter of 2011, nonperforming assets increased 5% over the linked quarter as \$2.4 million in substandard-rated loans to a single commercial borrower became impaired in the third quarter and were placed on nonaccrual status. This increase was partially offset by paydowns of \$1.2 million on existing nonaccrual loans. Total criticized loans decreased \$17.1 million, or 11%, during the third quarter and \$25.1 million, or 15%, since year-end 2010. These reductions occurred primarily as a result of several loans being upgraded to a pass rating in response to improvement in the financial condition of the borrowers.

From time-to-time, Peoples offers various forms of concessions to borrowers in connection with a loan modification. Such concessions may include short-term forbearance periods involving interest-only payments and/or term extensions, converting revolving credit lines to term loans or reducing the contractual monthly payment. As discussed in Note 1 of the Notes to the Consolidated Financial Statements, Peoples adopted new accounting guidance regarding troubled debt restructurings ("TDRs") during the third quarter of 2011 as required. This new guidance clarified when a loan modification should be considered a TDR. In general, a loan modification is considered to be a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. As a result of adopting the new accounting guidance, loans with an aggregate recorded value of \$3.6 million were deemed to be TDRs. These loans previously were considered impaired, thus, the determination of these loans being TDRs had no impact on the recorded values of these loans or the related valuation allowance at September 30, 2011.



Peoples' nonaccrual commercial real estate loans primarily consist of non-owner occupied commercial properties and real estate development projects. In general, management believes repayment of these loans is dependent on the sale of the underlying collateral. As such, the carrying values of these loans are ultimately supported by management's estimate of the net proceeds Peoples would receive upon the sale of the collateral. These estimates are based in part on market values provided by independent, licensed or certified appraisers periodically, but no less frequently than annually. Given the sustained weakness in commercial real estate values, management continues to monitor changes in real estate values from quarter-to-quarter and updates its estimates as needed based on observable changes in market prices and/or updated appraisals for similar properties.

Table of Contents

Overall, management believes the allowance for loan losses was adequate at September 30, 2011, based on all significant information currently available. Still, there can be no assurance the allowance for loan losses will be adequate to cover future losses or that the amount of nonperforming loans will remain at current levels, especially considering the current economic uncertainty that exists and the concentration of commercial loans in Peoples' loan portfolio.

## Deposits

The following table details Peoples' deposit balances:

| (Dollars in thousands)                 | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Interest-bearing deposits:             |                       |                  |                   |                      |                       |
| Retail certificates of deposit         | \$415,190             | \$421,167        | \$420,828         | \$430,886            | \$436,250             |
| Money market deposit accounts          | 254,012               | 264,677          | 270,574           | 289,657              | 297,229               |
| Governmental/public funds              | 140,357               | 150,319          | 149,961           | 119,572              | 139,843               |
| Savings accounts                       | 132,182               | 133,352          | 132,323           | 122,444              | 120,975               |
| Interest-bearing demand accounts       | 100,770               | 99,324           | 97,561            | 96,507               | 92,585                |
| Total retail interest-bearing deposits | 1,042,511             | 1,068,839        | 1,071,247         | 1,059,066            | 1,086,882             |
| Brokered certificates of deposits      | 64,470                | 67,912           | 70,522            | 87,465               | 95,862                |
| Total interest-bearing deposits        | 1,106,981             | 1,136,751        | 1,141,769         | 1,146,531            | 1,182,744             |
| Non-interest-bearing deposits          | 235,585               | 222,075          | 219,175           | 215,069              | 209,693               |
| Total deposits                         | \$1,342,566           | \$1,358,826      | \$1,360,944       | \$1,361,600          | \$1,392,437           |

In the third quarter of 2011, management maintained its focus on changing Peoples' deposit mix away from higher-cost, non-core deposits as a means of reducing overall funding costs. This strategy has included more selective pricing of out-of-market certificates of deposit ("CDs"), governmental/public fund deposits and similar non-core deposits. These actions have accounted for much of the decline in retail CDs and money market accounts since year-end 2010. Also during the first quarter of 2011, Peoples experienced seasonal increases in governmental/public funds from tax collections, as well as consumer savings and non-interest-bearing deposit balances.

Governmental/public funds balances normally decline in the second half of the year corresponding with governmental expenditures.

Over the last several quarters, Peoples has reduced the amount of brokered CDs due to the growth in retail deposit balances. Management expects further reductions in these balances in future quarters, as these deposits are not expected to be renewed based on Peoples' current deposit strategies and expected funding needs. Still, management continues to consider these deposits to be an alternative funding source to other wholesale funding for satisfying potential future liquidity needs.

## Borrowed Funds

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

| (Dollars in thousands)                | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|---------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Short-term borrowings:                |                       |                  |                   |                      |                       |
| FHLB advances                         | \$17,300              | \$—              | \$—               | \$—                  | \$—                   |
| Retail repurchase agreements          | 41,255                | 39,254           | 42,283            | 51,509               | 49,060                |
| Total short-term borrowings           | 58,555                | 39,254           | 42,283            | 51,509               | 49,060                |
| Long-term borrowings:                 |                       |                  |                   |                      |                       |
| FHLB advances                         | 78,970                | 86,703           | 86,907            | 92,703               | 99,720                |
| National market repurchase agreements | 65,000                | 65,000           | 65,000            | 65,000               | 65,000                |
| Total long-term borrowings            | 143,970               | 151,703          | 151,907           | 157,703              | 164,720               |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|   |           |           |           |           |           |
|---|-----------|-----------|-----------|-----------|-----------|
| Subordinated notes held by subsidiary trust | 22,592    | 22,583    | 22,574    | 22,565    | 22,557    |
| Total borrowed funds                        | \$225,117 | \$213,540 | \$216,764 | \$231,777 | \$236,337 |

At September 30, 2011, short-term FHLB advances consisted entirely of overnight borrowings being maintained in connection with the management of Peoples' daily liquidity position. Total long-term borrowings have declined steadily over the last several quarters, as Peoples repaid maturing long-term borrowings using funds generated from other sources, such as retail deposit growth. The level and composition of borrowed funds may change in future quarters, as management will continue to use a combination of short-term and long-term borrowings to manage the interest rate risk of the balance sheet.

Table of Contents

## Capital/Stockholders' Equity

During the nine months of 2011, Peoples' total stockholders' equity and regulatory capital measures were impacted by the Partial TARP Capital Redemption. However, at September 30, 2011, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered well capitalized institutions under banking regulations. These higher capital levels reflect Peoples' desire to maintain strong capital positions throughout the current credit cycle and economic downturn to provide greater flexibility to work through asset quality issues that have arisen.

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

| (Dollars in thousands)    | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |   |
|---------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| <b>Capital Amounts:</b>   |                       |                  |                   |                      |                       |   |
| Tier 1 common             | \$ 139,828            | \$ 136,842       | \$ 133,891        | \$ 133,197           | \$ 133,624            |   |
| Tier 1                    | 180,294               | 177,287          | 174,314           | 194,407              | 194,800               |   |
| Total (Tier 1 and Tier 2) | 195,485               | 192,663          | 189,672           | 209,738              | 210,768               |   |
| Net risk-weighted assets  | \$ 1,127,976          | \$ 1,135,234     | \$ 1,142,758      | \$ 1,149,587         | \$ 1,200,754          |   |
| <b>Capital Ratios:</b>    |                       |                  |                   |                      |                       |   |
| Tier 1 common             | 12.40                 | % 12.05          | % 11.72           | % 11.59              | % 11.13               | % |
| Tier 1                    | 15.98                 | % 15.62          | % 15.25           | % 16.91              | % 16.22               | % |
| Total (Tier 1 and Tier 2) | 17.33                 | % 16.97          | % 16.60           | % 18.24              | % 17.55               | % |
| Leverage ratio            | 10.37                 | % 10.10          | % 9.81            | % 10.63              | % 10.26               | % |

In addition to traditional capital measurements, management uses tangible capital to evaluate the adequacy of Peoples' stockholders' equity. This non-GAAP financial measure and related ratios facilitate comparisons with peers since they remove the impact of intangible assets acquired through acquisitions on the Consolidated Balance Sheets. The following table reconciles the calculation of tangible capital to amounts reported in Peoples' consolidated financial statements:

| (Dollars in thousands)                     | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| <b>Tangible Equity:</b>                    |                       |                  |                   |                      |                       |
| Total stockholders' equity, as reported    | \$ 224,530            | \$ 218,527       | \$ 210,485        | \$ 230,681           | \$ 233,759            |
| Less: goodwill and other intangible assets | 64,489                | 64,602           | 64,765            | 64,870               | 64,934                |
| Tangible equity                            | \$ 160,041            | \$ 153,925       | \$ 145,720        | \$ 165,811           | \$ 168,825            |
| <b>Tangible Common Equity:</b>             |                       |                  |                   |                      |                       |
| Tangible equity                            | \$ 160,041            | \$ 153,925       | \$ 145,720        | \$ 165,811           | \$ 168,825            |
| Less: preferred stockholders' equity       | 17,875                | 17,862           | 17,850            | 38,645               | 38,619                |
| Tangible common equity                     | \$ 142,166            | \$ 136,063       | \$ 127,870        | \$ 127,166           | \$ 130,206            |
| <b>Tangible Assets:</b>                    |                       |                  |                   |                      |                       |
| Total assets, as reported                  | \$ 1,805,743          | \$ 1,802,703     | \$ 1,801,590      | \$ 1,837,985         | \$ 1,883,689          |
| Less: goodwill and other intangible assets | 64,489                | 64,602           | 64,765            | 64,870               | 64,934                |
| Tangible assets                            | \$ 1,741,254          | \$ 1,738,101     | \$ 1,736,825      | \$ 1,773,115         | \$ 1,818,755          |
| <b>Tangible Book Value per Share:</b>      |                       |                  |                   |                      |                       |
| Tangible common equity                     | \$ 142,166            | \$ 136,063       | \$ 127,870        | \$ 127,166           | \$ 130,206            |
| Common shares outstanding                  | 10,489,400            | 10,478,149       | 10,474,507        | 10,457,327           | 10,438,510            |
| Tangible book value per share              | \$ 13.55              | \$ 12.99         | \$ 12.21          | \$ 12.16             | \$ 12.47              |



Table of Contents

| (Dollars in thousands)                           | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |   |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Tangible Equity to Tangible Assets Ratio:        |                       |                  |                   |                      |                       |   |
| Tangible equity                                  | \$ 160,041            | \$ 153,925       | \$ 145,720        | \$ 165,811           | \$ 168,825            |   |
| Tangible assets                                  | \$ 1,741,254          | \$ 1,738,101     | \$ 1,736,825      | \$ 1,773,115         | \$ 1,818,755          |   |
| Tangible equity to tangible assets               | 9.19                  | % 8.86           | % 8.39            | % 9.35               | % 9.28                | % |
| Tangible Common Equity to Tangible Assets Ratio: |                       |                  |                   |                      |                       |   |
| Tangible common equity                           | \$ 142,166            | \$ 136,063       | \$ 127,870        | \$ 127,166           | \$ 130,206            |   |
| Tangible assets                                  | \$ 1,741,254          | \$ 1,738,101     | \$ 1,736,825      | \$ 1,773,115         | \$ 1,818,755          |   |
| Tangible common equity to tangible assets        | 8.16                  | % 7.83           | % 7.36            | % 7.17               | % 7.16                | % |

The fluctuations in tangible equity and tangible common equity over the last several quarters primarily reflected the impact of changes in fair value of Peoples' available-for-sale investment portfolio on accumulated other comprehensive income, a component of total stockholders' equity. The increase in tangible assets over the linked quarter occurred primarily as a result of increased loan balances.

**Interest Rate Sensitivity and Liquidity**

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

**Interest Rate Risk**

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

Peoples has assigned overall management of IRR to its Asset-Liability Committee (the "ALCO"), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. The methods used by the ALCO to assess IRR remain unchanged from those disclosed in Peoples' 2010 Form 10-K.

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

| Increase in Interest Rate | Estimated Increase in Net Interest Income |                   | Estimated (Decrease) Increase in Economic Value of Equity |                   |
|---------------------------|---|-------------------|---|-------------------|
|                           | September 30, 2011                        | December 31, 2010 | September 30, 2011  | December 31, 2010 |
|                           |   |                   |   |                   |

(in Basis  
Points)

|     |         |      |   |         |      |   |           |   |      |    |          |   |      |    |
|-----|---------|------|---|---------|------|---|-----------|---|------|----|----------|---|------|----|
| 300 | \$5,454 | 10.3 | % | \$8,973 | 17.2 | % | \$(14,792 | ) | (6.5 | )% | \$(9,005 | ) | (3.9 | )% |
| 200 | 4,968   | 9.4  | % | 6,860   | 13.2 | % | (2,779    | ) | (1.2 | )% | (3,297   | ) | (1.4 | )% |
| 100 | 3,655   | 6.9  | % | 4,048   | 7.8  | % | 4,545     |   | 2.0  | %  | 1,599    |   | 0.7  | %  |

At September 30, 2011, Peoples' Consolidated Balance Sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. While parallel interest rate shock scenarios are useful in assessing the level of IRR inherent in Peoples' balance sheet, interest rates typically move in a non-parallel manner, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates.

Table of Contents**Liquidity**

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity. The ALCO defines liquidity as the ability to meet anticipated and unanticipated operating cash needs, loan demand and deposit withdrawals, without incurring a sustained negative impact on profitability. The ALCO's liquidity management policy sets limits on the net liquidity position and the concentration of non-core funding sources, both wholesale funding and brokered deposits.

Typically, the main source of liquidity for Peoples is deposit growth. Liquidity is also provided by cash generated from earning assets such as maturities, calls, principal payments and interest income from loans and investment securities. Peoples also uses various wholesale funding sources to supplement funding from customer deposits. These external sources also provide Peoples with the ability to obtain large quantities of funds in a relatively short time period in the event of sudden unanticipated cash needs.

Peoples also has a contingency funding plan that serves as an action plan for management in the event of a short-term or long-term funding crisis caused by a single or series of unexpected events. The policy identifies potential triggers and early warning indicators of a funding crisis, such as unexpected deposit withdrawals or failure of unrelated financial institutions within Peoples' primary market area. Additionally, the policy identifies sources of liquidity that may be utilized in the event of either a short-term or a long-term funding crisis.

At September 30, 2011, Peoples had available borrowing capacity through its wholesale funding sources, primarily the Federal Home Loan Bank of Cincinnati and the Federal Reserve Bank of Cleveland, and unpledged investment securities totaling approximately \$320 million that can be used to satisfy liquidity needs, compared to \$286 million at year-end 2010. This liquidity position excludes excess cash reserves being maintained and the impact of Peoples' ability to obtain additional funding by either offering higher rates on retail deposits or issuing additional brokered deposits.

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

**Off-Balance Sheet Activities and Contractual Obligations**

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

| (Dollars in thousands)        | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 | December 31,<br>2010 | September 30,<br>2010 |
|-------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Home equity lines of credit   | \$44,481              | \$39,758         | \$40,293          | \$40,021             | \$39,585              |
| Unadvanced construction loans | 11,954                | 16,026           | 16,418            | 6,107                | 11,954                |
| Other loan commitments        | 119,738               | 106,311          | 111,720           | 108,995              | 103,726               |
| Loan commitments              | 176,173               | 162,095          | 168,431           | 155,123              | 155,265               |
| Standby letters of credit     | \$41,269              | \$41,198         | \$41,553          | \$42,097             | \$42,158              |

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



Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples’ management, with the participation of Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples’ disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 2011. Based upon that evaluation, Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

- (a) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be accumulated and communicated to Peoples’ management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms; and
- (c) Peoples’ disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples’ internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples’ fiscal quarter ended September 30, 2011, that have materially affected, or are reasonably likely to materially affect, Peoples’ internal control over financial reporting.

Table of Contents

## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

There have been no material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2010 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial condition and/or operating results.

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

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended September 30, 2011:

| Period                 | (a)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased | (b)<br>Average Price<br>Paid per Share | (c)<br>Total Number of<br>Common Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | (d)<br>Maximum<br>Number of<br>Common Shares<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs <sup>(1)</sup> |
|------------------------|--|--|---|---|
| July 1 – 31, 2011      | 416  | (2) \$ 12.00                           | (2) —   | —   |
| August 1 – 31, 2011    | 1,023  | (2) \$ 11.24                           | (2) —   | —   |
| September 1 – 30, 2011 | 467  | (2) \$ 10.70                           | (2) —   | —   |
| Total                  | 1,906  | \$ 11.27                               | —   | —   |

(1) Peoples’ Board of Directors has not authorized any stock repurchase plans or programs for 2011, due in part to the restrictions on stock repurchases imposed by the terms of the TARP Capital Investment.

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

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. (REMOVED AND RESERVED)

## ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required to be filed with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see "Exhibit Index" beginning at page 50.

46

---

Table of Contents

SIGNATURES

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

PEOPLES BANCORP INC.

Date: November 1, 2011

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

Date: November 1, 2011

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

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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

|        |  |   |
|--------|--|---|
|        |  | Incorporated herein by reference to Exhibit 3(b) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)                      |
| 3.2(b) | Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003 | Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q   |
| 3.2(c) | Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004                                 | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772) |
| 3.2(d) | Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006   | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)                 |
| 3.2(e) | Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 13, 2006) [For SEC reporting compliance purposes only]  | Incorporated herein by reference to Exhibit 3(b) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (File No. 0-16772) |

Table of Contents

## EXHIBIT INDEX

(continued)

| Exhibit Number | Description  | Exhibit Location   |
|----------------|--|--|
| 4.1            | Warrant to purchase 313,505 Shares of Common Stock (common shares) of Peoples Bancorp Inc., issued to the United States Department of the Treasury on January 30, 2009   | Incorporated herein by reference to Exhibit 4.1 to Peoples' February 2, 2009 Form 8-K  |
| 4.2            | Letter Agreement, dated January 30, 2009, including Securities Purchase Agreement – Standard Terms attached thereto as Exhibit A, between Peoples Bancorp Inc. and the United States Department of the Treasury [NOTE: Exhibit A to the Securities Purchase Agreement is not included therewith; filed as Exhibit 3.1 to Peoples' February 2, 2009 Form 8-K and incorporated by reference at Exhibit 3.1(f) to this Quarterly Report on Form 10-Q] | Incorporated herein by reference to Exhibit 10.1 to Peoples' February 2, 2009 Form 8-K   |
| 4.3            | Letter Agreement, dated February 2, 2011, between Peoples Bancorp Inc. and the United States Department of the Treasury.   | Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K dated and filed February 4, 2011 (File No. 0-16772). |
| 10.1           | Change in Control Agreement between Peoples Bancorp Inc. and Timothy H. Kirtley (adopted August 29, 2011).*  | Filed herewith   |
| 12             | Statements regarding Computation of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends Appearing in Quarterly Report on Form 10-Q   | Filed herewith   |
| 31.1           | Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]  | Filed herewith   |
| 31.2           | Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]  | Filed herewith   |
| 32             | Section 1350 Certifications  | Furnished herewith   |
| 101.INS        | XBRL Instance Document   | Submitted electronically herewith #  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  | Submitted electronically herewith #  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  | Submitted electronically herewith #  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document  | Submitted electronically herewith #  |
| 101.PRE        |  | Submitted electronically herewith #  |

XBRL Taxonomy Extension Presentation Linkbase  
Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document Submitted electronically herewith #

\*Management Compensation Plan or Agreement

# Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at September 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2011 and 2010; (iii) Consolidated Statement of Stockholders' Equity (unaudited) for the nine months ended September 30, 2011; (ix) Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2011 and 2010; and (v) Notes to the Unaudited Consolidated Financial Statements.

In accordance with Rule 406T of SEC Regulation S-T, the XBRL related documents in Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011 are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these Sections.