

PEOPLES BANCORP INC  
Form 10-Q  
April 26, 2012  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

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

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

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

138 Putnam Street, P. O. Box 738,

45750

Marietta, Ohio

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

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

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

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

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

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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,677,502 common shares, without par value, at April 25, 2012.

---

Table of Contents

Table of Contents	
<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS (Unaudited)</u>	<u>3</u>
<u>CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>	<u>4</u>
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)</u>	<u>5</u>
<u>CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY (Unaudited)</u>	<u>5</u>
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u>	<u>6</u>
<u>NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>7</u>
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u>	<u>8</u>
<u>SELECTED FINANCIAL DATA</u>	<u>8</u>
<u>EXECUTIVE SUMMARY</u>	<u>11</u>
<u>RESULTS OF OPERATIONS</u>	<u>12</u>
<u>FINANCIAL CONDITION</u>	<u>18</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>29</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>29</u>
<u>PART II – OTHER INFORMATION</u>	<u>30</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>30</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>30</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>30</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>30</u>
<u>ITEM 4. MINE SAFETY DISLCOSURES</u>	<u>30</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>30</u>
<u>ITEM 6. EXHIBITS</u>	<u>30</u>
<u>SIGNATURES</u>	<u>31</u>
<u>EXHIBIT INDEX</u>	<u>32</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)	March 31, 2012	December 31, 2011
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$29,870	\$32,346
Interest-bearing deposits in other banks	8,085	6,604
Total cash and cash equivalents	37,955	38,950
Available-for-sale investment securities, at fair value (amortized cost of \$602,817 at March 31, 2012 and \$617,128 at December 31, 2011)	610,036	628,571
Held-to-maturity investment securities, at amortized cost (fair value of \$34,634 at March 31, 2012 and \$16,705 at December 31, 2011)	34,298	16,301
Other investment securities, at cost	24,356	24,356
Total investment securities	668,690	669,228
Loans, net of deferred fees and costs	944,103	938,506
Allowance for loan losses	(21,249)	(23,717)
Net loans	922,854	914,789
Loans held for sale	5,167	3,271
Bank premises and equipment, net	23,863	23,905
Bank owned life insurance	49,392	49,384
Goodwill	62,520	62,520
Other intangible assets	1,909	1,955
Other assets	33,573	30,159
Total assets	\$1,805,923	\$1,794,161
<b>Liabilities</b>		
Deposits:		
Non-interest-bearing	\$268,444	\$239,837
Interest-bearing	1,130,105	1,111,243
Total deposits	1,398,549	1,351,080
Short-term borrowings	44,905	51,643
Long-term borrowings	106,652	142,312
Junior subordinated notes held by subsidiary trust	22,609	22,600
Accrued expenses and other liabilities	24,542	19,869
Total liabilities	1,597,257	1,587,504
<b>Stockholders' Equity</b>		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at March 31, 2012 and December 31, 2011	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,129,412 shares issued at March 31, 2012 and 11,122,247 shares issued at December 31, 2011, including shares in treasury	166,065	166,969
Retained earnings	59,065	53,580

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Accumulated other comprehensive (loss) income, net of deferred income taxes	(1,310	) 1,412	
Treasury stock, at cost, 607,864 shares at March 31, 2012 and 615,123 shares at December 31, 2011	(15,154	)(15,304	)
Total stockholders' equity	208,666	206,657	
Total liabilities and stockholders' equity	\$1,805,923	\$1,794,161	

See Notes to the Unaudited Consolidated Financial Statements

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

	Three Months Ended	
	March 31,	
(Dollars in thousands, except per share data)	2012	2011
Interest Income:		
Interest and fees on loans	\$11,760	\$12,678
Interest and dividends on taxable investment securities	5,507	6,203
Interest on tax-exempt investment securities	341	425
Other interest income	4	11
Total interest income	17,612	19,317
Interest Expense:		
Interest on deposits	2,547	3,985
Interest on short-term borrowings	19	35
Interest on long-term borrowings	1,119	1,310
Interest on junior subordinated notes held by subsidiary trust	495	492
Total interest expense	4,180	5,822
Net interest income	13,432	13,495
(Recovery of) provision for loan losses	(2,137)	)5,311
Net interest income after (recovery of) provision for loan losses	15,569	8,184
Other Income:		
Deposit account service charges	2,237	2,174
Insurance income	2,951	2,832
Trust and investment income	1,496	1,325
Electronic banking income	1,488	1,221
Mortgage banking income	549	374
Bank owned life insurance	8	87
Net gain on investment securities	3,163	360
Net (loss) gain on asset disposals and other transactions	(3,062)	)60
Other non-interest income	353	361
Total other income	9,183	8,794
Other Expenses:		
Salaries and employee benefit costs	8,245	7,627
Net occupancy and equipment	1,432	1,501
Professional fees	813	795
Electronic banking expense	694	618
Data processing and software	487	463
Franchise tax	412	401
Communication expense	348	314
FDIC insurance	309	662
Foreclosed real estate and other loan expenses	221	350
Amortization of other intangible assets	107	162
Other non-interest expense	1,948	1,725
Total other expenses	15,016	14,618
Income before income taxes	9,736	2,360
Income tax expense	(3,079)	)491
Net income	\$6,657	\$1,869
Preferred dividends	—	(523)
Net income available to common shareholders	\$6,657	\$1,346

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Earnings per common share - basic	\$0.63	\$0.13
Earnings per common share - diluted	\$0.63	\$0.13
Weighted-average number of common shares outstanding - basic	10,513,388	10,471,819
Weighted-average number of common shares outstanding - diluted	10,513,388	10,477,360
Cash dividends declared on common shares	\$1,172	\$1,058
Cash dividends declared per common share	\$0.11	\$0.10
See Notes to the Unaudited Consolidated Financial Statements		

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

(Dollars in thousands)	Three Months Ended	
	March 31, 2012	2011
Net income	\$6,657	\$1,869
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Gross unrealized holding (loss) gain arising in the period	(1,063	)419
Related tax benefit (expense)	372	(147
Less: reclassification adjustment for net gain included in net income	3,163	360
Related tax expense	(1,107	)(126
Net effect on other comprehensive (loss) income	(2,747	)38
Defined benefit plans:		
Amortization of unrecognized loss and service cost on pension plan	38	38
Related tax expense	(13	)(13
Net effect on other comprehensive income	25	25
Total other comprehensive (loss) income, net of tax	(2,722	)63
Total comprehensive income	\$3,935	\$1,932

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2011	\$—	\$166,969	\$53,580	\$1,412	\$(15,304)	\$206,657
Net income			6,657			6,657
Other comprehensive loss, net of tax				(2,722	)	(2,722
Repurchase of common stock warrant		(1,201	)			(1,201
Common stock cash dividends declared			(1,172	)		(1,172
Reissuance of treasury stock for deferred compensation plan					137	137
Purchase of treasury stock					(34	)(34
Common shares issued under dividend reinvestment plan		89				89
Common shares issued under Board of Directors' compensation plan		(18	)		47	29
Stock-based compensation expense		226				226
Balance, March 31, 2012	\$—	\$166,065	\$59,065	\$(1,310	)(15,154	\$208,666

See Notes to the Unaudited Consolidated Financial Statements



Table of Contents

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Three Months Ended	
	March 31,	
	2012	2011
Net cash provided by operating activities	\$8,433	\$13,317
Investing activities:		
Available-for-sale investment securities:		
Purchases	(83,594	)(80,103
Proceeds from sales	63,651	26,879
Proceeds from principle payments, calls and prepayments	34,069	32,290
Held-to-maturity investment securities:		
Purchases	(18,348	)—
Proceeds from principle payments	309	—
Net (increase) decrease in loans	(5,869	)5,112
Net expenditures for premises and equipment	(645	)(437
Proceeds from sales of other real estate owned	1,381	152
Net cash used in investing activities	(9,046	)(16,107
Financing activities:		
Net increase in non-interest-bearing deposits	28,607	4,106
Net increase (decrease) in interest-bearing deposits	18,839	(4,785
Net decrease in short-term borrowings	(6,738	)(9,226
Payments on long-term borrowings	(38,771	)(5,795
Repurchase of preferred shares and common stock warrant	(1,201	)(21,000
Preferred stock dividends	—	(449
Cash dividends paid on common shares	(1,086	)(980
Purchase of treasury stock	(34	)(38
Proceeds from issuance of common shares	2	—
Net cash used in financing activities	(382	)(38,167
Net decrease in cash and cash equivalents	(995	)(40,957
Cash and cash equivalents at beginning of period	38,950	74,644
Cash and cash equivalents at end of period	\$37,955	\$33,687

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

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

Note 1 Summary of Significant Accounting Policies

---

**Basis of Presentation:** The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (“2011 Form 10-K”).

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples’ 2011 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after March 31, 2012, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2011, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples’ 2011 Form 10-K.

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

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

Note 2 Fair Value of Financial Instruments

---

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

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

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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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 March 31, 2012:

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$31	\$—	\$31	\$—
U.S. government sponsored agencies	702	—	702	—
States and political subdivisions	34,175	—	34,175	—
Residential mortgage-backed securities	522,659	—	522,659	—
Commercial mortgage-backed securities	36,230	—	36,230	—
Bank-issued trust preferred securities	12,901	—	12,901	—
Equity securities	3,338	3,213	125	—
Total available-for-sale securities	\$610,036	\$3,213	\$606,823	\$—
December 31, 2011				
Obligations of:				
U.S. Treasury and government agencies	\$32	\$—	\$32	\$—
U.S. government sponsored agencies	13,037	—	13,037	—
States and political subdivisions	35,745	—	35,745	—
Residential mortgage-backed securities	527,003	—	527,003	—
Commercial mortgage-backed securities	37,289	—	37,289	—
Bank-issued trust preferred securities	12,211	—	12,211	—
Equity securities	3,254	3,126	128	—
Total available-for-sale securities	\$628,571	\$3,126	\$625,445	\$—

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2).

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

**Impaired Loans:** Impaired loans are measured and reported at fair value when 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 March 31, 2012, impaired loans with an aggregate outstanding principal balance of \$5.8 million were measured and reported at a fair value of \$5.5 million. During the three months ended March 31, 2012, Peoples recognized losses on impaired loans of \$0.4 million through the allowance for loan losses.

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

(Dollars in thousands)	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$37,955	\$37,955	\$38,950	\$38,950
Investment securities	668,690	669,026	669,228	669,632
Loans	928,021	839,057	918,060	828,477
Financial liabilities:				
Deposits	\$1,398,549	\$1,411,404	\$1,351,080	\$1,363,742
Short-term borrowings	44,905	44,905	51,643	51,643
Long-term borrowings	106,652	118,689	142,312	157,553
Junior subordinated notes held by subsidiary trust	22,609	23,734	22,600	23,760

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

**Loans:** The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 2 inputs). In the current whole loan market, financial investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the lack of market liquidity. This divergence accounts for the majority of the difference in carrying amount over fair value.

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

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

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

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

### Note 3 Investment Securities

#### Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$31	\$—	\$—	\$31
U.S. government sponsored agencies	655	47	—	702
States and political subdivisions	31,164	3,011	—	34,175

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Residential mortgage-backed securities	520,613	13,662	(11,616	) 522,659
Commercial mortgage-backed securities	35,253	1,005	(28	) 36,230
Bank-issued trust preferred securities	13,888	54	(1,041	) 12,901
Equity securities	1,213	2,220	(95	) 3,338
Total available-for-sale securities	\$602,817	\$19,999	\$(12,780	) \$610,036
December 31, 2011				
Obligations of:				
U.S. Treasury and government agencies	\$32	\$—	\$—	\$32
U.S. government sponsored agencies	12,291	746	—	13,037
States and political subdivisions	32,763	2,982	—	35,745
Residential mortgage-backed securities	521,231	15,607	(9,835	) 527,003
Commercial mortgage-backed securities	35,712	1,577	—	37,289
Bank-issued trust preferred securities	13,886	12	(1,687	) 12,211
Equity securities	1,213	2,134	(93	) 3,254
Total available-for-sale securities	\$617,128	\$23,058	\$(11,615	) \$628,571

Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both March 31, 2012 and December 31, 2011. At March 31, 2012, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies that exceeded 10% of stockholders' equity.

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

(Dollars in thousands)	Three Months Ended	
	March 31, 2012	2011
Gross gains realized	\$3,272	\$442
Gross losses realized	109	82
Net gain realized	\$3,163	\$360

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
March 31, 2012								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	—	—	—	—	—	—	—	—
Residential mortgage-backed securities	95,533	2,509	16	86,868	9,107	16	182,401	11,616
Commercial mortgage-backed securities	6,138	28	1	—	—	—	6,138	28
Bank-issued trust preferred securities	4,830	194	3	4,545	847	5	9,375	1,041
Equity securities	—	—	—	80	95	1	80	95
Total	\$106,501	\$2,731	20	\$91,493	\$10,049	22	\$197,994	\$12,780

December 31, 2011

Obligations of:

U.S. Treasury and government agencies	\$—	\$—	—	\$3	\$—	1	\$3	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	—	—	—	—	—	—	—	—
Residential mortgage-backed securities	60,148	756	13	91,400	9,079	15	151,548	9,835
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—
Bank-issued trust preferred securities	6,872	625	4	4,329	1,062	5	11,201	1,687
Equity securities	—	—	—	83	93	1	83	93
Total	\$67,020	\$1,381	17	\$95,815	\$10,234	22	\$162,835	\$11,615

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At March 31, 2012, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both March 31, 2012 and December 31, 2011, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At March 31, 2012, securities that have been at an unrealized loss position for less than twelve months consisted of three bank issued trust preferred securities and seventeen mortgage-backed securities, both private label and those issued by U.S. government sponsored enterprises. Additionally, of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more, 96% were issued by U.S. government sponsored enterprises. Of the remaining 4%, which consisted of private label mortgage-backed securities, all of the underlying mortgages were originated prior to 2004.

Furthermore, five of the eight bank-issued trust preferred securities at an unrealized loss position were within 90% of book value, while the unrealized losses for the remaining three were primarily attributable to the floating nature of these investments, the current interest rate environment and spreads within that sector.

Of the positions with a fair value less than 90% of their book value, three of the nine securities were mortgage-backed securities issued by U.S government sponsored enterprises. The remaining securities were limited to three bank-issued trust preferred securities, which had an aggregate book value of approximately \$3.0 million and fair value of \$2.2 million at March 31, 2012, and three variable rate residential mortgage-backed securities with book and market values of \$2.2 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 the low number of loans remaining in these securities.

The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at March 31, 2012. 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	\$—	\$11	\$20	\$—	\$31
U.S. government sponsored agencies	—	655	—	—	655
States and political subdivisions	1,173	3,464	9,905	16,622	31,164
Residential mortgage-backed securities	125	1,073	50,744	468,671	520,613
Commercial mortgage-backed securities	—	—	18,398	16,855	35,253

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Bank-issued trust preferred securities	—	—	—	13,888	13,888	
Equity securities	—	—	—	1,213	1,213	
Total available-for-sale securities	\$1,298	\$5,203	\$79,067	\$517,249	\$602,817	
Fair value						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$11	\$20	\$—	\$31	
U.S. government sponsored agencies	—	702	—	—	702	
States and political subdivisions	1,184	3,598	10,991	18,402	34,175	
Residential mortgage-backed securities	127	1,148	52,339	469,045	522,659	
Commercial mortgage-backed securities	—	—	19,145	17,085	36,230	
Bank-issued trust preferred securities	—	—	—	12,901	12,901	
Equity securities	—	—	—	3,338	3,338	
Total available-for-sale securities	\$1,311	\$5,459	\$82,495	\$520,771	\$610,036	
Total average yield	6.23	%5.67	%4.31	%3.6	%3.71	%
Held-to-Maturity						

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012				
Obligations of:				
States and political subdivisions	\$3,524	\$287	\$—	\$3,811
Residential mortgage-backed securities	23,902	287	(242)	23,947
Commercial mortgage-backed securities	6,872	4	—	6,876
Total held-to-maturity securities	\$34,298	\$578	\$(242)	\$34,634
December 31, 2011				
Obligations of:				
States and political subdivisions	\$3,525	\$262	\$—	\$3,787
Residential mortgage-backed securities	12,776	230	(88)	12,918
Total held-to-maturity securities	\$16,301	\$492	\$(88)	\$16,705

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three months ended March 31, 2012.

The following table presents a summary of held-to-maturity investment securities that had an unrealized loss:

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
March 31, 2012								
Obligations of:								
States and political subdivisions	\$—	\$—	—	\$—	\$—	—	\$—	\$—
Residential mortgage-backed securities	5,956	242	1	—	—	—	5,956	242
Total	\$5,956	\$242	1	\$—	\$—	—	\$5,956	\$242
December 31, 2011								
Obligations of:								
States and political subdivisions	\$—	\$—	—	\$—	\$—	—	\$—	\$—
Residential mortgage-backed securities	6,416	88	1	—	—	—	6,416	88

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Total \$6,416 \$88 1 \$— \$— — \$6,416 \$88

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at March 31, 2012. 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:						
States and political subdivisions	\$—	\$—	\$—	\$3,524	\$3,524	
Residential mortgage-backed securities	—	—	—	23,902	23,902	
Commercial mortgage-backed securities	—	—	—	6,872	6,872	
Total held-to-maturity securities	\$—	\$—	\$—	\$34,298	\$34,298	
Fair value						
Obligations of:						
States and political subdivisions	\$—	\$—	\$—	\$3,811	\$3,811	
Residential mortgage-backed securities	—	—	—	23,947	23,947	
Commercial mortgage-backed securities	—	—	—	6,876	6,876	
Total held-to-maturity securities	\$—	\$—	\$—	\$34,634	\$34,634	
Total average yield	—	%—	%—	%3.04	%3.04	%

Other Securities

Peoples' other investment securities on the Consolidated Balance Sheets consisted solely of restricted equity securities issued by the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("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.

Pledged Securities

Peoples had pledged available-for-sale investment securities with a carrying value of \$360.9 million and \$359.1 million at March 31, 2012 and December 31, 2011, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Additionally, Peoples had pledged held-to-maturity investment securities with a carrying value of \$26.9 million and \$3.0 million at March 31, 2012 and December 31, 2011, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of \$61.2 million and \$65.2 million at March 31, 2012 and December 31, 2011, respectively, to secure additional borrowing capacity at the FHLB and the FRB .

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:

(Dollars in thousands)	March 31, 2012	December 31, 2011
Commercial real estate	\$394,034	\$410,352
Commercial and industrial	150,431	140,857
Real estate construction	43,510	30,577
Residential real estate	218,745	219,619
Home equity lines of credit	48,067	47,790
Consumer	86,965	87,531
Deposit account overdrafts	2,351	1,780
Total loans	\$944,103	\$938,506

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



Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

would not be collected. The carrying amounts of these loans included in the loan balances above are summarized as follows:

(Dollars in thousands)	March 31, 2012	December 31, 2011
Commercial real estate	\$3,222	\$3,754
Commercial and industrial	151	109
Residential real estate	13,893	14,497
Consumer	92	101
Total outstanding balance	\$17,358	\$18,461
Net carrying amount	\$16,851	\$17,954

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 \$184.0 million and \$184.8 million at March 31, 2012 and December 31, 2011, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$162.3 million and \$124.0 million at March 31, 2012 and December 31, 2011, 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:

(Dollars in thousands)	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Commercial real estate	\$14,208	\$23,546	\$—	\$—
Commercial and industrial	1,949	2,262	—	—
Real estate construction	—	—	—	—
Residential real estate	4,135	3,865	—	—
Home equity lines of credit	200	349	—	—
Consumer	—	—	—	—
Total	\$20,492	\$30,022	\$—	\$—

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

(Dollars in thousands)	Loans Past Due				Current Loans	Total Loans
	30 - 59 days	60 - 89 days	90 + Days	Total		
March 31, 2012						
Commercial real estate	\$1,418	\$5,067	\$7,146	\$13,631	\$380,403	\$394,034
Commercial and industrial	211	295	36	542	149,889	150,431
Real estate construction	—	—	—	—	43,510	43,510
Residential real estate	2,731	732	3,544	7,007	211,738	218,745
Home equity lines of credit	80	6	200	286	47,781	48,067
Consumer	378	30	—	408	86,557	86,965
Deposit account overdrafts	33	—	—	33	2,318	2,351
Total	\$4,851	\$6,130	\$10,926	\$21,907	\$922,196	\$944,103
December 31, 2011						
Commercial real estate	\$2,700	\$2,286	\$11,363	\$16,349	\$394,003	\$410,352
Commercial and industrial	230	360	37	627	140,230	140,857
Real estate construction	—	—	—	—	30,577	30,577
Residential real estate	5,750	1,187	3,082	10,019	209,600	219,619
Home equity lines of credit	206	—	349	555	47,235	47,790
Consumer	874	86	—	960	86,571	87,531
Deposit account overdrafts	66	—	—	66	1,714	1,780

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Total	\$9,826	\$3,919	\$14,831	\$28,576	\$909,930	\$938,506
-------	---------	---------	----------	----------	-----------	-----------

Credit Quality Indicators

As discussed in Note 1 of Peoples' 2011 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.

“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 (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
March 31, 2012						
Commercial real estate	\$313,376	\$32,847	\$47,083	\$—	\$728	\$394,034
Commercial and industrial	113,420	12,870	5,879	—	18,262	150,431
Real estate construction	37,520	2,915	2,120	—	955	43,510
Residential real estate	27,909	2,380	9,238	8	179,210	218,745
Home equity lines of credit	1,486	42	1,324	—	45,215	48,067
Consumer	86	—	27	—	86,852	86,965
Deposit account overdrafts	—	—	—	—	2,351	2,351
Total	\$493,797	\$51,054	\$65,671	\$8	\$333,573	\$944,103
December 31, 2011						
Commercial real estate	\$310,996	\$40,165	\$56,142	\$—	\$3,049	\$410,352
Commercial and industrial	100,987	18,636	6,625	—	14,609	140,857
Real estate construction	23,710	2,932	2,062	—	1,873	30,577
Residential real estate	28,507	2,913	10,097	20	178,082	219,619

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Home equity lines of credit	1,491	42	1,394	—	44,863	47,790
Consumer	72	—	32	—	87,427	87,531
Deposit account overdrafts	—	—	—	—	1,780	1,780
Total	\$465,763	\$64,688	\$76,352	\$20	\$331,683	\$938,506

Impaired Loans

The following tables summarize loans classified as impaired:

(Dollars in thousands)	Unpaid Principal Balance	Recorded With Allowance	Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
March 31, 2012							
Commercial real estate	\$27,802	\$2,461	\$12,117	\$14,578	\$587	\$18,980	\$—
Commercial and industrial	2,006	—	1,909	1,909	—	2,065	—
Real estate construction	—	—	—	—	—	—	—
Residential real estate	3,443	1,227	1,263	2,490	350	2,520	—
Home equity lines of credit	420	—	200	200	—	234	—
Total	\$33,671	\$3,688	\$15,489	\$19,177	\$937	\$23,799	\$—
December 31, 2011							
Commercial real estate	\$49,402	\$6,882	\$16,501	\$23,383	\$1,026	\$23,058	\$—
Commercial and industrial	2,290	1,801	420	2,221	407	1,098	—
Real estate construction	—	—	—	—	—	—	—
Residential real estate	3,901	323	2,226	2,549	49	2,081	—
Home equity lines of credit	420	—	269	269	—	332	—
Total	\$56,013	\$9,006	\$19,416	\$28,422	\$1,482	\$26,569	\$—

At March 31, 2012, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("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 the 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 the remaining term of the loan.

There were no loans that were modified as a TDR during the three months ended March 31, 2012 and March 31, 2011.

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 months ended March 31, 2012:

	Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses
Commercial Real Estate	3	\$1,232	\$—

(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.

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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

Allowance for Loan Losses

Changes in the allowance for loan losses in the periods ended March 31, were as follows:

(Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Residential Real Estate Real Estate	Real Estate Construction	Home Equity Lines of Credit	Consumer	Deposit Account Overdrafts	Total
Balance, January 1, 2012	\$18,947	\$2,434	\$1,119	\$—	\$541	\$449	\$227	\$23,717
Charge-offs	(1,957)	)—	(207)	)—	(71)	(214)	(122)	(2,571)
Recoveries	1,606	48	304	—	7	188	87	2,240
Net (charge-offs)	(351)	)48	97	—	(64)	(26)	(35)	(331)
Provision for loan losses	(1,100)	(1,025)	)—	—	—	—	(12)	(2,137)
Balance, March 31, 2012	\$17,496	\$1,457	\$1,216	\$—	\$477	\$423	\$180	\$21,249

Period-end amount allocated to:

Loans individually evaluated for impairment	\$587	\$—	\$350	\$—	\$—	\$—	\$—	\$937
Loans collectively evaluated for impairment	16,909	1,457	866	—	477	423	180	20,312
Ending balance	\$17,496	\$1,457	\$1,216	\$—	\$477	\$423	\$180	\$21,249

Balance, January 1, 2011	\$21,806	\$2,160	\$1,400	\$—	\$431	\$721	\$248	\$26,766
Charge-offs	(7,078)	(835)	(201)	)—	(247)	(283)	(136)	(8,780)
Recoveries	315	59	443	—	10	222	103	1,152
Net (charge-offs)	(6,763)	(776)	)242	—	(237)	(61)	(33)	(7,628)
Provision for loan losses	4,570	350	—	—	250	130	11	5,311
Balance, March 31, 2011	\$19,613	\$1,734	\$1,642	\$—	\$444	\$790	\$226	\$24,449

Period-end amount allocated to:

Loans individually evaluated for impairment	\$739	\$163	\$—	\$—	\$85	\$—	\$—	\$987
Loans collectively evaluated for impairment	18,874	1,571	1,642	—	359	790	226	23,462
Ending balance	\$19,613	\$1,734	\$1,642	\$—	\$444	\$790	\$226	\$24,449

Note 5 Long-Term Borrowings

Long-term borrowings consisted of the following at:

(Dollars in thousands)	March 31, 2012		December 31, 2011		
	Balance	Weighted- Average Rate	Balance	Weighted- Average Rate	
Callable national market repurchase agreements	\$40,000	3.63	%\$65,000	3.43	%
FHLB putable non-amortizing, fixed rate advances	50,000	3.32	%60,000	3.28	%
FHLB amortizing, fixed rate advances	16,652	3.61	%17,312	3.59	%
Total long-term borrowings	\$106,652	3.48	%\$142,312	3.38	%

Peoples' national market repurchase agreements consist of agreements with unrelated financial service companies and have original maturities ranging from 3 to 10 years. In general, these agreements may not be terminated by Peoples prior to the maturity without incurring additional costs. The callable agreements contain call option features, in which

the buyer has the right, at its discretion, to terminate the repurchase agreement after an initial period ranging from 3 months to 5 years. After the initial call period, the buyer has the right to terminate the agreement on a quarterly basis thereafter until maturity. If the buyer exercises its option, Peoples would be required to repay the agreement in whole at the quarterly date. During the first quarter of 2012, Peoples prepaid \$35.0 million of wholesale borrowings resulting in early termination fees of \$3.1 million. The borrowings had a weighted-average cost of 3.09%.

The FHLB advances consist of various borrowings with original maturities ranging from 3 to 20 years that generally may not be repaid prior to maturity without Peoples incurring a penalty. The rate on the convertible rate advances are fixed from initial periods ranging from one to four years, depending on the specific advance. After the initial fixed rate period, the FHLB has the option to convert each advance to a LIBOR based, variable rate advance. If the FHLB exercises its option, Peoples may repay the advance in whole or in part on the conversion date or any subsequent repricing date without a prepayment fee. At all other times, early repayment of any convertible rate advance would result in Peoples incurring a prepayment penalty. For the putable advances, the FHLB has the option, at its sole discretion following an initial period of three months, to terminate the debt and require Peoples to repay the advance prior to the final stated maturity. After the initial period, the FHLB has the option to terminate the debt on a quarterly basis. If the advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then-offered by the FHLB, subject to normal FHLB underwriting criteria. As discussed in Notes 8 and 9 of the Notes to the Consolidated Financial Statements included in Peoples' 2011 Form 10-K, long-term FHLB advances are collateralized by assets owned by Peoples.

The aggregate minimum annual retirements of long-term borrowings in future periods are as follows:

(Dollars in thousands)	Balance	Weighted-Average Rate	
Nine Months Ending December 31, 2012	\$ 1,747	3.76	%
Year Ending December 31, 2013	2,225	3.67	%
Year Ending December 31, 2014	1,721	3.55	%
Year Ending December 31, 2015	1,466	3.55	%
Year Ending December 31, 2016	1,257	3.56	%
Thereafter	98,236	3.47	%
Total long-term borrowings	\$ 106,652	3.48	%

#### Note 6 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, 2011	—	11,122,247	615,123
Changes related to stock-based compensation awards:			
Release of restricted common shares		2,000	748
Changes related to deferred compensation plan:			
Purchase of treasury stock			1,320
Reissuance of treasury stock			(7,487)
Common shares issued under dividend reinvestment plan		5,165	
Common shares issued under Board of Directors' compensation plan		—	(1,840)
Shares at March 31, 2012	—	11,129,412	607,864

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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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 entire 39,000 Series A Preferred Shares were repurchased during 2011 at an aggregate price of \$39 million.

On February 15, 2012, Peoples completed the repurchase of the Warrant for a purchase price of \$1,200,724.

Accumulated Other Comprehensive (Loss) Income

The following details the change in the components of Peoples' accumulated other comprehensive income (loss) for the three months ended March 31, 2012:

(Dollars in thousands)	Unrealized (Loss) Gain on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Comprehensive (Loss) Income
Balance, December 31, 2011	\$7,439	\$(6,027	)\$1,412
Current period change, net of tax	(2,747	)25	(2,722 )
Balance, March 31, 2012	\$4,692	\$(6,002	)\$(1,310 )

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. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. 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 provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. All retirees are eligible for health benefits, however, Peoples is only pays 100% of the cost for those individuals who retired before January 1, 1993. For all others, the retiree is responsible for most, if not all, of the cost of medical benefits. Peoples' policy is to fund the cost of the benefits as they arise.

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

(Dollars in thousands)	Pension Benefits Three Months Ended March 31,		Postretirement Benefits Three Months Ended March 31,	
	2012	2011	2012	2011
Interest cost	152	172	2	3
Expected return on plan assets	(196	)(280	) —	—
Amortization of net loss	39	8	(2	)(2 )
Net periodic benefit cost	\$(5	)(100	) \$—	\$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 grant date fair market value of the underlying common shares. 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 stock options granted to employees vested three years after the grant date, while the stock options granted to non-employee directors vested six months after the grant date. The following table summarizes Peoples' stock options outstanding at March 31, 2012:

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	4,043	1.0	\$21.71
\$21.72	to	\$23.58	35,815	0.8	22.32
\$23.59	to	\$25.94	30,946	0.3	23.93
\$26.01	to	\$27.74	29,876	2.2	27.08
\$28.25	to	\$28.26	20,961	3.3	28.25
\$28.57	to	\$30.00	25,236	2.7	29.02
Total			146,877	1.7	\$25.61

#### 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 vested three years after the grant date and expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes Peoples' SARs outstanding at March 31, 2012:

Exercise Price	Number of Common Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
\$23.26	2,000	5.3
\$23.77	13,618	5.0
\$29.25	10,784	4.2
Total	26,402	4.7

#### 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 periods ranging from one to three years. In the first quarter of 2012, Peoples granted restricted shares to officers and key employees with a two-year time-based vesting period, a three-year time-based vesting period or 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 \$2.83 for the three-year period ending December 31, 2013.

The following summarizes the changes to Peoples' restricted common shares for the period ended March 31, 2012:

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

	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	26,544	\$12.89	3,363	\$13.14
Awarded	41,628	16.01	15,360	16.76
Released	2,000	14.29	—	—
Forfeited	1,428	14.73	858	16.98
Outstanding at March 31	64,744	\$14.82	17,865	\$16.07

For the three months ended March 31, 2012, the total intrinsic value of restricted common shares released was \$32,000.

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 March 31,	
	2012	2011
Total stock-based compensation	\$226	\$33
Recognized tax benefit	(79)	(12)
Net expense recognized	\$147	\$21

Total unrecognized stock-based compensation expense related to unvested awards was \$921,000 at March 31, 2012, which will be recognized over a weighted-average period of 1.8 years.

Note 9 Earnings Per Common Share

The calculations of basic and diluted earnings per common share was as follows:

(Dollars in thousands, except per common share data)	Three Months Ended March 31,	
	2012	2011
Distributed earnings allocated to common stock	\$1,165	\$1,055
Undistributed earnings allocated to common stock	5,458	290
Net earnings allocated to common shareholders	\$6,623	\$1,345
Weighted-average common shares outstanding	10,513,388	10,471,819
Effect of potentially dilutive common shares	—	5,541
Total weighted-average diluted common shares outstanding	10,513,388	10,477,360
Earnings per common share:		
Basic	\$0.63	\$0.13
Diluted	\$0.63	\$0.13

Restricted shares, stock options and SARs covering 188,212 and 248,093 common shares were excluded from the calculations for the three months ended March 31, 2012 and 2011, respectively, since they were anti-dilutive.



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 March 31,		
	2012	2011	
<b>SIGNIFICANT RATIOS</b>			
Return on average stockholders' equity	12.90	% 3.47	%
Return on average common stockholders' equity	12.90	% 2.83	%
Return on average assets	1.48	% 0.42	%
Net interest margin	3.41	% 3.43	%
Efficiency ratio (a)	65.47	% 65.21	%
Average stockholders' equity to average assets	11.49	% 11.96	%
Average loans to average deposits	69.11	% 70.24	%
Dividend payout ratio	17.61	% 78.60	%
<b>ASSET QUALITY RATIOS</b>			
Nonperforming loans as a percent of total loans (b)(c)	2.16	% 3.41	%
Nonperforming assets as a percent of total assets (b)(c)	1.18	% 2.04	%
Allowance for loan losses to loans net of unearned interest (c)	2.25	% 2.58	%
Allowance for loan losses to nonperforming loans (b)(c)	103.69	% 75.56	%
Provision for loan losses to average loans (annualized)	(0.91)	)% 2.24	%
Net charge-offs as a percentage of average loans (annualized)	0.14	% 3.21	%
<b>CAPITAL INFORMATION (c)</b>			
Tier 1 common capital ratio	13.82	% 11.72	%
Tier 1 capital ratio	15.86	% 15.25	%
Total risk-based capital ratio	17.20	% 16.60	%
Leverage ratio	10.05	% 9.81	%
Tangible equity to tangible assets (d)	8.28	% 8.39	%
Tangible common equity to tangible assets (d)	8.28	% 7.36	%
Tangible assets (d)	\$ 1,741,494	\$ 1,736,825	
Tangible equity (d)	144,237	145,720	
Tangible common equity (d)	\$ 144,237	\$ 127,870	
<b>PER COMMON SHARE DATA</b>			
Earnings (loss) per share – Basic	\$0.63	\$0.13	
Earnings (loss) per share – Diluted	0.63	0.13	
Cash dividends declared per share	0.11	0.10	
Book value per share (c)	19.83	18.39	
Tangible book value per share (c) (d)	\$ 13.71	\$ 12.21	
Weighted-average common shares outstanding – Basic	10,513,388	10,471,819	
Weighted-average common shares outstanding – Diluted	10,513,388	10,477,360	
Common shares outstanding at end of period	10,521,548	10,474,507	

(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.

(b) 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

(d) regarding the calculation of these measures can be found later in this discussion under the caption "Capital/Stockholders' Equity".

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 promulgated and to be promulgated thereunder, which may subject Peoples and its subsidiaries to a variety of new and more stringent legal and regulatory requirements which adversely affect their businesses;
- (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;
- (14) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks may prove inadequate, which if proven inadequate, would adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss; and
- (15) 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, 2011 (the “2011 Form 10-K”).
- (16)



## Table of Contents

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' 2011 Form 10-K, as well as the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

### 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 44 financial service locations and 42 ATMs in southeastern Ohio, west central 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 March 31, 2012, which were unchanged from the policies disclosed in Peoples' 2011 Form 10-K.

### Goodwill and Other Intangible Assets

As more fully discussed in Peoples' 2011 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's analysis of goodwill indicated a decline in the fair value of Peoples' single reporting unit of 29% 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 30% sustained decline in future cash flows or (2) a 350 basis point increase in the discount rate.

Since June 30, 2011, Peoples' market capitalization has continued to be less than its book value, which management considers to be an indicator of possible goodwill impairment. During this same period, there has been significant improvement in Peoples' loan related credit losses. Management expects these favorable trends will continue in future periods, which would have a positive impact on Peoples' future cash flows. Additionally, the market value of Peoples' common shares improved 56% between June 30, 2011 and March 31, 2012. Management considered the results of the 2011 annual impairment analysis and these improvements as evidence that goodwill was not impaired as of March 31, 2012.



Table of Contents

Summary of Recent Transactions and Events

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

In the first quarter of 2012, Peoples prepaid \$35 million of wholesale borrowings using short-term funds, which resulted in prepayment charges of \$3.1 million. These borrowings had an average cost of 3.09% and consisted of both term repurchase agreements and advances from the Federal Home Loan Bank. The impact of the prepayment charges on first quarter earnings was offset by \$3.2 million in gains from the sale of \$60.5 million in investment securities. The securities sold were primarily mortgage-backed securities issued by U.S. government-sponsored agencies. The proceeds of these investment securities sales were reinvested into other securities with similar duration and yield. In 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 repurchased \$21.0 million of the preferred shares held by the U.S. Treasury and the remaining \$18.0 million were repurchased on December 28, 2011 (collectively, the "TARP Capital Redemption"). On February 15, 2012, Peoples completed the repurchase of the warrant for an aggregate price of \$1.2 million, which was recognized as a direct reduction in the common stock component of Peoples' stockholders' equity. Since the second quarter of 2011, Peoples has experienced generally improving trends in several asset quality metrics, after a three-year trend of higher credit losses and non-performing assets than Peoples' long-term historical levels. 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.

Peoples' net interest income and margin are impacted by changes in market interest rates based upon actions taken by the Federal Reserve Board either directly or through its Open Market Committee. These actions include changing its target Federal Funds Rate (the interest rate at which banks lend money to each other), Discount Rate (the interest rate charged to banks for money borrowed from the Federal Reserve Bank) and longer-term market interest rates (primarily U.S. Treasury securities). Longer-term market interest rates also are affected by the demand for U.S. Treasury securities. The resulting changes in the yield curve slope have a direct impact on reinvestment rates for Peoples' earning assets.

The Federal Reserve Board has maintained its target Federal Funds Rate at a historically low level of 0% to 0.25% since December 2008 and has maintained the Discount Rate at 0.75% since December 2010. The Federal Reserve Board continues to indicate there is the potential for these short-term rates to remain unchanged until late 2014. Since late 2008, the Federal Reserve Board 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.

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

**EXECUTIVE SUMMARY**

Net income available to common shareholders was \$6.7 million, or \$0.63 per diluted common share for the first quarter of 2012, compared to \$1.3 million and \$0.13 per diluted common share a year ago and \$3.5 million, or \$0.33 per diluted common share for the fourth quarter of 2011 (or "linked quarter"). The earnings improvement during the first quarter of 2012 was driven by a mix of improved operating performance, plus the impact of continued asset quality improvement.





Table of Contents

In the first quarter of 2012, Peoples recorded a \$2.1 million recovery of loan losses, as several asset quality metrics maintained favorable trends. In comparison, Peoples recorded a \$0.5 million recovery of loan losses in the linked quarter, which was more than offset by a net loss of \$0.9 million on OREO, and recorded a provision for loan losses of \$5.3 million for the first quarter of 2011.

Net interest income was \$13.4 million for the first quarter of 2012, comparable to the prior year quarter and modestly lower than linked quarter, while net interest margin was 3.41%, versus 3.43% and 3.49% for the first and fourth quarter of 2011, respectively. Downward pressure on asset yields was the primary reason for the lower net interest income and margin in the first quarter of 2012. A significant contributing factor to the linked quarter decline in net interest income and margin was \$215,000, or 5 basis points of margin, in additional investment accretion income recognized in the fourth quarter of 2011.

Non-interest income, which excludes gains and losses, totaled \$9.1 million for quarter ended March 31, 2012, up 8% over the prior year quarter and up 10% on a linked quarter basis. The year-over-year improvement was due to strong revenue generation in nearly every major category. The linked quarter growth was driven mostly by recognition of annual performance-based insurance revenues, as a normal seasonal decline in deposit service charges offset higher revenue generated from trust, insurance and investment sales and debit card usage by customers.

In the first quarter of 2012, total non-interest expense was \$15.0 million, 3% higher than the prior year quarter but 9% lower than the linked quarter. Most of the increase over the prior year was due to higher sales and incentive compensation costs, corresponding with the stronger first quarter results. Partially offsetting these additional costs was significantly lower FDIC insurance costs resulting from the change in assessment methodology during 2011. The linked quarter decline primarily reflected the actions taken in the second half of 2011 to right-size staffing levels and improve overall operating efficiency.

Total assets were \$1.81 billion at March 31, 2012 versus \$1.79 billion at year-end 2011, with the increase due entirely to higher net loan balances. At March 31, 2012, gross portfolio loan balances were \$944.1 million, up \$5.6 million since year-end 2011. The growth occurred as a result of commercial lending opportunities within Peoples' market area, which was partially offset by the payoff of two unrelated nonperforming commercial real estate loans totaling \$8.1 million. The allowance for loan losses decreased \$2.5 million to \$21.2 million, or 2.25% of gross loans, compared to \$23.7 million and 2.53% at December 31, 2011.

Total liabilities increased \$9.8 million during the three months ended March 31, 2012, to \$1.60 billion. Retail deposit balances increased \$57.5 million since year-end 2011 split evenly between interest-bearing and non-interest-bearing deposits. A portion of this growth was the result of normal seasonal increases in governmental/public funds and consumer deposit balances. At March 31, 2012, total borrowed funds were \$174.2 million, down \$42.4 million compared to the prior year-end, as Peoples repaid \$35 million in long-term borrowing during the quarter.

At March 31, 2012, total stockholders' equity was \$208.7 million, up \$2.0 million since December 31, 2011. Earnings exceeded dividends declared by \$5.5 million. The resulting increase in stockholders' equity was mostly offset by the impact of Peoples repurchasing the warrant previously held by the U.S. Treasury. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio increased to 13.82% at March 31, 2012, while the Total Capital ratio was 17.20% versus 16.20% at December 31, 2011.

**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								
	March 31, 2012			December 31, 2011			March 31, 2011		
	Average Balance	Income/Expense	Yield/Cost	Average Balance	Income/Expense	Yield/Cost	Average Balance	Income/Expense	Yield/Cost
Short-term investments	\$6,280	\$4	0.25 %	\$8,623	\$4	0.22 %	\$20,204	\$11	0.22 %
Investment Securities (1):									
Taxable	646,847	5,553	3.40 %	639,318	5,958	3.73 %	617,915	6,248	4.04 %
Nontaxable (2)	36,057	525	5.82 %	37,232	560	6.01 %	41,323	654	6.33 %
Total investment securities	682,904	6,078	3.56 %	676,550	6,518	3.85 %	659,238	6,902	4.19 %
Loans (3):									
Commercial	612,717	7,224	4.74 %	614,434	7,510	4.85 %	630,087	7,835	5.04 %
Real estate (4)	243,972	3,140	5.09 %	244,520	3,226	5.28 %	249,918	3,353	5.37 %
Consumer	89,541	1,425	6.40 %	89,644	1,489	6.59 %	83,419	1,516	7.37 %
Total loans	946,230	11,789	5.00 %	948,598	12,225	5.12 %	963,424	12,704	5.33 %
Less: Allowance for loan losses	(24,429 )			(25,695 )			(28,338 )		
Net loans	921,801	11,789	5.14 %	922,903	12,225	5.27 %	935,086	12,704	5.49 %
Total earning assets	1,610,985	17,871	4.45 %	1,608,076	18,747	4.64 %	1,614,528	19,617	4.89 %
Intangible assets	64,425			64,451			64,820		
Other assets	131,331			137,664			145,379		
Total assets	\$1,806,741			\$1,810,191			\$1,824,727		
Deposits:									
Savings accounts	\$147,420	\$21	0.06 %	\$136,665	\$20	0.06 %	\$128,784	\$55	0.17 %
Interest-bearing demand accounts	247,557	269	0.44 %	238,860	267	0.44 %	232,932	622	1.08 %
Money market accounts	264,808	126	0.19 %	264,378	135	0.20 %	278,664	245	0.36 %
Brokered deposits	61,443	528	3.46 %	64,396	549	3.38 %	81,688	632	3.14 %
Retail certificates of deposit	400,444	1,603	1.61 %	415,887	1,968	1.88 %	426,917	2,431	2.31 %
Total interest-bearing deposits	1,121,672	2,547	0.91 %	1,120,186	2,939	1.04 %	1,148,985	3,985	1.41 %
Borrowed Funds:									
Short-term FHLB advances	15,267	4	0.09 %	10,741	2	0.07 %	1,401	1	0.14 %
Retail repurchase agreements	42,242	15	0.15 %	39,933	16	0.16 %	44,923	34	0.31 %
Total short-term borrowings	57,509	19	0.13 %	50,674	18	0.14 %	46,324	35	0.30 %
Long-term FHLB advances	73,578	617	3.37 %	78,343	661	3.35 %	88,901	764	3.49 %
Wholesale repurchase agreements	56,923	502	3.49 %	65,000	569	3.43 %	65,000	546	3.36 %
Other borrowings	22,605	495	8.66 %	22,596	499	8.64 %	22,570	492	8.73 %
Total long-term borrowings	153,106	1,614	4.20 %	165,939	1,729	4.10 %	176,471	1,802	4.11 %
Total borrowed funds	210,615	1,633	3.09 %	216,613	1,747	3.17 %	222,795	1,837	3.32 %
	1,332,287	4,180	1.26 %	1,336,799	4,686	1.39 %	1,371,780	5,822	1.72 %

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Total interest-bearing liabilities				
Non-interest-bearing deposits	247,487		236,405	222,656
Other liabilities	19,350		12,248	12,001
Total liabilities	1,599,124		1,585,452	1,606,437
Preferred equity	—		17,104	25,245
Common equity	207,617		207,635	193,045
Total stockholders' equity	207,617		224,739	218,290
Total liabilities and stockholders' equity	\$1,806,741		\$1,810,191	\$1,824,727
Interest rate spread		\$13,691 3.19 %		\$14,061 3.25 %
Net interest margin		3.41 %		3.49 %
				\$13,795 3.17 %
				3.43 %

(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.

(3) Nonaccrual and impaired loans are included in the average loan balances. Related interest income earned on nonaccrual loans prior to

Table of Contents

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		
	March 31, 2012	December 31, 2011	March 31, 2011
Net interest income, as reported	\$13,432	\$13,789	\$13,495
Taxable equivalent adjustments	259	272	300
Fully tax-equivalent net interest income	\$13,691	\$14,061	\$13,795

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

(Dollars in thousands)	Three Months Ended March 31, 2012 Compared to					
	December 31, 2011			March 31, 2011		
Increase (decrease) in:	Rate	Volume	Total <sup>(1)</sup>	Rate	Volume	Total <sup>(1)</sup>
<b>INTEREST INCOME:</b>						
Short-term investments	\$4	\$(4)	)\$—	\$10	\$(17)	)\$(7)
Investment Securities: <sup>(2)</sup>						
Taxable	(853)	)448	(405)	(2,349)	)1,654	(695)
Nontaxable	(18)	)17	)35	(50)	)79	)129
Total investment income	(871)	)431	(440)	(2,399)	)1,575	(824)
<b>Loans:</b>						
Commercial	(254)	)32	)286	(418)	)193	)611
Real estate	(74)	)12	)86	(145)	)68	)213
Consumer	(62)	)2	)64	(638)	)547	(91)
Total loan income	(390)	)46	)436	(1,201)	)286	(915)
Total interest income	(1,257)	)381	(876)	(3,590)	)1,844	(1,746)
<b>INTEREST EXPENSE:</b>						
<b>Deposits:</b>						
Savings accounts	(3)	)4	1	(80)	)46	(34)
Interest-bearing demand accounts	(21)	)23	2	(606)	)253	(353)
Money market accounts	(10)	)1	(9)	(107)	)12	)119
Brokered certificates of deposit	58	(79)	)21	339	(443)	)104
Retail certificates of deposit	(290)	)75	)365	(687)	)141	)828
Total deposit cost	(266)	)126	)392	(1,141)	)297	)1,438
<b>Borrowed funds:</b>						
Short-term borrowings	(2)	)3	1	(19)	)3	(16)
Long-term borrowings	24	(139)	)115	91	(279)	)188
Total borrowed funds cost	22	(136)	)114	72	(276)	)204
Total interest expense	(244)	)262	)506	(1,069)	)573	)1,642
Net interest income	\$(1,013)	)\$643	\$(370)	\$(2,521)	)\$2,417	\$(104)

(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.



Table of Contents

A key driver of to the linked quarter decline in net interest income and margin was \$215,000, or 5 basis points of margin, in additional investment accretion income recognized in the fourth quarter of 2011. This income was recognized in connection with the accelerated payoff of a single collateral mortgage-obligation security. Asset yields continue to face downward pressure due to the sustained low interest rate environment.

Peoples' funding costs have benefited from the maturity of \$81 million in high-cost CDs which were replaced with lower-cost funds. Most of these CDs were part of a special product offering in 2008 and had an average cost of 3.73%. The majority of these high-cost CDs matured during the final two quarters of 2011, with \$22.0 million at an average rate of 4.22% maturing during the first quarter of 2012.

Modest loan growth late in the first quarter of 2012, coupled with the expectation of flat to increasing balances during the second quarter, should help stabilize average earning assets and ease some of the net interest margin pressure. The first quarter 2012 debt restructuring will result in a reduction in future interest expense equal to approximately 6 basis points of margin.

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:

	Three Months Ended			
	March 31, 2012	December 31, 2011	March 31, 2011	
(Dollars in thousands)				
(Recovery of) provision for checking account overdrafts	\$(12	) \$147	\$11	
(Recovery of) provision for other loan losses	(2,125	) (620	) 5,300	
Net (recovery of) provision for loan losses	\$(2,137	) \$(473	) \$5,311	
As a percentage of average gross loans (a)	(0.91	)%(0.20	)%2.24	%
(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 first quarter of 2012 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".

**Net Other Gains (Losses)**

The following table details the other gains and losses recognized by Peoples:

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
(Dollars in thousands)			
Net gain (loss) on OREO	\$56	\$(869	)\$57
Gain (loss) on loans held-for-sale		—	—
Loss on debt extinguishment	(3,111	)—	—
Net (loss) gain on bank premises and equipment	(7	)60	3
Net other gains (losses)	\$(3,062	)\$(809	)\$60

The net gain on OREO for the first quarter of 2012 was the result of the sale of a single commercial property. In comparison, net losses were incurred in the fourth quarter of 2011, due to write-downs on commercial properties whose fair value had declined.



Table of Contents

## Non-Interest Income

Insurance income comprised the largest portion of first quarter 2012 non-interest income, due to the recognition of annual performance-based revenue. The following table details Peoples' insurance income:

(Dollars in thousands)	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Property and casualty insurance commissions	\$1,823	\$1,709	\$1,678
Performance-based commissions	919	—	943
Life and health insurance commissions	127	170	161
Credit life and A&H insurance commissions	23	36	30
Other fees and charges	59	29	20
Total insurance income	\$2,951	\$1,944	\$2,832

Peoples' property and casualty insurance commission income benefited from a high retention rate for existing insurance customers and, to a lesser extent, improving pricing margins within the industry. 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.

Deposit account service charges continued to comprise a sizable portion of Peoples' non-interest income. The following table details Peoples' deposit account service charges:

(Dollars in thousands)	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Overdraft and non-sufficient funds fees	\$1,740	\$2,130	\$1,718
Account maintenance fees	321	350	253
Other fees and charges	176	29	203
Total deposit account service charges	\$2,237	\$2,509	\$2,174

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. Account maintenance fees continue to benefit from Peoples' new consumer checking account product offering and pricing structure implemented during the first quarter of 2011.

Peoples' fiduciary and brokerage revenues continue to be based primarily upon the value of assets under management.

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

(Dollars in thousands)	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Fiduciary	\$1,069	\$1,101	\$1,039
Brokerage	427	328	286
Total trust and investment income	\$1,496	\$1,429	\$1,325

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2010	March 31, 2011
Trust assets under management	\$853,444	\$821,659	\$776,165	\$846,052	\$852,972
Brokerage assets under management	284,453	262,196	249,550	265,384	260,134
Total managed assets	\$1,137,897	\$1,083,855	\$1,025,715	\$1,111,436	\$1,113,106
Quarterly average	\$1,116,327	\$1,061,484	\$1,077,804	\$1,119,484	\$1,105,329





Table of Contents

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.

First quarter 2012 mortgage banking income, while significantly higher than the last year's first quarter, was down 16% on a linked quarter basis. The fluctuations correspond with changes in refinancing activity, which are driven by mortgage interest rates available in the secondary market and customer preference for long-term, fixed rate loans. In the first quarter of 2012, Peoples sold approximately \$23 million of loans to the secondary market compared to \$33 million in the linked quarter and \$16 million for the first quarter of 2011.

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:

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
(Dollars in thousands)			
Base salaries and wages	\$5,148	\$5,619	\$5,276
Sales-based and incentive compensation	1,345	1,368	986
Employee benefits	1,233	1,916	945
Stock-based compensation	226	124	33
Deferred personnel costs	(435	)(380	)(292
Payroll taxes and other employment costs	728	698	679
Total salaries and employee benefit costs	\$8,245	\$9,345	\$7,627
Full-time equivalent employees:			
Actual at end of period	499	513	543
Average during the period	506	528	538

For the three months ended March 31, 2012, base salaries and wages were lower than prior periods, due to the reduction in full-time equivalent employees over the prior two quarters as part of Peoples' expense management efforts. Sales-based and incentive compensation was impacted by significantly higher expense accruals in both the first quarter of 2012 and fourth quarter of 2011 associated with corporate incentive plans, which are tied in part to Peoples' performance. Employee benefit costs for the first quarter of 2012 benefited from the non-recurrence of pension settlement charges. As previously disclosed in Peoples' 2011 Form 10-K, Peoples incurred settlement charges in the third and fourth quarters of 2011. Management believes pension settlement charges are likely to occur later in 2012. Compared to the prior year first quarter, employee benefit costs were impacted by higher employee medical benefit plan expenses.

During the first quarter of 2012, Peoples granted equity-based incentive awards to officers and key employees with both time-based and performance-based vesting conditions. These awards were granted based upon Peoples and the individuals achieving certain performance goals during 2011. Stock-based compensation expense for the first quarter of 2012 included the entire cost of those awards with time-based vesting which were granted to employees eligible for retirement on the grant date. The cost of the remaining awards is being recognized over the two-year vesting period. As a result, stock-based compensation expense is expected to be lower in future quarters absent additional grants. Peoples' net occupancy and equipment expense was comprised of the following:

	Three Months Ended		
	March 31, 2012	December 31, 2011	March 31, 2011
(Dollars in thousands)			
Depreciation	\$496	\$488	\$489
Repairs and maintenance costs	312	418	416
Net rent expense	239	217	225
Property taxes, utilities and other costs	385	336	371
Total net occupancy and equipment expense	\$1,432	\$1,459	\$1,501



Table of Contents

In the first quarter of 2012, 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 2012 has been the ongoing costs related to Peoples' new Power checking product, which was introduced at the start of 2011.

Marketing expense, which includes advertising, donation and other public relations costs, was up \$147,000 over the prior year first quarter but \$185,000 lower than the linked quarter. These variances were the result of contributions made to Peoples Bancorp Foundation Inc., a private foundation established by Peoples in 2004 to make charitable contributions to organizations within Peoples' primary market area. In the first quarter of 2012, Peoples made a \$100,000 contribution compared to a \$200,000 contribution in the fourth quarter of 2011.

Peoples' efficiency ratio, calculated as non-interest expense less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 65.47% for the first quarter of 2012, comparable with a year ago but lower than 73.53% for the linked quarter. This ratio was in line with management's targeted range of 66% to 68% for 2012.

**Pre-Provision Net Revenue**

Pre-provision net revenue ("PPNR") has become a key financial measure used by federal bank regulatory agencies when assessing the capital adequacy of financial institutions. PPNR is defined as net interest income plus non-interest income minus non-interest expense. Consistent with US GAAP, the calculation of PPNR includes all gains and losses arising from normal operating activities, such as the sale of loans and OREO as well as the disposal of bank premises and equipment. As a result, PPNR represents the earnings capacity that can be either retained in order to build capital or used to absorb unexpected losses and preserve existing capital.

The following table provides a reconciliation of this non-GAAP financial measures to the amounts reported in Peoples' consolidated financial statements:

(Dollars in thousands)	Three months ended		
	March 31, 2012	December 31, 2011	March 31, 2011
Pre-Provision Net Revenue:			
Income before income taxes	\$ 9,736	\$ 5,177	\$ 2,360
Add: provision for loan losses	—	—	5,311
Add: loss on debt extinguishment	(3,111 )	—	—
Less: recovery of loan losses	(2,137 )	(473 )	—
Less: net gain on securities transactions	3,163	—	360
Pre-provision net revenue	\$ 7,547	\$ 4,704	\$ 7,311
Pre-provision net revenue	7,547	4,704	7,311
Total average assets	1,806,741	1,810,191	1,824,727
Pre-provision net revenue to average assets	1.68	% 1.03	% 1.62

**Income Tax Expense**

For the three months ended March 31, 2012, Peoples recorded income tax expense of \$3.1 million, for an effective tax rate of 31.6%. This effective tax rate represents management's current estimate of the rate for the entire year. In comparison, Peoples recorded income tax expense of \$491,000 for the same period in 2011, for an effective tax rate of 20.8%. The key driver of the higher effective tax rate was the year-over-year increase in pre-tax earnings.

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

At March 31, 2012, Peoples' interest-bearing deposits in other banks included \$4.8 million in excess cash reserves at the Federal Reserve Bank, compared to \$4.4 million at December 31, 2011. This increase was the result of the change in Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.



Table of Contents

Through three months of 2012, Peoples' total cash and cash equivalents decreased \$1.0 million, as cash used in Peoples' investing activities exceeded the \$8.4 million of cash generated by operating activities. Investing activities used \$9.0 million of cash to fund the \$5.9 million net loan growth, while purchases of investment securities exceeded the proceeds from sales and principal payments by \$3.9 million. Within Peoples' financing activities, deposit growth generated \$47.4 million of cash which was used primarily to reduce borrowed funds by \$45.5 million and to repurchase the warrant held by the U.S Treasury.

In comparison, Peoples' operating activities in the three months of 2011 provided net cash of \$13.3 million, while investing and financing activities used \$16.1 million and \$38.2 million, respectively, producing a \$41.0 million decrease in total cash and cash equivalents. Net cash used by investing activities consisted primarily of purchases of securities in the investment portfolio. The TARP Capital Redemption and a \$15.0 million reduction in borrowed funds produced 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 provides information regarding Peoples' investment portfolio:

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Available for sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	\$31	\$32	\$34	\$36	\$38
U.S. government sponsored agencies	702	13,037	13,004	12,321	12,084
States and political subdivisions	34,175	35,745	38,112	38,091	38,401
Residential mortgage-backed securities	522,659	527,003	539,094	540,931	523,844
Commercial mortgage-backed securities	36,230	37,289	36,401	35,288	41,189
Bank-issued trust preferred securities	12,901	12,211	12,681	13,385	13,266
Equity securities	3,338	3,254	3,333	3,546	3,318
Total fair value	\$610,036	\$628,571	\$642,659	\$643,598	\$632,140
Total amortized cost	\$602,817	\$617,128	\$633,279	\$638,667	\$635,218
Net unrealized gain (loss)	\$7,219	\$11,443	\$9,380	\$4,931	\$(3,078)

Held to maturity securities, at amortized cost:

Obligations of:					
States and political subdivisions	3,524	3,525	2,966	2,966	2,965
Residential mortgage-backed securities	23,902	12,776	—	—	—
Commercial mortgage-backed securities	6,872	—	—	—	—
Total amortized cost	\$34,298	\$16,301	\$2,966	\$2,966	\$2,965

Total investment portfolio:

Amortized cost	\$637,115	\$633,429	\$636,245	\$641,633	\$638,183
Carrying value	\$644,334	\$644,872	\$645,625	\$646,564	\$635,105

Peoples has maintained the size of its investment portfolio over the last several quarters due to the lack of meaningful loan growth. In the first quarter of 2012, Peoples continued to designate additional securities as "held-to-maturity" at the time of their purchase. For each security, management has made the determination Peoples would hold these securities until maturity and concluded Peoples had the ability to do so.

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:

19

---

Table of Contents

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Residential	\$52,900	\$58,660	\$68,686	\$87,697	\$101,760
Commercial	1,170	1,288	1,407	1,663	2,734
Total fair value	\$54,070	\$59,948	\$70,093	\$89,360	\$104,494
Total amortized cost	\$53,125	\$59,148	\$68,690	\$86,747	\$102,295
Net unrealized gain	\$945	\$800	\$1,403	\$2,613	\$2,199

In the third quarter of 2011, Peoples sold residential mortgage-backed securities which were showing signs of increased stress, which caused the decline in this portion of the portfolio compared to June 30, 2011. Additionally, management continues to reinvest the principal runoff from the non-agency securities into U.S agency investments, which accounted for the decline experienced in prior quarters. At March 31, 2012, 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)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	
Gross portfolio loans:						
Commercial real estate	\$394,034	\$410,352	\$424,741	\$411,355	\$413,011	
Commercial and industrial	150,431	140,857	140,058	145,625	147,825	
Real estate construction	43,510	30,577	26,751	29,259	38,154	
Residential real estate	218,745	219,619	222,374	215,242	215,040	
Home equity lines of credit	48,067	47,790	48,085	48,148	48,281	
Consumer	86,965	87,531	87,072	88,345	84,078	
Deposit account overdrafts	2,351	1,780	1,712	2,145	1,640	
Total portfolio loans	\$944,103	\$938,506	\$950,793	\$940,119	\$948,029	
Percent of loans to total loans:						
Commercial real estate	41.8	%43.7	%44.6	%43.8	%43.5	%
Commercial and industrial	15.9	%15.0	%14.7	%15.5	%15.6	%
Real estate construction	4.6	%3.3	%2.8	%3.1	%4.0	%
Residential real estate	23.2	%23.4	%23.4	%22.9	%22.7	%
Home equity lines of credit	5.1	%5.1	%5.1	%5.1	%5.1	%
Consumer	9.2	%9.3	%9.2	%9.4	%8.9	%
Deposit account overdrafts	0.2	%0.2	%0.2	%0.2	%0.2	%
Total percentage	100.0	%100.0	%100.0	%100.0	%100.0	%
Residential real estate loans being serviced for others	\$281,015	\$275,715	\$262,992	\$259,352	\$258,626	

During the first quarter of 2012, commercial real estate loan balances decreased as a result of payoffs on two impaired relationships with aggregate principal balances of \$8.1 million. Commercial lending opportunities within Peoples' primary market area was the driver of the higher commercial and industrial loan balances since year-end 2011. The majority of Peoples' residential mortgage originations continue to be sold to the secondary market, due to customer preference for long-term, fixed-rate loans. Consumer lending remains a major emphasis of Peoples' lending activity.

## 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 March 31, 2012:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
<b>Real Estate Construction Loans:</b>					
Assisted living facilities and nursing homes	\$ 17,794	\$ 2,653	\$ 20,447	33.2	%
Health care facilities	8,534	4,006	12,540	20.3	%
Apartment complexes	5,224	3,355	8,579	13.9	%
Restaurants	3,248	183	3,431	5.6	%
Mixed commercial use facilities - non-owner occupied	3,204	282	3,486	5.7	%
Other	5,506	7,639	13,145	21.3	%
Total real estate construction	\$43,510	\$ 18,118	\$ 61,628	100.0	%
(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
<b>Commercial Real Estate Loans:</b>					
Lodging and lodging related	\$65,115	\$25	\$65,140	16.2	%
Apartment complexes	51,804	327	52,131	13.0	%
<b>Light industrial facilities:</b>					
Owner occupied	26,103	1,199	27,302	6.8	%
Non-owner occupied	9,664	—	9,664	2.4	%
Total light industrial facilities	35,767	1,199	36,966	9.2	%
<b>Office buildings and complexes:</b>					
Owner occupied	6,845	77	6,922	1.7	%
Non-owner occupied	26,802	142	26,944	6.7	%
Total office buildings and complexes	33,647	219	33,866	8.4	%
<b>Retail facilities:</b>					
Owner occupied	11,571	98	11,669	2.9	%
Non-owner occupied	19,594	367	19,961	5.0	%
Total retail facilities	31,165	465	31,630	7.9	%
<b>Mixed commercial use facilities:</b>					
Owner occupied	10,381	216	10,597	2.6	%
Non-owner occupied	14,251	13	14,264	3.6	%
Total mixed commercial use facilities	24,632	229	24,861	6.2	%
Assisted living facilities and nursing homes	20,515	—	20,515	5.1	%
<b>Day care facilities:</b>					
Owner occupied	8,239	45	8,284	2.1	%
Non-owner occupied	11,792	—	11,792	2.9	%
Total day care facilities	20,031	45	20,076	5.0	%
<b>Restaurant facilities:</b>					
Owner occupied	11,263	295	11,558	2.9	%
Non-owner occupied	2,489	—	2,489	0.6	%
Total restaurant facilities	13,752	295	14,047	3.5	%
Other	97,606	4,098	101,704	25.5	%
Total commercial real estate	\$394,034	\$ 6,902	\$ 400,936	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 balances of commercial loans in each state was less than \$4.0 million at both March 31, 2012 and December 31, 2011.



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)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	
Commercial real estate	\$17,496	\$18,947	\$20,085	\$19,361	\$19,613	
Commercial and industrial	1,457	2,434	2,363	3,069	1,734	
Residential real estate	1,216	1,119	1,421	1,187	1,642	
Home equity lines of credit	477	541	548	552	444	
Consumer	423	449	574	783	790	
Deposit account overdrafts	180	227	222	214	226	
Total allowance for loan losses	\$21,249	\$23,717	\$25,213	\$25,166	\$24,449	
As a percentage of total loans	2.25	%2.53	%2.65	%2.68	%2.58	%

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 March 31, 2012, the allowance for loan losses was lower than the prior year-end, reflecting the sustained improvement in several credit quality metrics. Specifically, Peoples has experienced a steady decrease in criticized loans, which are those classified as watch, substandard or doubtful. Net charge-offs also remained below 1% of average loans for the fourth consecutive quarter. Both of these factors had a direct impact on the estimated loss rates used to determine the appropriate allocations for commercial loans.

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					
	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	
<b>Gross charge-offs:</b>						
Commercial real estate	\$ 1,957	\$ 1,534	\$ 440	\$ 2,197	\$ 7,078	
Commercial and industrial	—	29	67	102	835	
Residential real estate	207	340	296	756	201	
Real estate construction	—	—	—	—	—	
Home equity lines of credit	71	21	15	83	247	
Consumer	214	252	229	175	283	
Deposit account overdrafts	122	176	195	157	136	
<b>Total gross charge-offs</b>	<b>2,571</b>	<b>2,352</b>	<b>1,242</b>	<b>3,470</b>	<b>8,780</b>	
<b>Recoveries:</b>						
Commercial real estate	1,606	1,016	93	1,045	315	
Commercial and industrial	48	101	83	487	59	
Residential real estate	304	38	29	126	443	
Real estate construction	—	—	—	—	—	
Home equity lines of credit	7	14	11	16	10	
Consumer	188	126	170	168	222	
Deposit account overdrafts	87	34	38	50	103	
<b>Total recoveries</b>	<b>2,240</b>	<b>1,329</b>	<b>424</b>	<b>1,892</b>	<b>1,152</b>	
<b>Net charge-offs (recoveries):</b>						
Commercial real estate	351	518	347	1,152	6,763	
Commercial and industrial	(48 )	(72 )	(16 )	(385 )	776 )	
Residential real estate	(97 )	302 )	267	630	(242 )	
Real estate construction	—	—	—	—	—	
Home equity lines of credit	64	7	4	67	237	
Consumer	26	126	59	7	61	
Deposit account overdrafts	35	142	157	107	33	
<b>Total net charge-offs</b>	<b>\$ 331</b>	<b>\$ 1,023</b>	<b>\$ 818</b>	<b>\$ 1,578</b>	<b>\$ 7,628</b>	
<b>Ratio of net charge-offs to average loans (annualized):</b>						
Commercial real estate	0.15	% 0.22	% 0.15	% 0.49	% 2.84	%
Commercial and industrial	(0.02 )	)(0.03 )	)(0.01 )	)(0.16 )	)(0.33 )	%
Residential real estate	(0.04 )	)(0.13 )	% 0.11	% 0.27	% (0.10 )	)(%)
Real estate construction	—	% —	% —	% —	% —	%
Home equity lines of credit	0.03	% —	% —	% 0.03	% 0.10	%
Consumer	0.01	% 0.05	% 0.02	% —	% 0.03	%
Deposit account overdrafts	0.01	% 0.06	% 0.07	% 0.04	% 0.01	%
<b>Total</b>	<b>0.14</b>	<b>% 0.43</b>	<b>% 0.34</b>	<b>% 0.67</b>	<b>% 3.21</b>	<b>%</b>

Table of Contents

The following table details Peoples' nonperforming assets:

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	
Loans 90+ days past due and accruing:						
Commercial real estate	\$—	\$—	\$—	\$—	\$—	
Commercial and industrial	—	—	20	—	37	
Residential real estate	—	—	126	124	—	
Total	—	—	146	124	37	
Nonaccrual loans:						
Commercial real estate	12,906	20,587	22,657	27,455	27,934	
Commercial and industrial	1,949	2,262	2,468	1,325	1,536	
Residential real estate	3,805	3,440	3,996	1,784	1,906	
Real estate construction	—	—	—	—	—	
Home equity	200	349	271	283	361	
Consumer	—	—	2	—	—	
Total	18,860	26,638	29,394	30,847	31,737	
Troubled debt restructurings:						
Commercial real estate	1,302	2,959	3,001	—	—	
Residential real estate	330	425	562	574	585	
Total	1,632	3,384	3,563	574	585	
Total nonperforming loans (NPLs)	20,492	30,022	33,103	31,545	32,359	
Other real estate owned (OREO)						
Commercial	869	2,194	3,552	3,546	4,220	
Residential	—	—	115	—	180	
Total	869	2,194	3,667	3,546	4,400	
Total nonperforming assets (NPAs)	\$21,361	\$32,216	\$36,770	\$35,091	\$36,759	
NPLs as a percent of total loans	2.16	% 3.19	% 3.47	% 3.35	% 3.41	%
NPAs as a percent of total assets	1.18	% 1.80	% 2.04	% 1.95	% 2.04	%
NPAs as a percent of gross loans and OREO	2.25	% 3.41	% 3.84	% 3.71	% 3.85	%
Allowance for loan losses as a percent of NPLs	103.69	% 79.00	% 76.16	% 79.78	% 75.56	%

The decrease in nonperforming commercial real estate loans during the first quarter of 2012 occurred largely as a result of two loans with aggregate balances of \$8.1 million at year-end 2011 being paid off. This reduction also drove a decrease in total criticized loan, which were down 17% at March 31, 2012 versus year-end 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.

Overall, management believes the allowance for loan losses was adequate at March 31, 2012, 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.



Table of Contents

## Deposits

The following table details Peoples' deposit balances:

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Interest-bearing deposits:					
Retail certificates of deposit	\$392,503	\$411,247	\$415,190	\$421,167	\$420,828
Money market deposit accounts	255,907	268,410	254,012	264,677	270,574
Governmental/public funds	161,798	122,916	140,357	150,319	149,961
Savings accounts	155,097	138,383	132,182	133,352	132,323
Interest-bearing demand accounts	110,731	106,233	100,770	99,324	97,561
Total retail interest-bearing deposits	1,076,036	1,047,189	1,042,511	1,068,839	1,071,247
Brokered certificates of deposits	54,069	64,054	64,470	67,912	70,522
Total interest-bearing deposits	1,130,105	1,111,243	1,106,981	1,136,751	1,141,769
Non-interest-bearing deposits	268,444	239,837	235,585	222,075	219,175
Total deposits	\$1,398,549	\$1,351,080	\$1,342,566	\$1,358,826	\$1,360,944

During the first quarter of 2012, Peoples maintained its recent deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as certificates of deposit ("CDs") and brokered deposits. This strategy has included more selective pricing of long-term CDs, governmental/public fund deposits and similar non-core deposits, as well as not renewing maturing brokered deposits. These actions accounted for much of the changes in deposit balances over the last several quarters.

First quarter 2012 non-interest-bearing deposit growth included a \$12.1 million increase in commercial deposit balances. The higher balances reflect Peoples' increased focus on obtaining the deposit relationships of its commercial clients. Retail deposit balances also benefited from seasonal increases in governmental/public funds and consumer deposit balances, both savings and non-interest-bearing, which typically occur annually during the first quarter.

## Borrowed Funds

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

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Short-term borrowings:					
FHLB advances	\$—	\$8,500	\$17,300	\$—	\$—
Retail repurchase agreements	44,905	43,143	41,255	39,254	42,283
Total short-term borrowings	44,905	51,643	58,555	39,254	42,283
Long-term borrowings:					
FHLB advances	66,652	77,312	78,970	86,703	86,907
National market repurchase agreements	40,000	65,000	65,000	65,000	65,000
Total long-term borrowings	106,652	142,312	143,970	151,703	151,907
Subordinated notes held by subsidiary trust	22,609	22,600	22,592	22,583	22,574
Total borrowed funds	\$174,166	\$216,555	\$225,117	\$213,540	\$216,764

Peoples' short-term FHLB advances consisted entirely of overnight borrowings being maintained in connection with the management of Peoples' daily liquidity position. The reduction in the long-term borrowings since year-end 2011 was due to Peoples prepaying a \$10 million FHLB advance and \$25 million of national market repurchase agreements during the first quarter of 2012. Peoples expects to continue using funds generated from other sources, such as retail deposit growth, to repay maturing long-term borrowings and to minimize the need for overnight borrowings.

## Capital/Stockholders' Equity

During the first three months of 2012, Peoples' total stockholders' equity and regulatory capital measures benefited from earnings exceeding dividends declared. The increase in stockholders' equity was partially offset by the impact of Peoples repurchasing the warrant previously issued to the U.S. Treasury at a cost of \$1.2 million.





Table of Contents

At March 31, 2012, 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 to provide greater flexibility to work through the remaining asset quality issues plus provide capacity to grow the company.

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

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	
<b>Capital Amounts:</b>						
Tier 1 common	\$153,180	\$142,521	\$139,828	\$136,842	\$133,891	
Tier 1	175,789	165,121	180,294	177,287	174,314	
Total (Tier 1 and Tier 2)	190,694	180,053	195,485	192,663	189,672	
Net risk-weighted assets	\$1,108,633	\$1,111,443	\$1,127,976	\$1,135,234	\$1,142,758	
<b>Capital Ratios:</b>						
Tier 1 common	13.82	% 12.82	% 12.40	% 12.05	% 11.72	%
Tier 1	15.86	% 14.86	% 15.98	% 15.62	% 15.25	%
Total (Tier 1 and Tier 2)	17.20	% 16.20	% 17.33	% 16.97	% 16.60	%
Leverage ratio	10.05	% 9.45	% 10.37	% 10.10	% 9.81	%

In addition to traditional capital measurements, management uses tangible capital measures to evaluate the adequacy of Peoples' stockholders' equity. Such ratios represent non-GAAP financial information since their calculation removes the impact of intangible assets acquired through acquisitions on the Consolidated Balance Sheets.

Management believes this information is useful to investors since it facilitates the comparison of Peoples' operating performance, financial condition and trends to peers, especially those without a similar level of intangible assets to that of Peoples. Further, intangible assets generally are difficult to convert into cash, especially during a financial crisis, and could decrease substantially in value should there be deterioration in the overall franchise value. As a result, tangible common equity represents a conservative measure of the capacity for a company to incur losses but remain solvent. The following table reconciles the calculation of these non-GAAP financial measures to amounts reported in Peoples' Consolidated Financial Statements:

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
<b>Tangible Equity:</b>					
Total stockholders' equity, as reported	\$208,666	\$206,657	\$224,530	\$218,527	\$210,485
Less: goodwill and other intangible assets	64,429	64,475	64,489	64,602	64,765
Tangible equity	\$144,237	\$142,182	\$160,041	\$153,925	\$145,720
<b>Tangible Common Equity:</b>					
Tangible equity	\$144,237	\$142,182	\$160,041	\$153,925	\$145,720
Less: preferred stockholders' equity	—	—	17,875	17,862	17,850
Tangible common equity	\$144,237	\$142,182	\$142,166	\$136,063	\$127,870
<b>Tangible Assets:</b>					
Total assets, as reported	\$1,805,923	\$1,794,161	\$1,805,743	\$1,802,703	\$1,801,590
Less: goodwill and other intangible assets	64,429	64,475	64,489	64,602	64,765
Tangible assets	\$1,741,494	\$1,729,686	\$1,741,254	\$1,738,101	\$1,736,825
<b>Tangible Book Value per Share:</b>					
Tangible common equity	\$144,237	\$142,182	\$142,166	\$136,063	\$127,870
Common shares outstanding	10,521,548	10,507,124	10,489,400	10,478,149	10,474,507
Tangible book value per share	\$13.71	\$13.53	\$13.55	\$12.99	\$12.21



Table of Contents

(Dollars in thousands)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	
Tangible Equity to Tangible Assets Ratio:						
Tangible equity	\$ 144,237	\$ 142,182	\$ 160,041	\$ 153,925	\$ 145,720	
Tangible assets	\$ 1,741,494	\$ 1,729,686	\$ 1,741,254	\$ 1,738,101	\$ 1,736,825	
Tangible equity to tangible assets	8.28	% 8.22	% 9.19	% 8.86	% 8.39	%
Tangible Common Equity to Tangible Assets Ratio:						
Tangible common equity	\$ 144,237	\$ 142,182	\$ 142,166	\$ 136,063	\$ 127,870	
Tangible assets	\$ 1,741,494	\$ 1,729,686	\$ 1,741,254	\$ 1,738,101	\$ 1,736,825	
Tangible common equity to tangible assets	8.28	% 8.22	% 8.16	% 7.83	% 7.36	%

## 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' 2011 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 (in Basis Points)	Estimated Increase in Net Interest Income		Estimated (Decrease) Increase in Economic Value of Equity					
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011		
300	\$9,579	18.7 %	\$7,061	13.9 %	\$(10,152)	(4.7)%	\$(8,855)	(4.1)%
200	7,700	15.0 %	6,250	12.3 %	(615)	(0.3)%	2,036	0.9 %
100	5,112	10.0 %	4,548	9.0 %	5,207	2.4 %	7,728	3.6 %

At March 31, 2012, 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 methods used by the ALCO to monitor and evaluate the adequacy of Peoples' liquidity position remain unchanged from those disclosed in Peoples' 2011 Form 10-K.

At March 31, 2012, Peoples had liquid assets of \$152.3 million, which represented 7.9% of total loans and unfunded commitments. This amount exceeded the minimal level of \$38.8 million, or 2% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional \$54.8 million of unpledged securities not included in the measurement of liquid assets.

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)	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Home equity lines of credit	\$40,499	\$44,850	\$44,481	\$39,758	\$40,293
Unadvanced construction loans	18,118	10,023	11,954	16,026	16,418
Other loan commitments	112,436	135,110	119,738	106,311	111,720
Loan commitments	171,053	189,983	176,173	162,095	168,431
Standby letters of credit	\$39,862	\$40,821	\$41,269	\$41,198	\$41,553

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 March 31, 2012. 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 March 31, 2012, 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’ 2011 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 March 31, 2012:

Period	(a) Total Number of Common Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	(d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
January 1 - 31, 2012	163	(2) \$ 15.27	(2) —	—
February 1 - 29, 2012	845	(2) \$ 16.57	(2) —	—
March 1 - 31, 2012	312	(2) \$ 17.60	(2) —	—
Total	1,320	\$ 16.65	—	—

(1) Peoples’ Board of Directors has not authorized any stock repurchase plans or programs for 2012, due in part to the restrictions on stock repurchases imposed by the terms of the TARP Capital Investment.

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. MINE SAFETY DISCLOSURES

Not applicable.

## 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 47.



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: April 26, 2012

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

Date: April 26, 2012

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 MARCH 31, 2012

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)	Certificate regarding adoption of amendments to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 22, 2010	Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) ("Peoples' June 30, 2010 Form 10-Q/A")

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

Exhibit Number	Description	Exhibit Location
3.2(f)	Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 22, 2010) [For SEC reporting compliance purposes only]	Incorporated herein by reference to Exhibit 3.2(f) to Peoples' June 30, 2010 Form 10-Q/A"
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 related to the repurchase of 21,000 of the Fixed Rate Cumulative Preferred Stock, Series A issued by Peoples Bancorp Inc. to 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).
4.4	Letter Agreement, dated December 28, 2011, between Peoples Bancorp Inc. and the United States Department of the Treasury related to the repurchase of 18,000 of the Fixed Rate Cumulative Preferred Stock, Series A issued by Peoples Bancorp Inc. to 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 December 29, 2011 (File No. 0-16772).
4.4	Letter Agreement, dated February 15, 2012, between Peoples Bancorp Inc. and the United States Department of the Treasury related to the repurchase of the Warrant to purchase 313,505 shares of common stock of Peoples Bancorp Inc. to 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 16, 2012 (File No. 0-16772).
10.1	Summary of Incentive Plan for Executive Officers and other employees of Peoples Bancorp Inc. [effective for the fiscal year beginning January 1, 2012]	Incorporated herein by reference to Exhibit 10.2(c) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (File No. 0-16772) ("Peoples' 2011 Form 10-K")

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

- |      |  |   |
|------|--|---|
| 10.2 | Summary of Long Term Incentive Plan for Executive Officers and other employees of Peoples Bancorp Inc. [Effective for the fiscal year beginning January 1, 2012]   | Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K. |
| 10.3 | Summary of Base Salaries for Executive Officers of Peoples Bancorp Inc.  | Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K. |
| 10.4 | Form of Peoples Bancorp Inc. 2006 Equity Plan Performance-Based Restricted Stock Agreement for executives used and to be used to evidence awards of performance-based restricted stock granted to executives of Peoples Bancorp Inc. | Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K. |
| 10.5 | Form of Peoples Bancorp Inc. 2006 Equity Plan Performance-Based Restricted Stock Agreement for employees used and to be used to evidence awards of performance-based restricted stock granted to employees of Peoples Bancorp Inc.   | Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K. |
| 10.6 | Form of Peoples Bancorp Inc. 2006 Equity Plan Time-Based Restricted Stock Agreement for executives used and to be used to evidence awards of performance-based restricted stock granted to executives of Peoples Bancorp Inc.        | Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K. |

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012

Exhibit Number	Description	Exhibit Location
10.7	Form of Peoples Bancorp Inc. 2006 Equity Plan Time-Based Restricted Stock Agreement for employees used and to be used to evidence awards of performance-based restricted stock granted to employees of Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K.
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	XBRL Taxonomy Extension Presentation Linkbase Document	Submitted electronically herewith #
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Submitted electronically herewith #

# Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at March 31, 2012 and December 31, 2011; (ii) Consolidated Statements of Income (unaudited) for the three months ended March 31, 2012 and 2011; (iii) Consolidated Statement of Stockholders' Equity (unaudited) for the three months ended March 31, 2012; (ix) Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2012 and 2011; 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 March 31, 2012 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.