

PEOPLES BANCORP INC  
Form 10-Q  
October 25, 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 September 30, 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: 10,690,009 common shares, without par value, at October 24, 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>23</u>
<u>SELECTED FINANCIAL DATA</u>	<u>23</u>
<u>EXECUTIVE SUMMARY</u>	<u>27</u>
<u>RESULTS OF OPERATIONS</u>	<u>28</u>
<u>FINANCIAL CONDITION</u>	<u>36</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>48</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>48</u>
<u>PART II – OTHER INFORMATION</u>	<u>49</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>49</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>49</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>49</u>
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>49</u>
<u>ITEM 4. MINE SAFETY DISLCOSURES</u>	<u>49</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>49</u>
<u>ITEM 6. EXHIBITS</u>	<u>49</u>
<u>SIGNATURES</u>	<u>50</u>
<u>EXHIBIT INDEX</u>	<u>51</u>

Table of Contents

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

## PART I – FINANCIAL INFORMATION

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

(Dollars in thousands)	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$33,814	\$32,346
Interest-bearing deposits in other banks	25,463	6,604
Total cash and cash equivalents	59,277	38,950
Available-for-sale investment securities, at fair value (amortized cost of \$579,722 at September 30, 2012 and \$617,128 at December 31, 2011)	589,360	628,571
Held-to-maturity investment securities, at amortized cost (fair value of \$33,933 at September 30, 2012 and \$16,705 at December 31, 2011)	32,572	16,301
Other investment securities, at cost	24,661	24,356
Total investment securities	646,593	669,228
Loans, net of deferred fees and costs	988,767	938,506
Allowance for loan losses	(18,607)	(23,717)
Net loans	970,160	914,789
Loans held for sale	12,739	3,271
Bank premises and equipment, net	24,552	23,905
Bank owned life insurance	51,206	49,384
Goodwill	64,835	62,520
Other intangible assets	3,587	1,955
Other assets	33,561	30,159
Total assets	\$1,866,510	\$1,794,161
Liabilities		
Deposits:		
Non-interest-bearing	\$288,376	\$239,837
Interest-bearing	1,164,111	1,111,243
Total deposits	1,452,487	1,351,080
Short-term borrowings	37,651	51,643
Long-term borrowings	106,270	142,312
Junior subordinated notes held by subsidiary trust	22,627	22,600
Accrued expenses and other liabilities	28,640	19,869
Total liabilities	1,647,675	1,587,504
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2012 and December 31, 2011	—	—
Common stock, no par value, 24,000,000 shares authorized, 11,140,100 shares issued at September 30, 2012 and 11,122,247 shares issued at December 31, 2011, including shares in treasury	166,612	166,969
Retained earnings	66,569	53,580

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Accumulated other comprehensive income, net of deferred income taxes	751	1,412	
Treasury stock, at cost, 605,655 shares at September 30, 2012 and 615,123 shares at December 31, 2011	(15,097	)(15,304	)
Total stockholders' equity	218,835	206,657	
Total liabilities and stockholders' equity	\$1,866,510	\$1,794,161	

See Notes to the Unaudited Consolidated Financial Statements

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

(Dollars in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
<b>Interest Income:</b>				
Interest and fees on loans	\$11,911	\$12,147	\$35,714	\$37,214
Interest and dividends on taxable investment securities	4,658	5,871	15,104	18,237
Interest on tax-exempt investment securities	368	378	1,064	1,187
Other interest income	5	4	13	20
Total interest income	16,942	18,400	51,895	56,658
<b>Interest Expense:</b>				
Interest on deposits	2,171	3,332	7,007	10,991
Interest on short-term borrowings	19	24	57	85
Interest on long-term borrowings	936	1,285	2,984	3,912
Interest on junior subordinated notes held by subsidiary trust	495	495	1,482	1,480
Total interest expense	3,621	5,136	11,530	16,468
Net interest income	13,321	13,264	40,365	40,190
(Recovery of) provision for loan losses	(956)	)865	(4,213)	)8,471
Net interest income after (recovery of) provision for loan losses	14,277	12,399	44,578	31,719
<b>Other Income:</b>				
Insurance income	2,367	2,324	7,756	7,321
Deposit account service charges	2,261	2,628	6,728	7,256
Trust and investment income	1,565	1,385	4,510	4,119
Electronic banking income	1,484	1,313	4,436	3,818
Mortgage banking income	638	370	1,869	1,030
Net gain on investment securities	112	57	3,275	473
Net (loss) gain on asset disposals and other transactions	(161)	)389	(3,266)	) (107)
Other non-interest income	257	371	853	1,112
Total other income	8,523	8,837	26,161	25,022
<b>Other Expenses:</b>				
Salaries and employee benefit costs	8,051	8,701	24,711	24,281
Net occupancy and equipment	1,423	1,453	4,358	4,426
Professional fees	1,172	807	3,189	2,615
Electronic banking expense	887	713	2,451	2,016
Marketing expense	534	452	1,490	1,105
Data processing and software	470	490	1,442	1,406
Franchise tax	415	369	1,241	1,128
Communication expense	294	307	930	915
Foreclosed real estate and other loan expenses	263	251	739	825
FDIC insurance	257	440	789	1,552
Amortization of other intangible assets	134	141	350	455
Other non-interest expense	1,766	1,306	4,678	4,043
Total other expenses	15,666	15,430	46,368	44,767
Income before income taxes	7,134	5,806	24,371	11,974
Income tax expense	2,310	1,885	7,860	3,263
Net income	\$4,824	\$3,921	\$16,511	\$8,711
Preferred dividends	—	237	—	998
Net income available to common shareholders	\$4,824	\$3,684	\$16,511	\$7,713

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Earnings per common share - basic	\$0.45	\$0.35	\$1.56	\$0.74
Earnings per common share - diluted	\$0.45	\$0.35	\$1.56	\$0.73
Weighted-average number of common shares outstanding - basic	10,530,800	10,484,609	10,522,874	10,478,310
Weighted-average number of common shares outstanding - diluted	10,530,876	10,519,673	10,522,905	10,498,708
Cash dividends declared on common shares	\$1,175	\$1,060	\$3,522	\$2,118
Cash dividends declared per common share	\$0.11	\$0.10	\$0.33	\$0.20
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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$4,824	\$3,921	\$16,511	\$8,711
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding gain arising in the period	(107	)4,505	1,468	12,989
Related tax expense	37	(1,577	) (514	)(4,546
Less: reclassification adjustment for net gain included in net income	112	57	3,275	473
Related tax expense	(39	)(21	) (1,146	)(166
Net effect on other comprehensive income (loss)	(143	)2,892	(1,175	)8,136
Defined benefit plans:				
Net gain arising during the period	—	—	318	—
Related tax expense	—	—	(111	)—
Amortization of unrecognized loss and service cost on pension plan	41	387	472	464
Related tax expense	(14	)(136	) (165	)(163
Net effect on other comprehensive income (loss)	27	251	514	301
Total other comprehensive income (loss), net of tax	(116	)3,143	(661	)8,437
Total comprehensive income	\$4,708	\$7,064	\$15,850	\$17,148

## 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			16,511			16,511
Other comprehensive loss, net of tax				(661	)	(661
Repurchase of common stock warrant		(1,201	)			(1,201
Common stock cash dividends declared			(3,522	)		(3,522
Tax benefit from exercise of stock options		13				13
Reissuance of treasury stock for deferred compensation plan					163	163
Purchase of treasury stock					(80	)(80
Common shares issued under dividend reinvestment plan		264				264
Common shares issued under Board of Directors' compensation plan		(35	)		124	89
Stock-based compensation expense		602				602
Balance, September 30, 2012	\$—	\$166,612	\$66,569	\$751	\$(15,097)	\$218,835



See Notes to the Unaudited Consolidated Financial Statements

5

---

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Nine Months Ended	
	September 30,	
	2012	2011
Net cash provided by operating activities	\$22,806	\$32,800
Investing activities:		
Available-for-sale investment securities:		
Purchases	(190,531	)(174,082
Proceeds from sales	113,720	59,868
Proceeds from principal payments, calls and prepayments	111,377	88,989
Held-to-maturity investment securities:		
Purchases	(23,791	)—
Proceeds from principal payments	7,387	—
Net (increase) decrease in loans	(20,449	)47
Net expenditures for premises and equipment	(2,331	)(1,100
Proceeds from sales of other real estate owned	1,387	1,534
Business acquisitions, net of cash received	(3,321	)—
Investment in limited partnership and tax credit funds	(187	)(234
Net cash used in investing activities	(6,739	)(24,978
Financing activities:		
Net increase in non-interest-bearing deposits	34,742	20,516
Net increase (decrease) in interest-bearing deposits	27,190	(39,619
Net (decrease) increase in short-term borrowings	(13,992	)7,046
Payments on long-term borrowings	(39,152	)(13,732
Repurchase of preferred shares and common stock warrant	(1,201	)(21,000
Cash dividends paid on preferred shares	—	(899
Cash dividends paid on common shares	(3,265	)(2,940
Purchase of treasury stock	(80	)(90
Proceeds from issuance of common shares	5	9
Excess tax benefit from share-based payments	13	—
Net cash provided by (used in) financing activities	4,260	(50,709
Net increase (decrease) in cash and cash equivalents	20,327	(42,887
Cash and cash equivalents at beginning of period	38,950	74,644
Cash and cash equivalents at end of period	\$59,277	\$31,757

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 September 30, 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 was effective for public companies for fiscal years, and interim period within those years, beginning after December 15, 2011, and was to 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

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.

Table of Contents

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

Assets measured at fair value on a recurring basis comprised the following at September 30, 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)
September 30, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$28	\$—	\$28	\$—
U.S. government sponsored agencies	575	—	575	—
States and political subdivisions	42,154	—	42,154	—
Residential mortgage-backed securities	472,439	—	472,439	—
Commercial mortgage-backed securities	61,345	—	61,345	—
Bank-issued trust preferred securities	10,105	—	10,105	—
Equity securities	2,714	2,594	120	—
Total available-for-sale securities	\$589,360	\$2,594	\$586,766	\$—
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 curves, 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 the amounts to be received are less than the carrying value of the loans. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2012, impaired loans with an aggregate outstanding principal balance of \$6.2 million were measured and reported at a fair value of \$4.6 million. For the three and nine months ended September 30, 2012, Peoples recognized losses on impaired loans of \$0.2 million and \$1.6 million, respectively,

through the allowance for loan losses.

8

---

Table of Contents

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

(Dollars in thousands)	September 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$59,277	\$59,277	\$38,950	\$38,950
Investment securities	646,593	647,954	669,228	669,632
Loans	982,899	886,038	918,060	828,477
Financial liabilities:				
Deposits	\$1,452,487	\$1,463,796	\$1,351,080	\$1,363,742
Short-term borrowings	37,651	37,651	51,643	51,643
Long-term borrowings	106,270	119,791	142,312	157,553
Junior subordinated notes held by subsidiary trust	22,627	23,681	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.

Table of Contents

## 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
September 30, 2012				
Obligations of:				
U.S. Treasury and government agencies	\$28	\$—	\$—	\$28
U.S. government sponsored agencies	540	35	—	575
States and political subdivisions	38,541	3,614	(1	)42,154
Residential mortgage-backed securities	469,514	12,106	(9,181	)472,439
Commercial mortgage-backed securities	58,923	2,458	(36	)61,345
Bank-issued trust preferred securities	10,962	70	(927	)10,105
Equity securities	1,214	1,601	(101	)2,714
Total available-for-sale securities	\$579,722	\$19,884	\$(10,246	)\$589,360
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 September 30, 2012 and December 31, 2011. At September 30, 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 and nine months ended September 30 were as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross gains realized	\$761	\$612	\$4,033	\$1,110
Gross losses realized	649	555	758	637
Net gain realized	\$112	\$57	\$3,275	\$473

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



Table of Contents

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
September 30, 2012								
Obligations of:								
U.S. Treasury and government agencies	\$—	\$—	—	\$—	\$—	—	\$—	\$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	380	1	2	—	—	—	380	1
Residential mortgage-backed securities	87,565	1,274	17	96,086	7,907	20	183,651	9,181
Commercial mortgage-backed securities	7,705	36	2	—	—	—	7,705	36
Bank-issued trust preferred securities	2,376	18	2	5,185	909	5	7,561	927
Equity securities	—	—	—	75	101	1	75	101
Total	\$98,026	\$1,329	23	\$101,346	\$8,917	26	\$199,372	\$10,246
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 September 30, 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 September 30, 2012 and December 31, 2011, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2012, approximately 96% of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored enterprises. The remaining 4%, or seven positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Three of the seven positions had a fair value less than 90% of their book value, with an aggregate book and fair value of \$2.1 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.

Furthermore, four of the seven 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 those investments, the current interest rate environment and spreads within that sector. The remaining three securities had an aggregate book value of approximately \$3.0 million and fair value of \$2.3 million at September 30, 2012.

Table of Contents

The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at September 30, 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	\$—	\$9	\$19	\$—	\$28	
U.S. government sponsored agencies	—	540	—	—	540	
States and political subdivisions	613	3,101	11,175	23,652	38,541	
Residential mortgage-backed securities	9	801	50,768	417,936	469,514	
Commercial mortgage-backed securities	—	5,362	38,203	15,358	58,923	
Bank-issued trust preferred securities	—	—	—	10,962	10,962	
Equity securities					1,214	
Total available-for-sale securities	\$622	\$9,813	\$100,165	\$467,908	\$579,722	
Fair value						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$9	\$19	\$—	\$28	
U.S. government sponsored agencies	—	575	—	—	575	
States and political subdivisions	618	3,203	12,388	25,945	42,154	
Residential mortgage-backed securities	9	854	52,470	419,106	472,439	
Commercial mortgage-backed securities	—	5,710	39,773	15,862	61,345	
Bank-issued trust preferred securities	—	—	—	10,105	10,105	
Equity securities					2,714	
Total available-for-sale securities	\$627	\$10,351	\$104,650	\$471,018	\$589,360	
Total average yield	6.31	%4.13	%3.73	%3.56	%3.60	%

## 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
September 30, 2012				
Obligations of:				
States and political subdivisions	\$3,862	\$410	\$—	\$4,272
Residential mortgage-backed securities	20,770	536	—	21,306
Commercial mortgage-backed securities	7,940	415	—	8,355
Total held-to-maturity securities	\$32,572	\$1,361	\$—	\$33,933
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 and nine months ended September 30, 2012.

Table of Contents

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
September 30, 2012								
Obligations of:								
States and political subdivisions	\$—	\$—	—	\$—	\$—	—	\$—	\$—
Residential mortgage-backed securities	—	—	—	—	—	—	—	—
Total	\$—	\$—	—	\$—	\$—	—	\$—	\$—
December 31, 2011								
Obligations of:								
States and political subdivisions	\$—	\$—	—	\$—	\$—	—	\$—	\$—
Residential mortgage-backed securities	6,416	88	1	—	—	—	6,416	88
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 September 30, 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	\$—	\$—	\$340	\$3,522	\$3,862
Residential mortgage-backed securities	—	—	550	20,220	20,770
Commercial mortgage-backed securities	—	—	—	7,940	7,940
Total held-to-maturity securities	\$—	\$—	\$890	\$31,682	\$32,572
Fair value					
Obligations of:					
States and political subdivisions	\$—	\$—	\$344	\$3,928	\$4,272
Residential mortgage-backed securities	—	—	563	20,743	21,306
Commercial mortgage-backed securities	—	—	—	8,355	8,355
Total held-to-maturity securities	\$—	\$—	\$907	\$33,026	\$33,933
Total average yield	—	%—	%2.61	%3.17	%3.15
Other Securities					

Peoples' other investment securities on the Consolidated Balance Sheets consisted of restricted equity securities issued by the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB"), and a capital investment in West Virginia Bankers Insurance. 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 \$340.8 million and \$359.1 million at September 30, 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 \$30.2 million and \$3.0 million at September 30, 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 \$53.6 million and \$65.2 million at September 30, 2012 and December 31, 2011, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

Table of Contents

## Note 4 Loans

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

	September 30, 2012	December 31, 2011
(Dollars in thousands)		
Commercial real estate	\$379,561	\$410,352
Commercial and industrial	172,068	140,857
Real estate construction	50,804	30,577
Residential real estate	233,501	219,619
Home equity lines of credit	51,137	47,790
Consumer	100,116	87,531
Deposit account overdrafts	1,580	1,780
Total loans	\$988,767	\$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 would not be collected. The carrying amounts of these loans included in the loan balances above are summarized as follows:

	September 30, 2012	December 31, 2011
(Dollars in thousands)		
Commercial real estate	\$3,052	\$3,754
Commercial and industrial	74	109
Residential real estate	13,407	14,497
Consumer	91	101
Total outstanding balance	\$16,624	\$18,461
Net carrying amount	\$16,148	\$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 \$186.7 million and \$184.8 million at September 30, 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 \$146.4 million and \$124.0 million at September 30, 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:

	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
(Dollars in thousands)				
Commercial real estate	\$11,737	\$23,546	\$—	\$—
Commercial and industrial	416	2,262	27	—
Real estate construction	—	—	—	—
Residential real estate	3,303	3,865	—	—
Home equity lines of credit	15	349	—	—
Consumer	10	—	—	—
Total	\$15,481	\$30,022	\$27	\$—

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

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

(Dollars in thousands)	Loans Past Due				Current Loans	Total Loans
	30 - 59 days	60 - 89 days	90 + Days	Total		
September 30, 2012						
Commercial real estate	\$ 785	\$ 1,497	\$ 5,740	\$ 8,022	\$ 371,539	\$ 379,561
Commercial and industrial	554	62	27	643	171,425	172,068
Real estate construction	—	—	—	—	50,804	50,804
Residential real estate	2,436	490	2,331	5,257	228,244	233,501
Home equity lines of credit	272	24	16	312	50,825	51,137
Consumer	709	72	10	791	99,325	100,116
Deposit account overdrafts	60	—	—	60	1,520	1,580
Total	\$ 4,816	\$ 2,145	\$ 8,124	\$ 15,085	\$ 973,682	\$ 988,767
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
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 described 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
September 30, 2012						
Commercial real estate	\$ 312,346	\$ 29,817	\$ 33,710	\$ —	\$ 3,688	\$ 379,561
Commercial and industrial	144,105	14,869	8,982	—	4,112	172,068
Real estate construction	47,140	—	1,106	—	2,558	50,804
Residential real estate	22,868	1,977	8,189	—	200,467	233,501
Home equity lines of credit	1,358	—	1,104	—	48,675	51,137
Consumer	84	—	23	—	100,009	100,116
Deposit account overdrafts	—	—	—	—	1,580	1,580
Total	\$ 527,901	\$ 46,663	\$ 53,114	\$ —	\$ 361,089	\$ 988,767
December 31, 2011						
Commercial real estate	\$ 310,996	\$ 40,165	\$ 56,142	\$ —	\$ 3,049	\$ 410,352
Commercial and industrial	113,391	18,636	6,625	—	2,205	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
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	\$ 478,167	\$ 64,688	\$ 76,352	\$ 20	\$ 319,279	\$ 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
September 30, 2012							
Commercial real estate	\$ 23,041	\$ 1,948	\$ 9,647	\$ 11,595	\$ 731	\$ 12,178	\$ —
Commercial and industrial	479	—	408	408	—	492	—
Real estate construction	—	—	—	—	—	—	—
Residential real estate	1,099	259	734	993	36	1,514	—
Home equity lines of credit	—	—	—	—	—	167	—
Total	\$ 24,619	\$ 2,207	\$ 10,789	\$ 12,996	\$ 767	\$ 14,351	\$ —
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 September 30, 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 insufficient to satisfy contractual payments due under the original terms of the loan without a modification.



Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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.

During the third quarter of 2012, in accordance with regulatory guidance regarding borrowers who were in Chapter 7 bankruptcy, Peoples identified \$3.3 million of loans that were TDRs. The regulatory guidance requires loans to be accounted for as collateral-dependent loans when borrowers have filed Chapter 7 bankruptcy, the debt has been discharged and the borrower has not reaffirmed the debt, regardless of the delinquency status of the loan. The filing of bankruptcy by the borrower is evidence of financial difficulty and the discharge of the obligation by the bankruptcy court is deemed to be a concession granted to the borrower. The \$3.3 million includes \$2.8 million of loans that were accruing as of September 30, 2012 since Peoples expects to collect all principal and interest payments.

The following table summarizes the loans that were modified as a TDR during the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended				Nine Months Ended			
	Recorded Investment (1)				Recorded Investment (1)			
	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2012	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2012
Commercial real estate	3	\$422	\$ 422	\$413	4	\$752	\$ 752	\$743
Commercial and industrial Real estate construction	2	\$58	\$ 58	\$58	2	\$58	\$ 58	\$58
Residential real estate	71	\$2,788	\$ 2,788	\$2,788	71	\$2,788	\$ 2,788	\$2,788
Home equity lines of credit	20	\$244	\$ 244	\$244	20	\$244	\$ 244	\$244
Consumer	33	\$143	\$ 143	\$143	33	\$143	\$ 143	\$143
	Three Months Ended				Nine Months Ended			
	Recorded Investment (1)				Recorded Investment (1)			
	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2011	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2011
Commercial real estate	—	\$—	\$ —	\$—	4	\$3,197	\$ 3,197	\$3,001

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

There were no loans modified in a TDR over the last twelve months that subsequently defaulted (i.e., 90 days or more past due following a modification) during the three and nine months ended September 30, 2012.

Peoples had approximately \$7,000 of additional commitments to lend additional funds to 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 September 30, were as follows:

(Dollars in thousands)

	Consumer	Total
--	----------	-------

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Real Estate Construction	Home Equity Lines of Credit		Deposit Account Overdrafts	
Balance, January 1, 2012	\$18,947	\$2,434	\$1,119	\$—	\$541	\$449	\$227	\$23,717
Charge-offs	(3,112)	)—	(890)	)—	(94)	)(428	)(417	)(4,941 )
Recoveries	2,538	258	608	—	23	459	158	4,044
Net (charge-offs) recoveries	(574)	)258	(282)	)—	(71)	)31	(259)	)(897 )
Provision for loan losses	(3,400)	)(1,025	)—	—	—	—	212	(4,213 )
Balance, September 30, 2012	\$14,973	\$1,667	\$837	\$—	\$470	\$480	\$180	\$18,607
Period-end amount allocated to:								
Loans individually evaluated for impairment	\$731	\$—	\$36	\$—	\$—	\$—	\$—	\$767
Loans collectively evaluated for impairment	14,242	1,667	801	—	470	480	180	17,840
Ending balance	\$14,973	\$1,667	\$837	\$—	\$470	\$480	\$180	\$18,607
Balance, January 1, 2011	\$21,806	\$2,160	\$1,400	\$—	\$431	\$721	\$248	\$26,766
Charge-offs	(9,715)	)(1,004	)(1,253	)—	(345)	)(687	)(488	)(13,492 )
Recoveries	1,453	629	598	—	37	560	191	3,468
Net (charge-offs)	(8,262)	)(375	)(655	)—	(308)	)(127	)(297	)(10,024 )
Provision for loan losses	6,541	578	676	—	425	(20)	)271	8,471
Balance, September 30, 2011	\$20,085	\$2,363	\$1,421	\$—	\$548	\$574	\$222	\$25,213
Period-end amount allocated to:								
Loans individually evaluated for impairment	\$1,095	\$522	\$242	\$—	\$—	\$—	\$—	\$1,859
Loans collectively evaluated for impairment	18,990	1,841	1,179	—	548	574	222	23,354
Ending balance	\$20,085	\$2,363	\$1,421	\$—	\$548	\$574	\$222	\$25,213

Table of Contents

## Note 5 Long-Term Borrowings

Long-term borrowings consisted of the following at:

(Dollars in thousands)	September 30, 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	16,270	3.61	17,312	3.59	%
Total long-term borrowings	\$106,270	3.48	142,312	3.38	%

Peoples' national market repurchase agreements consisted of agreements with unrelated financial service companies and have original maturities ranging from 5 to 10 years. In general, these agreements may not be terminated by Peoples prior to 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 consisted of various borrowings with original maturities ranging from 5 to 20 years that generally may not be repaid prior to maturity without Peoples incurring a penalty. The rates on the convertible rate advances are fixed for 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 were as follows:

(Dollars in thousands)	Balance	Weighted-Average Rate	
Three Months Ending December 31, 2012	\$1,365	3.80	%
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	\$106,270	3.48	%

Table of Contents

## 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		4,000	1,441
Changes related to deferred compensation plan:			
Purchase of treasury stock			2,820
Reissuance of treasury stock			(8,897)
Common shares issued under dividend reinvestment plan		13,853	
Common shares issued under Board of Directors' compensation plan		—	(4,832)
Shares at September 30, 2012	—	11,140,100	605,655

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

The following details the change in the components of Peoples' accumulated other comprehensive income (loss) for the nine months ended September 30, 2012:

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2011	\$7,439	\$(6,027)	)\$1,412
Current period change, net of tax	(1,175)	)514	(661)
Balance, September 30, 2012	\$6,264	\$(5,513)	)\$751

Table of Contents

## 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 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 health benefits. Peoples' policy is to fund the cost of the benefits as they arise. The following tables detail the components of the net periodic cost for the plans:

(Dollars in thousands)	Pension Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Interest cost	\$148	\$180	\$452	\$553
Expected return on plan assets	(182	)(254	)(574	)(810
Amortization of net loss	41	19	120	49
Settlement of benefit obligation	—	408	353	408
Net periodic cost	\$7	\$353	\$351	\$200
	Postretirement Benefits			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest cost	\$2	\$3	\$7	\$9
Expected return on plan assets	—	—	—	—
Amortization of net loss	—	(3	)(1	)(7
Settlement of benefit obligation	—	—	—	—
Net periodic cost	\$2	\$—	\$6	\$2

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

Table of Contents

In the second quarter of 2012, the total lump-sum distributions made to participants, when added to the lump-sum distributions made in the first quarter of 2012, caused the total settlements through six months of 2012 to exceed the recognition threshold for settlement gains or losses. As a result, Peoples remeasured its pension obligation and plan assets as of April 1, 2012 as part of the calculation of the settlement loss recognized. The following table summarizes the change in pension obligation and funded status as a result of this remeasurement and the aggregate settlements for the six months ended June 30, 2012:

(Dollars in thousands)	As of December 31, 2011	June 30, 2012 Before Settlement	Impact of Settlements	After Settlements	
Funded status:					
Projected benefit obligation	\$16,505	\$16,681	\$(650)	) \$16,031	
Fair value of plan assets	10,409	10,816	(650)	) 10,166	
Funded status	\$(6,096	) \$(5,865	) \$—	\$ (5,865	)
Gross unrealized loss	\$9,280	\$9,057	\$(353	) \$8,704	
Assumptions:					
Discount rate	4.00	% 4.00	%	4.00	%
Expected return on plan assets	7.50	% 7.50	%	7.50	%

During the third quarter of 2012, there was an inconsequential amount of lump-sum distributions and as a result, no additional settlement charge was recorded.

---

**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, unrestricted common share awards 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.

Table of Contents

The following table summarizes Peoples' stock options outstanding at September 30, 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	0.5	\$21.71
\$21.72	to	\$23.58	28,993	0.5	22.32
\$23.59	to	\$25.94	4,892	1.1	24.83
\$26.01	to	\$27.74	25,710	1.9	27.03
\$28.25	to	\$28.26	18,573	3.3	28.25
\$28.57	to	\$30.00	21,483	2.5	29.09
Total			103,694	1.8	\$26.05

#### 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 September 30, 2012:

Exercise Price	Number of Common Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
\$23.26	2,000	4.8
\$23.77	11,509	5.4
\$29.25	9,340	4.4
Total	22,849	4.9

#### 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 common 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 common shares subject to performance-based vesting, the restrictions on these restricted common shares will lapse two years after the grant date upon the achievement of cumulative diluted earnings per common share of \$2.83 for the three-year period ending December 31, 2013.

Table of Contents

The following summarizes the changes to Peoples' restricted common shares for the period ended September 30, 2012:

	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	45,628	14.44	15,360	16.76
Released	4,000	12.15	—	—
Forfeited	2,379	15.20	858	16.98
Outstanding at September 30	65,793	\$13.93	17,865	\$16.07

For the nine months ended September 30, 2012, the total intrinsic value of restricted common shares released was \$77,000.

**Stock-Based Compensation**

Peoples recognized stock-based compensation expense, which is included as a component of Peoples' salaries and employee benefit 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:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Total stock-based compensation	\$117	\$90	\$602	\$186
Recognized tax benefit	(41	)(31	)(211	)(65
Net expense recognized	\$76	\$59	\$391	\$121

Total unrecognized stock-based compensation expense related to unvested awards was \$518,000 at September 30, 2012, which will be recognized over a weighted-average period of 1.6 years.

On September 13, 2012, the Board of Directors announced a future grant of unrestricted common shares to certain employees that do not already participate in the 2006 Equity Plan. The grant is anticipated to be for an aggregate of approximately 9,000 common shares and will have a grant date of October 30, 2012.



Table of Contents

## Note 9 Earnings Per Common Share

---

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

(Dollars in thousands, except per common share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Distributed earnings allocated to common shareholders	\$1,166	\$1,056	\$3,496	\$2,110
Undistributed earnings allocated to common shareholders	3,620	2,614	12,900	5,584
Net earnings allocated to common shareholders	\$4,786	\$3,670	\$16,396	\$7,694
Weighted-average common shares outstanding	10,530,800	10,484,609	10,522,874	10,478,310
Effect of potentially dilutive common shares	76	35,064	31	20,398
Total weighted-average diluted common shares outstanding	10,530,876	10,519,673	10,522,905	10,498,708

Earnings per common share:

Basic	\$0.45	\$0.35	\$1.56	\$0.74
Diluted	\$0.45	\$0.35	\$1.56	\$0.73

Restricted shares, stock options and SARs covering 147,756 and 248,093 common shares were excluded from the calculations for the nine months ended September 30, 2012 and 2011, respectively, since they were anti-dilutive.

## Note 10 Acquisitions

---

On September 14, 2012, Peoples completed its acquisition of Sistersville Bancorp, Inc. ("Sistersville") for total cash consideration of \$9.8 million. Sistersville and its wholly-owned subsidiary, First Federal Savings Bank, which operates two full-service branches in Sistersville and Parkersburg, West Virginia, merged into Peoples' wholly-owned subsidiary, Peoples Bank, National Association. The acquisition was accounted for under the acquisition method of accounting under US GAAP. The assets purchased, liabilities assumed, and related identifiable intangible assets were recorded at their acquisition date fair values. The goodwill recognized will not be tax deductible for income tax purposes.

As a result of the Sistersville acquisition, Peoples acquired loans of \$31 million and deposits of \$39 million. The balances and operations related to the acquisition are included in Peoples' consolidated financial statements from the date of the acquisition, and did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.

On September 1, 2012, Peoples acquired a small financial advisory book of business in Gallipolis, Ohio for cash consideration of \$0.4 million. A portion of the consideration is contingent upon revenue metrics being achieved. The balances and operations related to the acquisition are included in Peoples' consolidated financial statements from the date of the acquisition, and did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.

During the second quarter of 2012, Peoples acquired a small financial advisory book of business in Wood County, West Virginia for cash consideration of \$0.9 million. A portion of the consideration is contingent upon revenue metrics being achieved. The balances and operations related to the acquisition are included in Peoples' consolidated financial statements from the date of the acquisition, and did not materially impact Peoples' financial position, results of operations or cash flows for any period presented.

Table of Contents

The following is a summary of changes in goodwill and intangible assets arising from the acquisitions:

(Dollars in thousands)	Goodwill	Gross Core Deposit	Gross Customer Relationships
Balance, December 31, 2011	\$ 62,520	\$ 10,564	\$ 6,182
Acquired intangible	2,315	661	1,008
Balance, September 30, 2012	\$ 64,835	\$ 11,225	\$ 7,190

  

(Dollars in thousands)	Gross Intangible Asset	Accumulated Amortization	Net Intangible Asset
September 30, 2012			
Core deposits	\$ 11,225	\$ (10,564	) \$ 661
Customer relationships	7,190	(6,121	) 1,069
Total acquired intangibles	\$ 18,415	\$ (16,685	) \$ 1,730
Mortgage servicing rights			1,857
Total other intangible assets			\$ 3,587

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 September 30,		At or For the Nine Months Ended September 30,		
	2012	2011	2012	2011	
<b>SIGNIFICANT RATIOS</b>					
Return on average stockholders' equity	8.86	% 7.03	% 10.41	% 5.35	%
Return on average common stockholders' equity	8.86	% 7.19	% 10.41	% 5.22	%
Return on average assets	1.04	% 0.86	% 1.21	% 0.64	%
Net interest margin	3.30	% 3.39	% 3.38	% 3.42	%
Efficiency ratio (a)	70.06	% 69.70	% 68.36	% 67.44	%
Average stockholders' equity to average assets	11.73	% 12.27	% 11.61	% 12.02	%
Average loans to average deposits	67.65	% 69.95	% 68.31	% 69.84	%
Dividend payout ratio	24.36	% 28.77	% 21.33	% 27.46	%
<b>ASSET QUALITY RATIOS</b>					
Nonperforming loans as a percent of total loans (b)(c)	1.55	% 3.47	% 1.55	% 3.47	%
Nonperforming assets as a percent of total assets (b)(c)	0.89	% 2.04	% 0.89	% 2.04	%
Allowance for loan losses to loans net of unearned interest (c)	1.88	% 2.65	% 1.88	% 2.65	%
Allowance for loan losses to nonperforming loans (b)(c)	119.98	% 76.16	% 119.98	% 76.16	%
(Recovery of) provision for loan losses to average loans (annualized)	(0.39)	)% 0.36	% (0.59)	)% 1.19	%
Net charge-offs as a percentage of average loans (annualized)	0.15	% 0.34	% 0.13	% 1.41	%
<b>CAPITAL INFORMATION (c)</b>					
Tier 1 common capital ratio	13.86	% 12.40	% 13.86	% 12.40	%
Tier 1 capital ratio	15.85	% 15.98	% 15.85	% 15.98	%
Total risk-based capital ratio	17.16	% 17.33	% 17.16	% 17.33	%
Leverage ratio	10.13	% 10.37	% 10.13	% 10.37	%
Tangible equity to tangible assets (d)	8.37	% 9.19	% 8.37	% 9.19	%
Tangible common equity to tangible assets (d)	8.37	% 8.16	% 8.37	% 8.16	%
Tangible assets (d)	\$1,798,088	\$1,741,254	\$1,798,088	\$1,741,254	
Tangible equity (d)	150,413	160,041	150,413	160,041	
Tangible common equity (d)	\$150,413	\$142,166	\$150,413	\$142,166	
<b>PER COMMON SHARE DATA</b>					
Earnings per share – Basic	\$0.45	\$0.35	\$1.56	\$0.74	
Earnings per share – Diluted	0.45	0.35	1.56	0.73	
Cash dividends declared per share	0.11	0.10	0.33	0.20	
Book value per share (c)	20.77	19.70	20.77	19.70	
Tangible book value per share (c) (d)	\$14.28	\$13.55	\$14.28	\$13.55	
Weighted-average common shares outstanding – Basic	0,530,800	10,484,609	10,522,874	10,478,310	

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Weighted-average common shares outstanding – Diluted	10,530,876	10,519,673	10,522,905	10,498,708
Common shares outstanding at end of period	10,534,445	10,489,400	10,534,445	10,489,400

(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.

(d) These amounts represent non-GAAP financial measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of these measures can be found later in this discussion under the caption

“Capital/Stockholders' Equity”.

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:

- (1) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;
- (2) competitive pressures among financial institutions or from non-financial institutions may increase significantly, including product and pricing pressures and Peoples' ability to attract, develop and retain qualified professionals;
- (3) changes in the interest rate environment, which may adversely impact interest margins;
- (4) changes in prepayment speeds, loan originations, sale volumes, charge-offs and loan loss provisions, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (5) economic conditions, either nationally or in areas where Peoples, its subsidiaries and one or more acquired companies 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;
- (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, its subsidiaries or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective 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 sheet;
- (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' business generation and retention, funding and liquidity;
- (12) the costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
- (13) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks, including those of our third-party vendors and other service providers, may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;
- (14) the overall adequacy of Peoples' risk management program;
- (15) Peoples' ability to complete and, if completed, successfully integrate acquisitions, including the Sistersville acquisition; and
- (16) 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”).

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



## Table of Contents

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 46 financial service locations and 43 ATMs in southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association ("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 provides services through traditional offices, ATMs and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary and wealth management services. Brokerage services are offered exclusively through an unaffiliated registered broker-dealer located at Peoples' offices.

### Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples' Unaudited Consolidated Financial Statements and Management's Discussion and Analysis at September 30, 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, 2012, management performed its annual impairment test of Peoples' recorded goodwill. The methodology and significant assumptions made by management were consistent with those disclosed in Peoples' 2011 Form 10-K. Based on its analysis at June 30, 2012, management concluded no goodwill impairment existed since the fair value of Peoples' single reporting unit exceeded its carrying value. The analysis indicated any of the following situations would cause a decline in the fair value of Peoples' reporting unit below its book value: (1) a 5% sustained decline in future cash flows or (2) a 100 basis point increase in the discount rate. No indicators of goodwill impairment existed at September 30, 2012.

### 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:

During the second quarter of 2012, Peoples became more active with its merger and acquisition activities. These activities included the merger transactions with Sistersville Bancorp, Inc. ("Sistersville") and its wholly-owned subsidiary, First Federal Savings Bank, announced on June 5, 2012 and subsequently completed on September 14, 2012, and the purchase of a small financial advisory book of business in Wood County, West Virginia. In the third quarter of 2012, Peoples purchased another small financial advisory book of business in Gallipolis, Ohio. These

transactions are more fully described in Note 10 of the Notes to the Unaudited Consolidated Financial Statements. In addition, Peoples' management team continues to evaluate other acquisition opportunities involving banks, insurance agencies and wealth management providers located in Ohio, West Virginia and Kentucky. As a result,



Table of Contents

Peoples incurred \$337,000 of acquisition-related expenses, primarily fees for legal costs, other professional services, deconversion costs and write-offs associated with assets acquired, for the three months ended September 30, 2012. For the nine months ended September 30, 2012, Peoples incurred \$559,000 of acquisition-related expenses.

Approximately a quarter of these costs related to acquisition opportunities that management determined did not meet Peoples' criteria and thus negotiations were terminated prior to completion.

On September 17, 2012, Peoples introduced its new brand as part of a company-wide brand revitalization. The brand is Peoples' promise, which is a guarantee of satisfaction and quality. Costs associated with rebranding efforts were approximately \$172,000 during the third quarter 2012. Peoples will continue to incur costs throughout 2012 and 2013 associated with the brand revitalization, including marketing due to advertisement, and depreciation for the revitalization of our branch network.

As described in Note 7 of the Notes to the Unaudited Consolidated Financial Statements, Peoples incurred settlement charges of \$353,000 during the second quarter of 2012 due to the aggregate amount of lump-sum distributions to participants in Peoples' defined benefit pension plan through the first six months of 2012 exceeding the threshold for recognizing such charges during the second quarter. No such charges were recognized in the third quarter of 2012. Settlement charges of \$408,000 were recognized during the third quarter of 2011.

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, credit risk 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 early 2015.

Table of Contents

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 since early third quarter of 2011, while moderate steepening occurred in the second half of 2009 and late 2010.

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

**EXECUTIVE SUMMARY**

Net income available to common shareholders for the three months ended September 30, 2012, was \$4.8 million, or \$0.45 per diluted common share, versus \$3.7 million and \$0.35 per diluted common share a year ago. On a year-to-date basis, net income available to common shareholders was \$16.5 million through September 30, 2012, compared to \$7.7 million a year ago, representing earnings per diluted common share of \$1.56 and \$0.73, respectively. The higher earnings compared to the prior year were attributable to a mix of improved operating performance, plus the impact of continued asset quality improvement.

In the third quarter of 2012, Peoples realized a \$1.0 million recovery of loan losses and \$4.2 million recovery on a year-to-date basis through September 30, 2012, as several asset quality metrics maintained favorable trends. In comparison, Peoples recorded provisions for loan losses of \$0.9 million and \$8.5 million for the three and nine months ended September 30, 2011, respectively.

Net interest income was 2% lower than the linked quarter, while net interest margin compressed 13 basis points to 3.30% as interest income decreased more than interest expense. For both the quarter and year-to-date, net interest income was consistent with the prior year as decreases in interest income were matched by a reduction in interest expense. Net interest margin compressed 9 basis points for the quarter and 4 basis points on a year-to-date basis. Net interest margin compression was a result of long-term interest rates remaining at historically low levels.

Non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, was up 2% compared to the third quarter of 2011 and 6% on a year-to-date basis, as strong revenue generation occurred in several major sources. The most notable growth occurred in mortgage banking income, which grew \$268,000 over the prior year quarter and \$839,000 on a year-to-date basis.

Total non-interest expense was \$15.7 million for the third quarter of 2012, consistent with the linked quarter and 2% higher than the prior year third quarter. The 4% increase year-to-date was primarily caused by additional incentive compensation of \$926,000, which was a result of the improved financial performance of Peoples. Acquisition-related costs of \$487,000 also contributed to the increase over the prior year.

At September 30, 2012, total assets were up 4% to \$1.87 billion versus \$1.79 billion at year-end 2011, with the increase due mostly to higher net loan balances. Gross portfolio loan balances grew \$50.3 million during the nine months of 2012, of which \$30.8 million was a result of the Sistersville acquisition. The allowance for loan losses decreased \$5.1 million to \$18.6 million, or 1.88% of gross loans, compared to \$23.7 million and 2.53% at December 31, 2011. Total investment securities were down \$22.6 million at September 30, 2012, compared to \$669.2 million at the prior year-end.

Total liabilities were \$1.65 billion at September 30, 2012, up \$30.9 million for the quarter and \$60.2 million since December 31, 2011. Retail deposit balances experienced continued growth during the third quarter of 2012, increasing \$33.7 million since the prior quarter-end and \$110.3 million compared to year-end 2011. The Sistersville acquisition added \$39.4 million of interest-bearing deposits, almost equally divided among certificates of deposits, money market and savings accounts and \$0.9 million of non-interest-bearing deposits. Non-interest-bearing deposits comprised 20.6% of total retail deposits versus 18.6% at year-end 2011. At September 30, 2012, total borrowed funds were \$166.5 million, down \$50.0 million compared to the prior year-end, as Peoples repaid \$35 million in long-term borrowing during the first quarter.

At September 30, 2012, total stockholders' equity was \$218.8 million, up \$12.2 million since December 31, 2011. Earnings exceeded dividends declared by \$13.0 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 13.86% at

Table of Contents

September 30, 2012, while the Total Risk-Based Capital ratio was 17.16% versus 16.20% at December 31, 2011. In addition, Peoples' tangible common equity to tangible asset ratio was 8.37% and tangible book value per share was \$14.28 at September 30, 2012, versus 8.45% and \$14.18 at June 30, 2012 and 8.22% and \$13.53 at December 31, 2011. The modest reductions in tangible common ratios during the third quarter of 2011 were primarily the result of the Sistersville acquisition.

**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 tables detail Peoples' average balance sheets for the periods presented:

(Dollars in thousands)	For the Three Months Ended								
	September 30, 2012			June 30, 2012			September 30, 2011		
	Average Balance	Income/Expense	Yield/Cost	Average Balance	Income/Expense	Yield/Cost	Average Balance	Income/Expense	Yield/Cost
Short-term investments	\$10,150	\$5	0.20 %	\$9,336	\$4	0.19 %	\$8,225	\$4	0.21 %
Investment Securities (1):									
Taxable	649,309	4,705	2.90 %	638,538	4,984	3.09 %	634,288	5,918	3.73 %
Nontaxable (2)	41,995	565	5.39 %	39,000	546	5.61 %	38,058	580	6.10 %
Total investment securities	691,304	5,270	3.05 %	677,538	5,530	3.27 %	672,346	6,498	3.86 %
Loans (3):									
Commercial	619,392	7,337	4.71 %	623,492	7,571	4.88 %	609,152	7,412	4.83 %
Real estate (4)	249,664	3,177	5.09 %	244,131	3,101	5.03 %	245,941	3,240	5.27 %
Consumer	97,702	1,428	5.81 %	91,976	1,400	6.12 %	89,304	1,526	6.78 %
Total loans	966,758	11,942	4.92 %	959,599	12,072	5.05 %	944,397	12,178	5.13 %
Less: Allowance for loan losses	(19,981 )			(21,650 )			(27,197 )		
Net loans	946,777	11,942	5.03 %	937,949	12,072	5.17 %	917,200	12,178	5.28 %
Total earning assets	1,648,231	17,217	4.17 %	1,624,823	17,606	4.35 %	1,597,771	18,680	4.66 %
Intangible assets	65,912			64,737			64,538		
Other assets	133,448			133,991			139,909		
Total assets	\$1,847,591			\$1,823,551			\$1,802,218		
Deposits:									
Savings accounts	\$165,523	\$24	0.06 %	\$159,242	\$23	0.06 %	\$135,942	\$47	0.14 %
Interest-bearing demand accounts	273,100	269	0.39 %	263,303	286	0.44 %	249,787	316	0.50 %
Money market accounts	247,808	97	0.16 %	253,458	113	0.18 %	258,102	185	0.28 %
Brokered deposits	55,158	491	3.54 %	53,843	487	3.64 %	66,074	557	3.34 %
Retail certificates of deposit	407,254	1,290	1.26 %	407,413	1,380	1.36 %	413,785	2,227	2.14 %
Total interest-bearing deposits	1,148,843	2,171	0.75 %	1,137,259	2,289	0.81 %	1,123,690	3,332	1.18 %
Borrowed Funds:									
Short-term FHLB advances	12,386	5	0.14 %	16,000	5	0.12 %	7,615	2	0.08 %
Retail repurchase agreements	35,386	14	0.15 %	36,172	14	0.15 %	41,241	22	0.22 %
Total short-term borrowings	47,772	19	0.16 %	52,172	19	0.14 %	48,856	24	0.20 %
Long-term FHLB advances	66,348	566	3.39 %	66,531	562	3.40 %	82,889	716	3.42 %
Wholesale repurchase agreements	40,000	370	3.63 %	40,000	367	3.63 %	65,000	569	3.43 %
Other borrowings	22,622	495	8.56 %	22,614	492	8.60 %	22,587	495	8.58 %
Total long-term borrowings	128,970	1,431	4.37 %	129,145	1,421	4.38 %	170,476	1,780	4.11 %
Total borrowed funds	176,742	1,450	3.23 %	181,317	1,440	3.16 %	219,332	1,804	3.24 %

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Total interest-bearing liabilities	1,325,585	3,621	1.08 %	1,318,576	3,729	1.14 %	1,343,022	5,136	1.51 %
Non-interest-bearing deposits	280,223			269,316			226,506		
Other liabilities	25,066			24,191			11,524		
Total liabilities	1,630,874			1,612,083			1,581,052		
Preferred equity	—			—			17,869		
Common equity	216,717			211,468			203,297		
Total stockholders' equity	216,717			211,468			221,166		
Total liabilities and stockholders' equity	\$1,847,591			\$1,823,551			\$1,802,218		
Interest rate spread		\$13,596	3.09 %		\$13,877	3.21 %		\$13,544	3.15 %
Net interest margin			3.30 %			3.43 %			3.39 %

Table of Contents

(Dollars in thousands)	For the Nine Months Ended							
	September 30, 2012			September 30, 2011				
	Average Balance	Income/ Expense	Yield/Cost		Average Balance	Income/ Expense	Yield/Cost	
Short-term investments	\$8,594	\$13	0.21	%	\$12,499	\$20	0.21	%
Investment Securities (1):								
Taxable	644,914	15,241	3.15	%	628,346	18,374	3.90	%
Nontaxable (2)	39,028	1,637	5.59	%	39,132	1,826	6.22	%
Total investment securities	683,942	16,878	3.29	%	667,478	20,200	4.04	%
Loans (3):								
Commercial	618,537	22,131	4.78	%	617,825	22,865	4.95	%
Real estate (4)	245,936	9,418	5.11	%	247,673	9,885	5.32	%
Consumer	93,090	4,253	6.10	%	86,246	4,549	7.05	%
Total loans	957,563	35,802	4.99	%	951,744	37,299	5.24	%
Less: Allowance for loan losses	(22,013)	)			(27,786)	)		
Net loans	935,550	35,802	5.11	%	923,958	37,299	5.39	%
Total earning assets	1,628,086	52,693	4.32	%	1,603,935	57,519	4.79	%
Intangible assets	65,028				64,679			
Other assets	132,718				143,195			
Total assets	\$1,825,832				\$1,811,809			
Deposits:								
Savings accounts	\$157,425	\$68	0.06	%	\$134,108	\$164	0.16	%
Interest-bearing demand accounts	261,362	824	0.42	%	243,721	1,378	0.76	%
Money market accounts	255,331	337	0.18	%	266,912	655	0.33	%
Brokered deposits	56,809	1,505	3.54	%	72,446	1,759	3.25	%
Retail certificates of deposit	405,045	4,273	1.41	%	420,352	7,035	2.24	%
Total interest-bearing deposits	1,135,972	7,007	0.82	%	1,137,539	10,991	1.29	%
Borrowed Funds:								
Short-term FHLB advances	14,543	13	0.12	%	3,767	3	0.09	%
Retail repurchase agreements	37,924	44	0.15	%	42,148	82	0.26	%
Total short-term borrowings	52,467	57	0.14	%	45,915	85	0.25	%
Long-term FHLB advances	68,810	1,745	3.39	%	86,164	2,234	3.47	%
Wholesale repurchase agreements	45,620	1,239	3.57	%	65,000	1,678	3.40	%
Other borrowings	22,614	1,482	8.61	%	22,579	1,480	8.64	%
Total long-term borrowings	137,044	4,466	4.31	%	173,743	5,392	4.12	%
Total borrowed funds	189,511	4,523	3.16	%	219,658	5,477	3.31	%
Total interest-bearing liabilities	1,325,483	11,530	1.16	%	1,357,197	16,468	1.62	%
Non-interest-bearing deposits	265,728				225,291			
Other liabilities	22,670				11,590			
Total liabilities	1,613,881				1,594,078			
Preferred equity	—				20,297			
Common equity	211,951				197,434			
Total stockholders' equity	211,951				217,731			
Total liabilities and stockholders' equity	\$1,825,832				\$1,811,809			
Interest rate spread		\$41,163	3.16	%		\$41,051	3.17	%
Net interest margin			3.38	%			3.42	%

(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)

Average balances include nonaccrual and impaired loans. Interest income includes interest earned on nonaccrual loans prior to the loans being placed on nonaccrual status. 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.



Table of Contents

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

(Dollars in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net interest income, as reported	\$13,321	\$13,612	\$13,264	\$40,365	\$40,190
Taxable equivalent adjustments	275	265	280	798	861
Fully tax-equivalent net interest income	\$13,596	\$13,877	\$13,544	\$41,163	\$41,051

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

(Dollars in thousands)	Three Months Ended September 30, 2012 Compared to						Nine Months Ended		
	September 30, 2012			September 30, 2011			September 30, 2012 Compared to September 30, 2011		
Increase (decrease) in:	Rate	Volume	Total <sup>(1)</sup>	Rate	Volume	Total <sup>(1)</sup>	Rate	Volume	Total <sup>(1)</sup>
<b>INTEREST INCOME:</b>									
Short-term investments	\$—	\$1	\$1	\$(2)	)\$3	\$1	\$(1)	)\$6	)\$7
Investment Securities: <sup>(2)</sup>									
Taxable	(741)	)462	(279)	(2,110)	)897	(1,213)	(3,890)	)757	(3,133)
Nontaxable	(108)	)127	19	(263)	)248	(15)	(184)	)5	(189)
Total investment income	(849)	)589	(260)	(2,373)	)1,145	(1,228)	(4,074)	)752	(3,322)
Loans:									
Commercial	(197)	)37	(234)	(624)	)549	(75)	(778)	)44	(734)
Real estate	28	48	76	(315)	)252	(63)	(396)	)71	(467)
Consumer	(301)	)329	28	(745)	)647	(98)	(794)	)498	(296)
Total loan income	(470)	)340	(130)	(1,684)	)1,448	(236)	(1,968)	)471	(1,497)
Total interest income	(1,319)	)930	(389)	(4,059)	)2,596	(1,463)	(6,043)	)1,217	(4,826)
<b>INTEREST EXPENSE:</b>									
Deposits:									
Savings accounts	(1)	)2	1	(75)	)52	(23)	(136)	)40	(96)
Interest-bearing demand accounts	(75)	)58	(17)	(197)	)150	(47)	(705)	)151	(554)
Money market accounts	(14)	)2	(16)	(81)	)7	(88)	(291)	)27	(318)
Brokered certificates of deposit	(47)	)51	4	174	(240)	(66)	224	(478)	(254)
Retail certificates of deposit	(90)	)—	(90)	(902)	)35	(937)	(2,515)	)247	(2,762)
Total deposit cost	(227)	)109	(118)	(1,081)	)80	(1,161)	(3,423)	)561	(3,984)
Borrowed funds:									
Short-term borrowings	4	(4)	)—	(4)	)1	(5)	(30)	)2	(28)
Long-term borrowings	6	4	10	191	(540)	(349)	74	(1,000)	(926)
Total borrowed funds cost	10	—	10	187	(541)	(354)	44	(998)	(954)
Total interest expense	(217)	)109	(108)	(894)	(621)	(1,515)	(3,379)	(1,559)	(4,938)
Net interest income	\$(1,102)	)\$821	\$(281)	\$(3,165)	)\$3,217	\$52	\$(2,664)	)\$2,776	\$112

(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 changes in each.

(2) Presented on a fully tax-equivalent basis.

Table of Contents

The yield curve remained relatively flat and interest rates remained low during the third quarter of 2012, which placed greater downward pressure on Peoples' net interest income and margin. The yield on investment securities declined further in the third quarter of 2012, as the impact of lower reinvestment rates was magnified by higher levels of principal pre-payments within mortgage-backed securities. During the third quarter of 2012, the average monthly principal cash flow received by Peoples from its investment portfolio was approximately \$14.2 million, compared to a monthly average of approximately \$9.0 million during the same period in 2011. The cash flow received from the investment portfolio over the last twelve months was \$147.1 million, which had an average yield of 3.95% and was reinvested in securities with a yield in the range of 2.0% to 2.5%. Similar conditions within Peoples' loan portfolio resulted in total asset yields declining by 18 basis points during the quarter.

Peoples' funding costs have benefited from the extinguishment of \$35.0 million of higher-cost wholesale borrowings in the first quarter of 2012 and the maturity of special higher-cost retail CDs. Most of the CDs were part of a special product offering in 2008 and had an average cost of 3.87%. 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. Future options to reduce funding costs are limited. Absent further reductions in funding costs, asset yield compression may continue to outpace reductions in funding costs, resulting in further net interest income and margin compression. Peoples remains diligent on minimizing the impact of margin compression on net interest income, with earning asset growth to be the key driver. Peoples will evaluate opportunities on the liability side of the balance sheet, such as prepaying long-term borrowings.

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

## Provision for Loan Losses

The following table details Peoples' provision for loan losses:

(Dollars in thousands)	Three Months Ended		Nine Months Ended			
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012		September 30, 2011
Provision for checking account overdrafts	\$144	\$80	\$165	\$212	\$271	
(Recovery of) provision for other loan losses	(1,100)	(1,200)	700	(4,425)	8,200	
Net (recovery of) provision for loan losses	\$(956)	\$(1,120)	\$865	\$(4,213)	\$8,471	
As a percentage of average gross loans (a)	(0.39)	%0.47	%0.36	% (0.59)	%1.19	%

(a) Presented on an annualized basis

The provision for, or recovery of, loan losses recorded represents the amount 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 recovery of loan losses recorded during the nine months 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".

Table of Contents

## Net Other (Losses) Gains

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

(Dollars in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net (loss) gain on OREO	\$—	\$(48	)\$419	\$8	\$(526 )
Gain on loans held-for-sale	—	—	—	—	468
Loss on debt extinguishment	—	—	—	(3,111	)—
Net (loss) gain on bank premises and equipment	(174	)5	(30 )	(176	)(49 )
Other gains	13	—	—	13	—
Net other (losses) gains	\$(161	)\$(43	)\$389	\$(3,266	)(107 )

The net losses on bank premises and equipment for the third quarter of 2012 was due to the write-down of \$99,000 related to a closed office location that is available for sale and asset write-offs of \$72,000 associated with the Sistersville acquisition.

## Non-Interest Income

Insurance income comprised the largest portion of third quarter 2012 non-interest income. The following table details Peoples' insurance income:

(Dollars in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Property and casualty insurance commissions	\$2,140	\$2,145	\$2,083	\$6,108	\$5,710
Performance-based commissions	44	63	—	1,026	944
Life and health insurance commissions	125	133	168	385	454
Credit life and A&H insurance commissions	30	40	49	93	122
Other fees and charges	28	57	24	144	91
Total insurance income	\$2,367	\$2,438	\$2,324	\$7,756	\$7,321

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 bulk of 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			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Overdraft and non-sufficient funds fees	\$1,935	\$1,894	\$2,235	\$5,569	\$6,023
Account maintenance fees	307	315	359	943	965
Other fees and charges	19	21	34	216	268
Total deposit account service charges	\$2,261	\$2,230	\$2,628	\$6,728	\$7,256

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. The lower overdraft and non-sufficient funds fees were largely due to customer behavior.



Table of Contents

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			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Fiduciary	\$1,149	\$1,137	\$1,050	\$3,355	\$3,192
Brokerage	416	312	335	1,155	927
Total trust and investment income	\$1,565	\$1,449	\$1,385	\$4,510	\$4,119

  

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
	Trust assets under management	\$874,293	\$847,962	\$853,444	\$821,659
Brokerage assets under management	398,875	309,852	284,453	262,196	249,550
Total managed assets	\$1,273,168	\$1,157,814	\$1,137,897	\$1,083,855	\$1,025,715
Quarterly average	\$1,203,285	\$1,138,261	\$1,116,327	\$1,061,484	\$1,077,804

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. Peoples also added approximately \$80 million in brokerage assets during the third quarter of 2012 and \$20 million in the second quarter of 2012 due to acquisitions completed during the quarters. The U.S. financial markets experienced a general increase during the third quarter, which also contributed to the increase in managed assets.

For the three and nine months ended September 30, 2012, mortgage banking income was up significantly, 72% and 81%, respectively, compared to the prior year periods. The increases were the result of higher production volumes driven mostly by refinancing activity. In the third quarter of 2012, Peoples sold approximately \$32 million of loans to the secondary market compared to \$13 million in the third quarter of 2011. For the nine months, Peoples sold \$86 million of loans in 2012 versus \$39 million in 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:

(Dollars in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Base salaries and wages	\$5,278	\$5,261	\$5,309	\$15,687	\$15,701
Sales-based and incentive compensation	1,672	1,527	1,201	4,544	3,278
Employee benefits	802	1,306	1,831	3,341	4,011
Stock-based compensation	117	259	90	602	186
Deferred personnel costs	(490)	(463)	(365)	(1,388)	(990)
Payroll taxes and other employment costs	672	525	635	1,925	2,095
Total salaries and employee benefit costs	\$8,051	\$8,415	\$8,701	\$24,711	\$24,281
Full-time equivalent employees:					
Actual at end of period	501	494	540	501	540
Average during the period	493	498	540	500	538

Base salaries and wages through nine months of 2012 have benefited from the reduction in full-time equivalent employees in recent quarters as part of Peoples' expense management efforts. Sales-based and incentive compensation was higher for both the three and nine months ended September 30, 2012 due primarily to expense accruals associated with corporate incentive plans, which are tied largely to Peoples' financial performance. Peoples also has incurred higher sales-based compensation corresponding with increased sales production within its mortgage banking, insurance and wealth



Table of Contents

management activities. This additional expense contributed to the year-over-year increase in sales-based and incentive compensation for both the quarter and year-to-date.

For the three and nine months ended September 30, 2012, employee benefit costs have benefited from lower employee medical benefit plan expenses, which are tied to claims activity. The non-recurrence of pension settlement charges in the third quarter of 2012 resulted in lower employee benefit costs. Management expects additional pension settlement charges in fourth quarter of 2012, with the amount expected to be substantially lower than the amounts incurred for the same period of 2011.

Second quarter 2012 stock-based compensation expense included \$153,000 of additional expense relating to equity-based incentive awards granted to key employees in prior years. Much of the additional expense was the result of actual forfeitures being lower than previously estimated, while a lesser portion related to awards granted in the first quarter of 2011 with performance-based vesting conditions. In prior quarters, Peoples did not record any expense related to these performance-based awards since management had determined it was not probable these awards would vest. However, the continued strong earnings performance in the second quarter of 2012 led management to conclude it was probable these awards would vest. Under US GAAP, Peoples was required to recognize the entire pro rata expense relating to these awards since the grant date in the second quarter. Stock-based compensation expense for the first quarter of 2012 included the entire cost of awards with time-based vesting which were granted in the first quarter to employees eligible for retirement on the grant date. On September 13, 2012, the Board of Directors announced a future grant of unrestricted common shares to all full-time and some part-time employees that do not already participate in the equity plan. The grant is anticipated to be for an aggregate of approximately 9,000 common shares and will have a grant date of October 30, 2012. As a result, the fourth quarter of 2012 expense will reflect the entire fair value of these awards.

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

(Dollars in thousands)	Three Months Ended			Nine Months Ended	
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Depreciation	\$490	\$510	\$485	\$1,497	\$1,479
Repairs and maintenance costs	331	434	383	1,078	1,196
Net rent expense	249	227	228	715	674
Property taxes, utilities and other costs	353	332	357	1,068	1,077
Total net occupancy and equipment expense	\$1,423	\$1,503	\$1,453	\$4,358	\$4,426

For the nine months ended September 30, 2012, professional fees were \$246,000 higher compared to the prior year due to legal and consulting costs incurred associated with acquisition opportunities.

Peoples has experienced a steady increase in electronic banking expense corresponding with debit card usage by customers. However, the additional expenses have been more than offset by higher electronic banking revenue during the year. As a result, management considers the expense increase reasonable.

Marketing expense, which includes advertising, donation and other public relations costs, was up year-over-year for both the three and nine months ended September 30, 2012. These variances were the result of approximately \$73,000 of costs recorded in the third quarter of 2012 associated with the introduction of Peoples' new brand and 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 both the first and second quarters of 2012, Peoples made a \$100,000 contribution to its foundation, compared to a \$100,000 contribution in the third quarter of 2011.

Other non-interest expense was up 23% over the linked quarter, 35% over the third quarter of 2011 and 16% on a year-to-date basis. The increases were due largely to the deconversion costs of \$158,000 that were incurred in the third quarter of 2012 as part of the Sistersville acquisition.

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 70.06% for the third quarter of 2012 and 68.36% through nine months of 2012. Both of these ratios were higher than the same periods in 2011, due mostly to the acquisition-related costs. Management continues to target an efficiency ratio in the range of 66% to 68% for 2012.





Table of Contents

## Income Tax Expense

For the nine months ended September 30, 2012, Peoples recorded income tax expense of \$7.9 million, for an effective tax rate of 32.3%. This effective tax rate represents management's current estimate of the rate for the entire year. In comparison, Peoples recorded income tax expense of \$3.3 million for the same period in 2011, for an effective tax rate of 27.3%. The key driver of the higher effective tax rate was the year-over-year increase in pre-tax earnings.

## 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 and therefore excludes the provision for loan losses and all gains and losses included in earnings. 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 measure to the amounts reported in Peoples' consolidated financial statements for the periods presented:

(Dollars in thousands)	Three Months Ended		Nine Months Ended			
	September 30, 2012	June 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011	
Pre-Provision Net Revenue:						
Income before income taxes	\$ 7,134	\$ 7,501	\$ 5,806	\$ 24,371	\$ 11,974	
Add: provision for loan losses	—	—	865	—	8,471	
Add: loss on debt extinguishment	—	—	—	3,111	—	
Add: loss on loans held-for-sale and OREO	—	48	—	—	526	
Add: loss on other assets	174	—	30	176	49	
Less: recovery of loan losses	956	1,120	—	4,213	—	
Less: gain on loans held-for-sale and OREO	—	—	419	8	468	
Less: net gain on securities transactions	112	—	57	3,275	473	
Less: gain on other assets	13	5	—	13	—	
Pre-provision net revenue	\$ 6,227	\$ 6,424	\$ 6,225	\$ 20,149	\$ 20,079	
Pre-provision net revenue	\$ 6,227	\$ 6,424	\$ 6,225	\$ 20,149	\$ 20,079	
Total average assets	1,847,591	1,823,551	1,802,218	1,825,832	1,811,809	
Pre-provision net revenue to total average assets (a)	1.34	% 1.42	% 1.37	% 1.47	% 1.48	%

(a) Presented on an annualized basis

## FINANCIAL CONDITION

## Cash and Cash Equivalents

At September 30, 2012, Peoples' interest-bearing deposits in other banks were up compared to both the linked quarter and prior year end. This increase was largely the result of \$15.9 million of excess cash reserves being maintained at the Federal Reserve Bank. In comparison, Peoples maintained no excess cash reserves at June 30, 2012 and \$4.4 million at December 31, 2011, respectively. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

Through nine months of 2012, Peoples' total cash and cash equivalents increased \$20.3 million, as cash provided by Peoples' operating and financing activities exceeded the \$6.7 million of cash used by investing activities. Investing activities used \$6.7 million of cash to fund the \$20.5 million net loan growth, while proceeds from sales and principal payments of investment securities exceeded the purchases of investment securities by \$18.1 million. Within Peoples' financing activities, deposit growth generated \$61.9 million of cash which was used primarily to reduce borrowed funds by \$53.1 million and to repurchase the warrant held by the U.S Treasury.



Table of Contents

Through nine months of 2011, Peoples' total cash and cash equivalents decreased \$42.9 million, due mostly to cash used in financing activities for the partial TARP Capital Redemption in the amount of \$21.0 million and a \$6.7 million reduction in borrowed funds. Investing activities used net cash of \$25.0 million, primarily purchases of securities for the investment portfolio, which was more than offset by cash from operating activities of \$32.8 million.

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)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	\$28	\$30	\$31	\$32	\$34
U.S. government sponsored agencies	575	648	702	13,037	13,004
States and political subdivisions	42,154	39,351	34,175	35,745	38,112
Residential mortgage-backed securities	472,439	525,391	522,659	527,003	539,094
Commercial mortgage-backed securities	61,345	42,410	36,230	37,289	36,401
Bank-issued trust preferred securities	10,105	12,744	12,901	12,211	12,681
Equity securities	2,714	3,412	3,338	3,254	3,333
Total fair value	\$589,360	\$623,986	\$610,036	\$628,571	\$642,659
Total amortized cost	\$579,722	\$614,131	\$602,817	\$617,128	\$633,279
Net unrealized gain	\$9,638	\$9,855	\$7,219	\$11,443	\$9,380
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	\$3,862	\$3,864	\$3,524	\$3,525	\$2,966
Residential mortgage-backed securities	20,770	25,344	23,902	12,776	—
Commercial mortgage-backed securities	7,940	7,964	6,872	—	—
Total amortized cost	\$32,572	\$37,172	\$34,298	\$16,301	\$2,966
Total investment portfolio:					
Amortized cost	\$612,294	\$651,303	\$637,115	\$633,429	\$636,245
Carrying value	\$621,932	\$661,158	\$644,334	\$644,872	\$645,625

Peoples has maintained the size of its investment portfolio over the last several quarters due to the lack of meaningful loan growth. The 6% decrease in the investment portfolio during the quarter was due to the timing of the sale of approximately \$50 million securities late in the quarter for which the funds were reinvested in early fourth quarter 2012. In 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.

Table of Contents

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 was as follows:

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Residential	\$40,827	\$46,161	\$52,900	\$58,660	\$68,686
Commercial	—	997	1,170	1,288	1,407
Total fair value	\$40,827	\$47,158	\$54,070	\$59,948	\$70,093
Total amortized cost	\$38,681	\$45,512	\$53,125	\$59,148	\$68,690
Net unrealized gain	\$2,146	\$1,646	\$945	\$800	\$1,403

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 the third quarter of 2012 and prior quarters. At September 30, 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 prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

## Loans

The following table provides information regarding outstanding loan balances:

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
Gross portfolio loans:						
Commercial real estate	\$379,561	\$394,323	\$394,034	\$410,352	\$424,741	
Commercial and industrial	172,068	161,893	150,431	140,857	140,058	
Real estate construction	50,804	43,775	43,510	30,577	26,751	
Residential real estate	233,501	212,813	218,745	219,619	222,374	
Home equity lines of credit	51,137	48,414	48,067	47,790	48,085	
Consumer	100,116	92,334	86,965	87,531	87,072	
Deposit account overdrafts	1,580	1,726	2,351	1,780	1,712	
Total portfolio loans	\$988,767	\$955,278	\$944,103	\$938,506	\$950,793	
Percent of loans to total loans:						
Commercial real estate	38.4	%41.2	%41.8	%43.7	%44.6	%
Commercial and industrial	17.4	%16.9	%15.9	%15.0	%14.7	%
Real estate construction	5.1	%4.6	%4.6	%3.3	%2.8	%
Residential real estate	23.6	%22.3	%23.2	%23.4	%23.4	%
Home equity lines of credit	5.2	%5.1	%5.1	%5.1	%5.1	%
Consumer	10.1	%9.7	%9.2	%9.3	%9.2	%
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	\$307,052	\$296,025	\$281,015	\$275,715	\$262,992	

Gross portfolio loans increased \$33.5 million over the linked quarter due to the Sistersville acquisition which added \$30.8 million, including \$25.3 million in residential real estate loans and \$4.3 million in non-mortgage consumer loans. Commercial real estate loan balances decreased due largely to a \$7.2 million loan being paid off in the third quarter of 2012. The year-to-date decline occurred as a result of two impaired relationships with aggregate principal balances of \$8.1 million being paid off in the first quarter of 2012. Commercial and industrial loan balances continued to experience steady growth

Table of Contents

during 2012 due to commercial lending opportunities within Peoples' primary market area. Commercial credit line utilization is generally lower in the fourth quarter which may cause commercial and industrial loan balances to decrease slightly compared to September 30, 2012. The majority of the growth in real estate construction loan balances was a result of advances on loans with current relationships. The majority of Peoples' residential mortgage originations continues to be sold to the secondary market, due to customer preference for long-term, fixed-rate loans. Peoples does not intend to sell any of the residential real estate loans acquired as part of the Sistersville acquisition. Consumer loan balances, which consist mostly of loans to finance automobile purchases, have increased in 2012 due largely to Peoples placing greater emphasis on its consumer lending activity in recent quarters.

**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.

Loans secured by commercial real estate, including commercial construction loans, continue to comprise the largest portion of Peoples' loan portfolio. However, the Sistersville acquisition has created a more diversified portfolio with its large residential real estate portfolio. The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at September 30, 2012:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
<b>Real Estate Construction Loans:</b>					
Assisted living facilities and nursing homes	\$ 12,623	\$ 4,018	\$ 16,641	26.3	%
Health care facilities	11,650	892	12,542	19.8	%
Apartment complexes	7,821	743	8,564	13.5	%
Residential property	1,737	5,763	7,500	11.9	%
Mixed commercial use facilities - non-owner occupied	7,408	112	7,520	11.9	%
Other	9,565	935	10,500	16.6	%
<b>Total real estate construction</b>	<b>\$ 50,804</b>	<b>\$ 12,463</b>	<b>\$ 63,267</b>	<b>100.0</b>	<b>%</b>

Table of Contents

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
Commercial Real Estate Loans:					
Lodging and lodging related	\$63,479	\$25	\$63,504	16.3	%
Apartment complexes	41,682	229	41,911	10.7	%
Office buildings and complexes:					
Owner occupied	6,107	179	6,286	1.6	%
Non-owner occupied	29,623	264	29,887	7.6	%
Total office buildings and complexes	35,730	443	36,173	9.2	%
Light industrial facilities:					
Owner occupied	26,900	1,285	28,185	7.2	%
Non-owner occupied	9,330	—	9,330	2.4	%
Total light industrial facilities	36,230	1,285	37,515	9.6	%
Retail facilities:					
Owner occupied	11,375	203	11,578	3.0	%
Non-owner occupied	18,793	332	19,125	4.9	%
Total retail facilities	30,168	535	30,703	7.9	%
Assisted living facilities and nursing homes	20,311	—	20,311	5.2	%
Mixed commercial use facilities:					
Owner occupied	8,999	226	9,225	2.4	%
Non-owner occupied	14,407	18	14,425	3.7	%
Total mixed commercial use facilities	23,406	244	23,650	6.1	%
Day care facilities:					
Owner occupied	8,103	—	8,103	2.1	%
Non-owner occupied	11,630	—	11,630	3.0	%
Total day care facilities	19,733	—	19,733	5.1	%
Health care facilities:					
Owner occupied	7,593	10	7,603	1.9	%
Non-owner occupied	4,900	—	4,900	1.3	%
Total health care facilities	12,493	10	12,503	3.2	%
Restaurant facilities:					
Owner occupied	10,446	41	10,487	2.7	%
Non-owner occupied	1,755	—	1,755	0.4	%
Total restaurant facilities	12,201	41	12,242	3.1	%
Other	84,128	8,801	92,929	23.6	%
Total commercial real estate	\$379,561	\$11,613	\$391,174	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 September 30, 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)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
Commercial real estate	\$ 14,973	\$ 16,212	\$ 17,496	\$ 18,947	\$ 20,085	
Commercial and industrial	1,667	1,524	1,457	2,434	2,363	
Residential real estate	837	1,090	1,216	1,119	1,421	
Home equity lines of credit	470	478	477	541	548	
Consumer	480	456	423	449	574	
Deposit account overdrafts	180	165	180	227	222	
Total allowance for loan losses	\$ 18,607	\$ 19,925	\$ 21,249	\$ 23,717	\$ 25,213	
As a percentage of total loans	1.88	% 2.09	% 2.25	% 2.53	% 2.65	%

The addition of \$30.8 million of loans from the Sistersville acquisition, which did not require an allowance at September 30, 2012, caused a 6 basis point reduction in the allowance for loan losses as a percent of total loans ratio. 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. In the third quarter of 2012, the allowance for loan losses continued to be reduced as a result of 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, due to principal paydowns and improvements in borrowers' financial conditions. Total criticized loans decreased \$43.2 million or 28% since year-end 2011, reflecting \$30.5 million in principal paydowns. Peoples upgraded \$9.9 million in loans during 2012 based upon the financial condition of the borrowers. Net charge-offs also remained at or below Peoples' long-term historical rate for the fifth 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					
	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
<b>Gross charge-offs:</b>						
Commercial real estate	\$266	\$889	\$1,957	\$1,534	\$440	
Commercial and industrial	—	33	—	29	67	
Residential real estate	329	354	207	340	296	
Real estate construction	—	—	—	—	—	
Home equity lines of credit	17	6	71	21	15	
Consumer	83	131	214	252	229	
Deposit account overdrafts	163	132	122	176	195	
<b>Total gross charge-offs</b>	<b>858</b>	<b>1,545</b>	<b>2,571</b>	<b>2,352</b>	<b>1,242</b>	
<b>Recoveries:</b>						
Commercial real estate	127	805	1,606	1,016	93	
Commercial and industrial	143	100	48	101	83	
Residential real estate	76	228	304	38	29	
Real estate construction	—	—	—	—	—	
Home equity lines of credit	9	7	7	14	11	
Consumer	107	164	188	126	170	
Deposit account overdrafts	34	37	87	34	38	
<b>Total recoveries</b>	<b>496</b>	<b>1,341</b>	<b>2,240</b>	<b>1,329</b>	<b>424</b>	
<b>Net charge-offs (recoveries):</b>						
Commercial real estate	139	84	351	518	347	
Commercial and industrial	(143)	(67)	(48)	(72)	(16)	
Residential real estate	253	126	(97)	302	267	
Real estate construction	—	—	—	—	—	
Home equity lines of credit	8	(1)	64	7	4	
Consumer	(24)	(33)	26	126	59	
Deposit account overdrafts	129	95	35	142	157	
<b>Total net charge-offs</b>	<b>\$362</b>	<b>\$204</b>	<b>\$331</b>	<b>\$1,023</b>	<b>\$818</b>	
<b>Ratio of net charge-offs to average loans (annualized):</b>						
Commercial real estate	0.06	% 0.04	% 0.15	% 0.22	% 0.15	%
Commercial and industrial	(0.06)	)(0.03	)(0.02	)(0.03	)(0.01	)(%
Residential real estate	0.11	% 0.05	% (0.04	)(0.13	% 0.11	%
Real estate construction	—	% —	% —	% —	% —	%
Home equity lines of credit	—	% —	% 0.03	% —	% —	%
Consumer	(0.01)	)(0.01	)(0.01	% 0.05	% 0.02	%
Deposit account overdrafts	0.05	% 0.04	% 0.01	% 0.06	% 0.07	%
<b>Total</b>	<b>0.15</b>	<b>% 0.09</b>	<b>% 0.14</b>	<b>% 0.43</b>	<b>% 0.34</b>	<b>%</b>

Table of Contents

The following table details Peoples' nonperforming assets:

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
Loans 90+ days past due and accruing:						
Commercial real estate	\$—	\$37	\$—	\$—	\$—	
Commercial and industrial	27	—	—	—	20	
Residential real estate	—	—	—	—	126	
Consumer	—	14	—	—	—	
Total	27	51	—	—	146	
Nonaccrual loans:						
Commercial real estate	9,846	9,720	12,906	20,587	22,657	
Commercial and industrial	408	474	1,949	2,262	2,468	
Residential real estate	2,884	3,693	3,805	3,440	3,996	
Home equity	15	215	200	349	271	
Consumer	10	—	—	—	2	
Total	13,163	14,102	18,860	26,638	29,394	
Troubled debt restructurings:						
Commercial real estate	1,891	2,416	1,302	2,959	3,001	
Commercial and industrial	8	—	—	—	—	
Residential real estate	419	49	330	425	562	
Total	2,318	2,465	1,632	3,384	3,563	
Total nonperforming loans (NPLs)	15,508	16,618	20,492	30,022	33,103	
Other real estate owned (OREO)						
Commercial	815	815	869	2,194	3,552	
Residential	358	325	—	—	115	
Total	1,173	1,140	869	2,194	3,667	
Total nonperforming assets (NPAs)	\$16,681	\$17,758	\$21,361	\$32,216	\$36,770	
NPLs as a percent of total loans	1.55	% 1.73	% 2.16	% 3.19	% 3.47	%
NPAs as a percent of total assets	0.89	% 0.97	% 1.18	% 1.80	% 2.04	%
NPAs as a percent of gross loans and OREO	1.66	% 1.85	% 2.25	% 3.41	% 3.84	%
Allowance for loan losses as a percent of NPLs	119.98	% 119.90	% 103.69	% 79.00	% 76.16	%

The decrease in nonperforming assets during the third quarter of 2012 was due mostly to two commercial real estate loans, with one borrower, being paid-off. The relationship had an aggregate outstanding principal balance of \$0.9 million at June 30, 2012, which was classified as troubled debt restructurings. During the first quarter of 2012, nonaccrual commercial real estate loans with aggregate balances of \$8.1 million at year-end 2011 were paid off, which contributed to the year-to-date decline. These reductions also drove a decrease in total criticized loans, which were down 29% at September 30, 2012 versus year-end 2011.

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



Table of Contents

## Deposits

The following table details Peoples' deposit balances:

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Interest-bearing deposits:					
Retail certificates of deposit	\$413,837	\$411,401	\$392,503	\$411,247	\$415,190
Money market deposit accounts	254,702	249,608	255,907	268,410	254,012
Governmental/public funds	154,835	155,881	161,798	122,916	140,357
Savings accounts	172,715	161,664	155,097	138,383	132,182
Interest-bearing demand accounts	112,854	112,476	110,731	106,233	100,770
Total retail interest-bearing deposits	1,108,943	1,091,030	1,076,036	1,047,189	1,042,511
Brokered certificates of deposits	55,168	54,639	54,069	64,054	64,470
Total interest-bearing deposits	1,164,111	1,145,669	1,130,105	1,111,243	1,106,981
Non-interest-bearing deposits	288,376	272,627	268,444	239,837	235,585
Total deposits	\$1,452,487	\$1,418,296	\$1,398,549	\$1,351,080	\$1,342,566

The Sistersville acquisition added \$38.5 million of interest-bearing deposits, divided almost equally among certificates of deposits ("CDs"), money market and savings accounts, and \$0.9 million of non-interest-bearing deposits.

Also during 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 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.

Non-interest-bearing deposits continued to grow in the third quarter of 2012, due largely to higher commercial deposit balances. The increased balances reflect Peoples' increased focus on obtaining the deposit relationships of its commercial clients. Since year-end 2011, non-interest-bearing commercial deposit balances have increased \$26.1 million, of which \$7.7 million of this growth occurred during the third quarter.

## Borrowed Funds

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

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Short-term borrowings:					
FHLB advances	\$—	\$7,500	\$—	\$8,500	\$17,300
Retail repurchase agreements	37,651	35,847	44,905	43,143	41,255
Total short-term borrowings	37,651	43,347	44,905	51,643	58,555
Long-term borrowings:					
FHLB advances	66,270	66,471	66,652	77,312	78,970
National market repurchase agreements	40,000	40,000	40,000	65,000	65,000
Total long-term borrowings	106,270	106,471	106,652	142,312	143,970
Subordinated notes held by subsidiary trust	22,627	22,618	22,609	22,600	22,592
Total borrowed funds	\$166,548	\$172,436	\$174,166	\$216,555	\$225,117

Any short-term FHLB advances would consist of overnight borrowings by Peoples being maintained in connection with the management of Peoples' daily liquidity position; however, there were none at September 30, 2012. 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.



Table of Contents

## Capital/Stockholders' Equity

During the third quarter of 2012, Peoples' total stockholders' equity benefited from earnings exceeding dividends declared. Regulatory capital ratios and tangible capital ratios experienced modest reductions in the third quarter due to the Sistersville acquisition. The increase in stockholders' equity through nine months of 2012 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 during the first quarter of 2012.

At September 30, 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)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
Capital Amounts:						
Tier 1 common	\$157,520	\$156,565	\$153,180	\$142,521	\$139,828	
Tier 1	180,147	179,183	175,789	165,121	180,294	
Total (Tier 1 and Tier 2)	195,083	194,307	190,694	180,053	195,485	
Net risk-weighted assets	\$1,136,532	\$1,124,982	\$1,108,633	\$1,111,443	\$1,127,976	
Capital Ratios:						
Tier 1 common	13.86	% 13.92	% 13.82	% 12.82	% 12.40	%
Tier 1	15.85	% 15.93	% 15.86	% 14.86	% 15.98	%
Total (Tier 1 and Tier 2)	17.16	% 17.27	% 17.20	% 16.20	% 17.33	%
Leverage ratio	10.13	% 10.18	% 10.05	% 9.45	% 10.37	%

During the second quarter of 2012, the federal bank regulatory agencies jointly issued three notices of proposed rulemaking ("NPRs") that would revise and replace the agencies' current capital rules. The impact of these NPRs, if adopted, would result in higher risk-based and leverage capital requirements consistent with agreements reached by the Basel Committee on Banking Supervision, referred to as Basel III. Most of the provisions contained within the NPRs would be phased-in over periods ranging from 3 to 10 years. Management continues to evaluate the potential impact of the NPRs to ensure the capital levels of both Peoples and Peoples Bank remain higher than the amounts needed to be considered "well capitalized". However, the final regulations ultimately applicable to Peoples and Peoples Bank may be substantially different from those contemplated in the NPRs.

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.

Table of Contents

The following table reconciles the calculation of these non-GAAP financial measures to amounts reported in Peoples' Consolidated Financial Statements:

(Dollars in thousands)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	
<b>Tangible Equity:</b>						
Total stockholders' equity, as reported	\$218,835	\$214,623	\$208,666	\$206,657	\$224,530	
Less: goodwill and other intangible assets	68,422	65,383	64,429	64,475	64,489	
Tangible equity	\$150,413	\$149,240	\$144,237	\$142,182	\$160,041	
<b>Tangible Common Equity:</b>						
Tangible equity	\$150,413	\$149,240	\$144,237	\$142,182	\$160,041	
Less: preferred stockholders' equity	—	—	—	—	17,875	
Tangible common equity	\$150,413	\$149,240	\$144,237	\$142,182	\$142,166	
<b>Tangible Assets:</b>						
Total assets, as reported	\$1,866,510	\$1,831,359	\$1,805,923	\$1,794,161	\$1,805,743	
Less: goodwill and other intangible assets	68,422	65,383	64,429	64,475	64,489	
Tangible assets	\$1,798,088	\$1,765,976	\$1,741,494	\$1,729,686	\$1,741,254	
<b>Tangible Book Value per Share:</b>						
Tangible common equity	\$150,413	\$149,240	\$144,237	\$142,182	\$142,166	
Common shares outstanding	10,534,445	10,526,954	10,521,548	10,507,124	10,489,400	
Tangible book value per share	\$14.28	\$14.18	\$13.71	\$13.53	\$13.55	
<b>Tangible Equity to Tangible Assets Ratio:</b>						
Tangible equity	\$150,413	\$149,240	\$144,237	\$142,182	\$160,041	
Tangible assets	\$1,798,088	\$1,765,976	\$1,741,494	\$1,729,686	\$1,741,254	
Tangible equity to tangible assets	8.37	%8.45	%8.28	%8.22	%9.19	%
<b>Tangible Common Equity to Tangible Assets Ratio:</b>						
Tangible common equity	\$150,413	\$149,240	\$144,237	\$142,182	\$142,166	
Tangible assets	\$1,798,088	\$1,765,976	\$1,741,494	\$1,729,686	\$1,741,254	
Tangible common equity to tangible assets	8.37	%8.45	%8.28	%8.22	%8.16	%

**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,

Table of Contents

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					
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
300	\$9,934	19.9 %	\$7,061	13.9 %	\$(9,075)	(4.0 %)	\$(8,855)	(4.1 %)
200	8,300	16.6 %	6,250	12.3 %	3,381	1.5 %	2,036	0.9 %
100	5,616	11.2 %	4,548	9.0 %	9,655	4.2 %	7,728	3.6 %

At September 30, 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' Consolidated 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 Board increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates.

**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 September 30, 2012, Peoples had liquid assets of \$193.3 million, which represented 9.7% of total assets and unfunded commitments. This amount exceeded the minimal level of \$39.8 million, or 2% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional \$44.1 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)	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Home equity lines of credit	\$43,719	\$42,043	\$40,499	\$44,850	\$44,481
Unadvanced construction loans	14,261	17,578	18,118	10,023	11,954
Other loan commitments	142,269	112,604	112,436	135,110	119,738
Loan commitments	200,249	172,225	171,053	189,983	176,173
Standby letters of credit	\$36,218	\$40,330	\$39,862	\$40,821	\$41,269

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

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Peoples’ management, with the participation of Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples’ disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of September 30, 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 September 30, 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 September 30, 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>
July 1 - 31, 2012	183	(2) \$ 21.79	(2) —	—
August 1 - 31, 2012	565	(2) \$ 22.10	(2) —	—
September 1 - 30, 2012	—	\$—	—	—
Total	748	\$ 22.02	—	—

(1) Peoples’ Board of Directors has not authorized any stock repurchase plans or programs for 2012.

Information reflects solely common shares purchased in open market transactions by Peoples Bank under the

(2) 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 or furnished 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 56.

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: October 25, 2012

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

Date: October 25, 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 SEPTEMBER 30, 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 amendment 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 SEPTEMBER 30, 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
10.1	Form of Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan Time-Based Restricted Stock Award Agreement (for Executives) used and to be used to evidence time-based restricted stock awards granted to executive officers of Peoples Bancorp Inc.	Filed herewith
10.2	Peoples Bancorp Inc. First Amendment to the Second Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries (Amended Effective October 25, 2012)	Filed herewith
12	Statements regarding Computation of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends Appearing in Quarterly Report on Form 10-Q	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]	Filed herewith
32	Section 1350 Certifications	Furnished herewith
101.INS	XBRL Instance Document	Submitted electronically herewith #
101.SCH	XBRL Taxonomy Extension Schema Document	Submitted electronically herewith #
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Submitted electronically herewith #
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Submitted electronically herewith #
101.PRE	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 September 30, 2012 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i)

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

Consolidated Balance Sheets (unaudited) at September 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2012 and 2011; (iv) Consolidated Statement of Stockholders' Equity (unaudited) for the nine months ended September 30, 2012; (v) Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2012 and 2011; and (vi) Notes to the Unaudited Consolidated Financial Statements.

In accordance with Rule 406T of SEC Regulation S-T, the XBRL related documents in Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 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.