

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

OR

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

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

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

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

138 Putnam Street, P. O. Box 738,

45750

Marietta, Ohio

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

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

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

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

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

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

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

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

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

## PART I – FINANCIAL INFORMATION

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

| (Dollars in thousands)   | March 31,<br>2012 | December 31,<br>2011 |
|--|-------------------|----------------------|
| <b>Assets</b>  |                   |                      |
| Cash and cash equivalents:   |                   |                      |
| Cash and due from banks  | \$29,870          | \$32,346             |
| Interest-bearing deposits in other banks   | 8,085             | 6,604                |
| Total cash and cash equivalents  | 37,955            | 38,950               |
| Available-for-sale investment securities, at fair value (amortized cost of \$602,817 at March 31, 2012 and \$617,128 at December 31, 2011)   | 610,036           | 628,571              |
| Held-to-maturity investment securities, at amortized cost (fair value of \$34,634 at March 31, 2012 and \$16,705 at December 31, 2011)   | 34,298            | 16,301               |
| Other investment securities, at cost   | 24,356            | 24,356               |
| Total investment securities  | 668,690           | 669,228              |
| Loans, net of deferred fees and costs  | 944,103           | 938,506              |
| Allowance for loan losses  | (21,249)          | (23,717)             |
| Net loans  | 922,854           | 914,789              |
| Loans held for sale  | 5,167             | 3,271                |
| Bank premises and equipment, net   | 23,863            | 23,905               |
| Bank owned life insurance  | 49,392            | 49,384               |
| Goodwill   | 62,520            | 62,520               |
| Other intangible assets  | 1,909             | 1,955                |
| Other assets   | 33,573            | 30,159               |
| Total assets   | \$1,805,923       | \$1,794,161          |
| <b>Liabilities</b>   |                   |                      |
| Deposits:  |                   |                      |
| Non-interest-bearing   | \$268,444         | \$239,837            |
| Interest-bearing   | 1,130,105         | 1,111,243            |
| Total deposits   | 1,398,549         | 1,351,080            |
| Short-term borrowings  | 44,905            | 51,643               |
| Long-term borrowings   | 106,652           | 142,312              |
| Junior subordinated notes held by subsidiary trust   | 22,609            | 22,600               |
| Accrued expenses and other liabilities   | 24,542            | 19,869               |
| Total liabilities  | 1,597,257         | 1,587,504            |
| <b>Stockholders' Equity</b>  |                   |                      |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at March 31, 2012 and December 31, 2011  | —                 | —                    |
| Common stock, no par value, 24,000,000 shares authorized, 11,129,412 shares issued at March 31, 2012 and 11,122,247 shares issued at December 31, 2011, including shares in treasury | 166,065           | 166,969              |
| Retained earnings  | 59,065            | 53,580               |

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

See Notes to the Unaudited Consolidated Financial Statements

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

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

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

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

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

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

See Notes to the Unaudited Consolidated Financial Statements



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## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

See Notes to the Unaudited Consolidated Financial Statements

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

Note 1 Summary of Significant Accounting Policies

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

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

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

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

Note 2 Fair Value of Financial Instruments

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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

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

Assets measured at fair value on a recurring basis comprised the following at March 31, 2012:

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

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

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

**Impaired Loans:** Impaired loans are measured and reported at fair value when management believes collection of contractual interest and principal payments is doubtful. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 inputs). At March 31, 2012, impaired loans with an aggregate outstanding principal balance of \$5.8 million were measured and reported at a fair value of \$5.5 million. During the three months ended March 31, 2012, Peoples recognized losses on impaired loans of \$0.4 million through the allowance for loan losses.

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

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

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

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

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

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

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

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

### Note 3 Investment Securities

#### Available-for-sale

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

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

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

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

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

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

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

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

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

December 31, 2011

Obligations of:

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

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

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

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

Of the positions with a fair value less than 90% of their book value, three of the nine securities were mortgage-backed securities issued by U.S government sponsored enterprises. The remaining securities were limited to three bank-issued trust preferred securities, which had an aggregate book value of approximately \$3.0 million and fair value of \$2.2 million at March 31, 2012, and three variable rate residential mortgage-backed securities with book and market values of \$2.2 million and \$1.6 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at March 31, 2012. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

| (Dollars in thousands)                 | Within 1 Year | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total   |
|--|---------------|--------------|---------------|---------------|---------|
| Amortized cost                         |               |              |               |               |         |
| Obligations of:                        |               |              |               |               |         |
| U.S. Treasury and government agencies  | \$—           | \$11         | \$20          | \$—           | \$31    |
| U.S. government sponsored agencies     | —             | 655          | —             | —             | 655     |
| States and political subdivisions      | 1,173         | 3,464        | 9,905         | 16,622        | 31,164  |
| Residential mortgage-backed securities | 125           | 1,073        | 50,744        | 468,671       | 520,613 |
| Commercial mortgage-backed securities  | —             | —            | 18,398        | 16,855        | 35,253  |

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

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

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

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

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

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

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

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at March 31, 2012. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

| (Dollars in thousands)                 | Within 1 Year | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total    |   |
|--|---------------|--------------|---------------|---------------|----------|---|
| Amortized cost                         |               |              |               |               |          |   |
| Obligations of:                        |               |              |               |               |          |   |
| States and political subdivisions      | \$—           | \$—          | \$—           | \$3,524       | \$3,524  |   |
| Residential mortgage-backed securities | —             | —            | —             | 23,902        | 23,902   |   |
| Commercial mortgage-backed securities  | —             | —            | —             | 6,872         | 6,872    |   |
| Total held-to-maturity securities      | \$—           | \$—          | \$—           | \$34,298      | \$34,298 |   |
| Fair value                             |               |              |               |               |          |   |
| Obligations of:                        |               |              |               |               |          |   |
| States and political subdivisions      | \$—           | \$—          | \$—           | \$3,811       | \$3,811  |   |
| Residential mortgage-backed securities | —             | —            | —             | 23,947        | 23,947   |   |
| Commercial mortgage-backed securities  | —             | —            | —             | 6,876         | 6,876    |   |
| Total held-to-maturity securities      | \$—           | \$—          | \$—           | \$34,634      | \$34,634 |   |
| Total average yield                    | —             | %—           | %—            | %3.04         | %3.04    | % |

Other Securities

Peoples' other investment securities on the Consolidated Balance Sheets consisted solely of restricted equity securities issued by the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB"). These securities are carried at cost since they do not have readily determinable fair values due to their restricted nature and Peoples does not exercise significant influence over the entities.

Pledged Securities

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

Note 4 Loans

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

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

Peoples has acquired various loans through business combinations for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments



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

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

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$184.0 million and \$184.8 million at March 31, 2012 and December 31, 2011, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$162.3 million and \$124.0 million at March 31, 2012 and December 31, 2011, respectively.

Nonaccrual and Past Due Loans

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

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

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

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

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

Credit Quality Indicators

As discussed in Note 1 of Peoples' 2011 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

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

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

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

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

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

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

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

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

Impaired Loans

The following tables summarize loans classified as impaired:

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

At March 31, 2012, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDRs"). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.

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

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

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

The following table presents those loans modified in a TDR over the last twelve months that subsequently defaulted (i.e., 90 days or more past due following a modification) during the three months ended March 31, 2012:

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

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

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

Allowance for Loan Losses

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

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

Period-end amount allocated to:

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

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

Period-end amount allocated to:

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

Note 5 Long-Term Borrowings

Long-term borrowings consisted of the following at:

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

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

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

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

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

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

#### Note 6 Stockholders' Equity

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

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

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

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shares at an exercise price of \$18.66 per share (subject to certain anti-dilution and other adjustments), for an aggregate purchase price of \$39 million in cash in connection with Peoples' participation in the U.S. Treasury's TARP Capital Purchase Program. The entire 39,000 Series A Preferred Shares were repurchased during 2011 at an aggregate price of \$39 million.

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

Accumulated Other Comprehensive (Loss) Income

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

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

Note 7 Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation pay over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. All retirees are eligible for health benefits, however, Peoples is only pays 100% of the cost for those individuals who retired before January 1, 1993. For all others, the retiree is responsible for most, if not all, of the cost of medical benefits. Peoples' policy is to fund the cost of the benefits as they arise.

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

| (Dollars in thousands)         | Pension Benefits<br>Three Months Ended<br>March 31, |       | Postretirement Benefits<br>Three Months Ended<br>March 31, |       |
|--------------------------------|---|-------|--|-------|
|                                | 2012  | 2011  | 2012   | 2011  |
| Interest cost                  | 152   | 172   | 2  | 3     |
| Expected return on plan assets | (196  | )(280 | ) —  | —     |
| Amortization of net loss       | 39  | 8     | (2   | )(2 ) |
| Net periodic benefit cost      | \$(5  | )(100 | ) \$—  | \$1   |

Note 8 Stock-Based Compensation

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

common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

#### Stock Options

Under the provisions of the 2006 Equity Plan and predecessor stock option plans, the exercise price per share of any stock option granted may not be less than the grant date fair market value of the underlying common shares. All stock options granted to both employees and non-employee directors expire ten years from the date of grant. The most recent stock option grants to employees and non-employee directors occurred in 2006. The stock options granted to employees vested three years after the grant date, while the stock options granted to non-employee directors vested six months after the grant date. The following table summarizes Peoples' stock options outstanding at March 31, 2012:

| Range of Exercise Prices |    |         | Options Outstanding & Exercisable                  |   |                                    |
|--------------------------|----|---------|--|---|------------------------------------|
|                          |    |         | Common Shares<br>Subject to Options<br>Outstanding | Weighted-<br>Average<br>Remaining Contractual<br>Life | Weighted-Average<br>Exercise Price |
| \$15.55                  | to | \$21.71 | 4,043  | 1.0   | \$21.71                            |
| \$21.72                  | to | \$23.58 | 35,815   | 0.8   | 22.32                              |
| \$23.59                  | to | \$25.94 | 30,946   | 0.3   | 23.93                              |
| \$26.01                  | to | \$27.74 | 29,876   | 2.2   | 27.08                              |
| \$28.25                  | to | \$28.26 | 20,961   | 3.3   | 28.25                              |
| \$28.57                  | to | \$30.00 | 25,236   | 2.7   | 29.02                              |
| Total                    |    |         | 146,877  | 1.7   | \$25.61                            |

#### Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted vested three years after the grant date and expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes Peoples' SARs outstanding at March 31, 2012:

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

#### Restricted Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on common shares awarded to non-employee directors expire after six months, while the restrictions on common shares awarded to employees expire after periods ranging from one to three years. In the first quarter of 2012, Peoples granted restricted shares to officers and key employees with a two-year time-based vesting period, a three-year time-based vesting period or a two-year performance-based vesting period. For the restricted shares subject to performance-based vesting, the restrictions on these restricted shares will lapse after two years upon the achievement of cumulative diluted earnings per common share of \$2.83 for the three-year period ending December 31, 2013.

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

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|                          | Time Vesting     |  | Performance Vesting |  |
|--------------------------|------------------|--|---------------------|--|
|                          | Number of Shares | Weighted-Average Grant Date Fair Value | Number of Shares    | Weighted-Average Grant Date Fair Value |
| Outstanding at January 1 | 26,544           | \$12.89                                | 3,363               | \$13.14                                |
| Awarded                  | 41,628           | 16.01                                  | 15,360              | 16.76                                  |
| Released                 | 2,000            | 14.29                                  | —                   | —                                      |
| Forfeited                | 1,428            | 14.73                                  | 858                 | 16.98                                  |
| Outstanding at March 31  | 64,744           | \$14.82                                | 17,865              | \$16.07                                |

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

Stock-Based Compensation

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

| (Dollars in thousands)         | Three Months Ended March 31, |      |
|--------------------------------|------------------------------|------|
|                                | 2012                         | 2011 |
| Total stock-based compensation | \$226                        | \$33 |
| Recognized tax benefit         | (79)                         | (12) |
| Net expense recognized         | \$147                        | \$21 |

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

Note 9 Earnings Per Common Share

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

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

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



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

## SELECTED FINANCIAL DATA

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

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

(a) Non-interest expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities and asset disposals).

(b) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans.

(b) Nonperforming assets include nonperforming loans and other real estate owned.

(c) Data presented as of the end of the period indicated.

These amounts represent non-GAAP financial measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information

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

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Forward-Looking Statements

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

- deterioration in the credit quality of Peoples’ loan portfolio could occur due to a number of factors, such as adverse changes in economic conditions that impair the ability of borrowers to repay their loans, the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected, which may adversely impact the provision for loan losses;
- (1) competitive pressures among financial institutions or from non-financial institutions, which may increase significantly, impacting product and pricing pressures and Peoples' ability to attract, develop and retain qualified professionals;
- (2) changes in the interest rate environment, which may adversely impact interest margins;
- (3) changes in prepayment speeds, loan originations, sale volumes and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (4) economic conditions, either nationally or in the areas where Peoples and its subsidiaries do business, may be less favorable than expected, which could decrease the demand for loans, deposits and other financial services and increase loan delinquencies and defaults;
- (5) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;
- (6) legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations promulgated and to be promulgated thereunder, which may subject Peoples and its subsidiaries to a variety of new and more stringent legal and regulatory requirements which adversely affect their businesses;
- (7) changes in accounting standards, policies, estimates or procedures may adversely affect Peoples’ reported financial condition or results of operations;
- (8) adverse changes in the conditions and trends in the financial markets, which may adversely affect the fair value of securities within Peoples’ investment portfolio and interest rate sensitivity of Peoples' Consolidated Balance Sheets;
- (9) Peoples’ ability to receive dividends from its subsidiaries;
- (10) Peoples’ ability to maintain required capital levels and adequate sources of funding and liquidity;
- (11) the impact of larger or similar financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples;
- (12) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- (13) the costs and effects of regulatory and legal developments, including the outcome of regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
- (14) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks may prove inadequate, which if proven inadequate, would adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss; and
- (15) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under the headings “ITEM 1A. RISK FACTORS” of Peoples’ Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”).
- (16)



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All forward-looking statements speak only as of the execution date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) and/or from Peoples Bancorp Inc.'s website – [www.peoplesbancorp.com](http://www.peoplesbancorp.com) under the "Investor Relations" section.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and notes thereto, contained in Peoples' 2011 Form 10-K, as well as the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

### Business Overview

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

Peoples offers diversified financial products and services through 44 financial service locations and 42 ATMs in southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association ("Peoples Bank"), Peoples Financial Advisors (a division of Peoples Bank) and Peoples Insurance Agency, LLC, a subsidiary of Peoples Bank. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

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

### Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples' Unaudited Consolidated Financial Statements and Management's Discussion and Analysis at March 31, 2012, which were unchanged from the policies disclosed in Peoples' 2011 Form 10-K.

### Goodwill and Other Intangible Assets

As more fully discussed in Peoples' 2011 Form 10-K, goodwill is not amortized but is tested for impairment at least annually and updated quarterly if management believes there are indicators of potential impairment. Peoples performs its required annual impairment test as of June 30 each year.

At June 30, 2011, management's analysis of goodwill indicated a decline in the fair value of Peoples' single reporting unit of 29% or more would result in goodwill impairment. The analysis also indicated any of the following situations would cause a decline in the fair value of Peoples' reporting unit resulting in goodwill impairment: (1) a 30% sustained decline in future cash flows or (2) a 350 basis point increase in the discount rate.

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



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Summary of Recent Transactions and Events

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

In the first quarter of 2012, Peoples prepaid \$35 million of wholesale borrowings using short-term funds, which resulted in prepayment charges of \$3.1 million. These borrowings had an average cost of 3.09% and consisted of both term repurchase agreements and advances from the Federal Home Loan Bank. The impact of the prepayment charges on first quarter earnings was offset by \$3.2 million in gains from the sale of \$60.5 million in investment securities. The securities sold were primarily mortgage-backed securities issued by U.S. government-sponsored agencies. The proceeds of these investment securities sales were reinvested into other securities with similar duration and yield. In 2009, Peoples received \$39.0 million of new equity capital under the U.S. Treasury's TARP Capital Purchase Program. The investment was in the form of newly-issued non-voting cumulative perpetual preferred shares and a related 10-year warrant to purchase common shares sold by Peoples to the U.S. Treasury (the "TARP Capital Investment"). On February 2, 2011, Peoples repurchased \$21.0 million of the preferred shares held by the U.S. Treasury and the remaining \$18.0 million were repurchased on December 28, 2011 (collectively, the "TARP Capital Redemption"). On February 15, 2012, Peoples completed the repurchase of the warrant for an aggregate price of \$1.2 million, which was recognized as a direct reduction in the common stock component of Peoples' stockholders' equity. Since the second quarter of 2011, Peoples has experienced generally improving trends in several asset quality metrics, after a three-year trend of higher credit losses and non-performing assets than Peoples' long-term historical levels. Additionally, the amount of criticized loans has decreased due in part to Peoples upgrading the loan quality ratings of various commercial loans. These conditions have resulted in lower provisions for loan losses. However, unfavorable economic conditions within Peoples' market area, coupled with sustained weakness in commercial real estate values, continues to place stress on certain industries and segments of Peoples' loan portfolio, such as the hospitality sector.

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

The Federal Reserve Board has maintained its target Federal Funds Rate at a historically low level of 0% to 0.25% since December 2008 and has maintained the Discount Rate at 0.75% since December 2010. The Federal Reserve Board continues to indicate there is the potential for these short-term rates to remain unchanged until late 2014. Since late 2008, the Federal Reserve Board has taken various actions to lower longer-term market interest rates as a means of stimulating the economy – a policy commonly referred to as “quantitative easing”. These actions have included the buying and selling of mortgage-backed and other debt securities through its open market operations. As a result, the slope of the U.S. Treasury yield curve has fluctuated significantly. Substantial flattening occurred in late 2008, in mid-2010 and during the third quarter of 2011, while moderate steepening occurred in the second half of 2009 and late 2010.

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

**EXECUTIVE SUMMARY**

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





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

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

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

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

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

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

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

**RESULTS OF OPERATIONS****Net Interest Income**

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

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

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

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

(1) Average balances are based on carrying value.

(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal statutory tax rate.

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

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the loans being placed on nonaccrual is included in loan interest income. Loan fees included in interest income were immaterial for all periods presented.

(4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

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

| (Dollars in thousands)                   | Three Months Ended |                      |                   |
|--|--------------------|----------------------|-------------------|
|  | March 31,<br>2012  | December 31,<br>2011 | March 31,<br>2011 |
| Net interest income, as reported         | \$13,432           | \$13,789             | \$13,495          |
| Taxable equivalent adjustments           | 259                | 272                  | 300               |
| Fully tax-equivalent net interest income | \$13,691           | \$14,061             | \$13,795          |

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

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

(1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the change in each.

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



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

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

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

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

**Provision for Loan Losses**

The following table details Peoples' provision for loan losses:

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

(a) Presented on an annualized basis

The provision for loan losses reflects amounts needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions. The lower provision for loan losses during the first quarter of 2012 was driven mostly by continued improving trends in various credit quality metrics, including historical loss trends and level of criticized loans.

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

**Net Other Gains (Losses)**

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

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

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



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## Non-Interest Income

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

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

Peoples' property and casualty insurance commission income benefited from a high retention rate for existing insurance customers and, to a lesser extent, improving pricing margins within the industry. The performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers.

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

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

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. Account maintenance fees continue to benefit from Peoples' new consumer checking account product offering and pricing structure implemented during the first quarter of 2011.

Peoples' fiduciary and brokerage revenues continue to be based primarily upon the value of assets under management. The following tables detail Peoples' trust and investment income and related assets under management:

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

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





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Over the last several quarters, Peoples has continued to attract new managed funds, due in part to the addition of experienced financial advisors in previously underserved market areas.

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

**Non-Interest Expense**

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

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

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

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

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



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In the first quarter of 2012, professional fees were down compared to the linked quarter. The key driver of this variance was the timing of external legal services for problem loan workouts and external consulting services for various strategic initiatives. Contributing to the higher year-over-year professional fees in 2012 has been the ongoing costs related to Peoples' new Power checking product, which was introduced at the start of 2011.

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

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

**Pre-Provision Net Revenue**

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

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

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

**Income Tax Expense**

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

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

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



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

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

Further information regarding the management of Peoples' liquidity position can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."

## Investment Securities

The following table provides information regarding Peoples' investment portfolio:

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

Held to maturity securities, at amortized cost:

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

Total investment portfolio:

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

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

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

follows:

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

In the third quarter of 2011, Peoples sold residential mortgage-backed securities which were showing signs of increased stress, which caused the decline in this portion of the portfolio compared to June 30, 2011. Additionally, management continues to reinvest the principal runoff from the non-agency securities into U.S agency investments, which accounted for the decline experienced in prior quarters. At March 31, 2012, Peoples' non-agency portfolio consisted entirely of first lien residential and commercial mortgages, with nearly all of the underlying loans in these securities originated in 2003 or earlier and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

## Loans

The following table provides information regarding outstanding loan balances:

| (Dollars in thousands)                                     | March 31,<br>2012 | December 31,<br>2011 | September 30,<br>2011 | June 30,<br>2011 | March 31,<br>2011 |   |
|--|-------------------|----------------------|-----------------------|------------------|-------------------|---|
| Gross portfolio loans:                                     |                   |                      |                       |                  |                   |   |
| Commercial real estate                                     | \$394,034         | \$410,352            | \$424,741             | \$411,355        | \$413,011         |   |
| Commercial and industrial                                  | 150,431           | 140,857              | 140,058               | 145,625          | 147,825           |   |
| Real estate construction                                   | 43,510            | 30,577               | 26,751                | 29,259           | 38,154            |   |
| Residential real estate                                    | 218,745           | 219,619              | 222,374               | 215,242          | 215,040           |   |
| Home equity lines of credit                                | 48,067            | 47,790               | 48,085                | 48,148           | 48,281            |   |
| Consumer   | 86,965            | 87,531               | 87,072                | 88,345           | 84,078            |   |
| Deposit account overdrafts                                 | 2,351             | 1,780                | 1,712                 | 2,145            | 1,640             |   |
| Total portfolio loans                                      | \$944,103         | \$938,506            | \$950,793             | \$940,119        | \$948,029         |   |
| Percent of loans to total loans:                           |                   |                      |                       |                  |                   |   |
| Commercial real estate                                     | 41.8              | %43.7                | %44.6                 | %43.8            | %43.5             | % |
| Commercial and industrial                                  | 15.9              | %15.0                | %14.7                 | %15.5            | %15.6             | % |
| Real estate construction                                   | 4.6               | %3.3                 | %2.8                  | %3.1             | %4.0              | % |
| Residential real estate                                    | 23.2              | %23.4                | %23.4                 | %22.9            | %22.7             | % |
| Home equity lines of credit                                | 5.1               | %5.1                 | %5.1                  | %5.1             | %5.1              | % |
| Consumer   | 9.2               | %9.3                 | %9.2                  | %9.4             | %8.9              | % |
| Deposit account overdrafts                                 | 0.2               | %0.2                 | %0.2                  | %0.2             | %0.2              | % |
| Total percentage   | 100.0             | %100.0               | %100.0                | %100.0           | %100.0            | % |
| Residential real estate loans<br>being serviced for others | \$281,015         | \$275,715            | \$262,992             | \$259,352        | \$258,626         |   |

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

## Loan Concentration



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

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Loans secured by commercial real estate, including commercial construction loans, continue to comprise approximately half of Peoples' loan portfolio. The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at March 31, 2012:

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

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balances of commercial loans in each state was less than \$4.0 million at both March 31, 2012 and December 31, 2011.



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## Allowance for Loan Losses

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

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

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

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

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The following table summarizes Peoples' net charge-offs:

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

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The following table details Peoples' nonperforming assets:

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

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

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

Overall, management believes the allowance for loan losses was adequate at March 31, 2012, based on all significant information currently available. Still, there can be no assurance the allowance for loan losses will be adequate to cover future losses or that the amount of nonperforming loans will remain at current levels, especially considering the current economic uncertainty that exists and the concentration of commercial loans in Peoples' loan portfolio.



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## Deposits

The following table details Peoples' deposit balances:

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

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

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

## Borrowed Funds

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

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

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

## Capital/Stockholders' Equity

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





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At March 31, 2012, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered "well capitalized" institutions under banking regulations. These higher capital levels reflect Peoples' desire to maintain strong capital positions to provide greater flexibility to work through the remaining asset quality issues plus provide capacity to grow the company.

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

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

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

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

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



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

## Interest Rate Sensitivity and Liquidity

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

## Interest Rate Risk

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

Peoples has assigned overall management of IRR to its Asset-Liability Committee (the "ALCO"), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. The methods used by the ALCO to assess IRR remain unchanged from those disclosed in Peoples' 2011 Form 10-K.

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

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

At March 31, 2012, Peoples' Consolidated Balance Sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. While parallel interest rate shock scenarios are useful in assessing the level of IRR inherent in Peoples' balance sheet, interest rates typically move in a non-parallel manner, with differences in the timing, direction and magnitude of changes in short-term and long-term

interest rates. Thus, any benefit that could occur as a result of the Federal Reserve increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates.

Table of Contents**Liquidity**

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity. The methods used by the ALCO to monitor and evaluate the adequacy of Peoples' liquidity position remain unchanged from those disclosed in Peoples' 2011 Form 10-K.

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

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

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

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

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

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples’ management, with the participation of Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples’ disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of March 31, 2012. Based upon that evaluation, Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

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

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples’ internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples’ fiscal quarter ended March 31, 2012, that have materially affected, or are reasonably likely to materially affect, Peoples’ internal control over financial reporting.

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## PART II – OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

There have been no material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2011 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial condition and/or operating results.

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

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended March 31, 2012:

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

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

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

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

None.

## ITEM 6. EXHIBITS

The exhibits required to be filed with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see “Exhibit Index” beginning at page 47.



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SIGNATURES

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

PEOPLES BANCORP INC.

Date: April 26, 2012

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

Date: April 26, 2012

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

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## EXHIBIT INDEX

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

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

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|        |  | Incorporated herein by reference to Exhibit 3(b) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)  |
| 3.2(b) | Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003 | Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q   |
| 3.2(c) | Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004                                 | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)   |
| 3.2(d) | Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006   | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)   |
| 3.2(e) | Certificate regarding adoption of amendments to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 22, 2010   | Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) ("Peoples' June 30, 2010 Form 10-Q/A") |

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EXHIBIT INDEX

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

| Exhibit<br>Number | Description  | Exhibit Location  |
|-------------------|--|---|
| 3.2(f)            | Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 22, 2010) [For SEC reporting compliance purposes only]  | Incorporated herein by reference to Exhibit 3.2(f) to Peoples' June 30, 2010 Form 10-Q/A"   |
| 4.1               | Warrant to purchase 313,505 Shares of Common Stock (common shares) of Peoples Bancorp Inc., issued to the United States Department of the Treasury on January 30, 2009   | Incorporated herein by reference to Exhibit 4.1 to Peoples' February 2, 2009 Form 8-K   |
| 4.2               | Letter Agreement, dated January 30, 2009, including Securities Purchase Agreement – Standard Terms attached thereto as Exhibit A, between Peoples Bancorp Inc. and the United States Department of the Treasury [NOTE: Exhibit A to the Securities Purchase Agreement is not included therewith; filed as Exhibit 3.1 to Peoples' February 2, 2009 Form 8-K and incorporated by reference at Exhibit 3.1(f) to this Quarterly Report on Form 10-Q] | Incorporated herein by reference to Exhibit 10.1 to Peoples' February 2, 2009 Form 8-K  |
| 4.3               | Letter Agreement, dated February 2, 2011, between Peoples Bancorp Inc. and the United States Department of the Treasury related to the repurchase of 21,000 of the Fixed Rate Cumulative Preferred Stock, Series A issued by Peoples Bancorp Inc. to the United States Department of the Treasury  | Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K dated and filed February 4, 2011 (File No. 0-16772).  |
| 4.4               | Letter Agreement, dated December 28, 2011, between Peoples Bancorp Inc. and the United States Department of the Treasury related to the repurchase of 18,000 of the Fixed Rate Cumulative Preferred Stock, Series A issued by Peoples Bancorp Inc. to the United States Department of the Treasury   | Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K dated and filed December 29, 2011 (File No. 0-16772).   |
| 4.4               | Letter Agreement, dated February 15, 2012, between Peoples Bancorp Inc. and the United States Department of the Treasury related to the repurchase of the Warrant to purchase 313,505 shares of common stock of Peoples Bancorp Inc. to the United States Department of the Treasury   | Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K dated and filed February 16, 2012 (File No. 0-16772).   |
| 10.1              | Summary of Incentive Plan for Executive Officers and other employees of Peoples Bancorp Inc. [effective for the fiscal year beginning January 1, 2012]   | Incorporated herein by reference to Exhibit 10.2(c) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (File No. 0-16772) ("Peoples' 2011 Form 10-K") |

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

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

| Exhibit Number | Description   | Exhibit Location  |
|----------------|---|---|
| 10.7           | Form of Peoples Bancorp Inc. 2006 Equity Plan Time-Based Restricted Stock Agreement for employees used and to be used to evidence awards of performance-based restricted stock granted to employees of Peoples Bancorp Inc. | Incorporated herein by reference to Exhibit 10.2(d) to Peoples' 2011 Form 10-K. |
| 12             | Statements regarding Computation of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends Appearing in Quarterly Report on Form 10-Q  | Filed herewith  |
| 31.1           | Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]   | Filed herewith  |
| 31.2           | Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]   | Filed herewith  |
| 32             | Section 1350 Certifications   | Furnished herewith  |
| 101.INS        | XBRL Instance Document  | Submitted electronically herewith #   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document   | Submitted electronically herewith #   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document   | Submitted electronically herewith #   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document   | Submitted electronically herewith #   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document  | Submitted electronically herewith #   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document  | Submitted electronically herewith #   |

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

In accordance with Rule 406T of SEC Regulation S-T, the XBRL related documents in Exhibit 101 to this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012 are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to

liability under these Sections.