

PEOPLES BANCORP INC  
Form 10-Q  
July 29, 2011  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

OR

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

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

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

31-0987416

(State or other jurisdiction of incorporation or organization)

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

138 Putnam Street, P. O. Box 738,

45750

Marietta, Ohio

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

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

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

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

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

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

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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  
o No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,595,132 common shares, without par value, at July 28, 2011.

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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)	June 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$29,771	\$28,324
Interest-bearing deposits in other banks	7,878	46,320
Total cash and cash equivalents	37,649	74,644
Available-for-sale investment securities, at fair value (amortized cost of \$638,667 at June 30, 2011 and \$617,122 at December 31, 2010)	643,598	613,986
Held-to-maturity investment securities, at amortized cost (fair value of \$2,955 at June 30, 2011 and \$2,954 at December 31, 2010)	2,966	2,965
Other investment securities, at cost	24,356	24,356
Total investment securities	670,920	641,307
Loans, net of deferred fees and costs	940,119	960,718
Allowance for loan losses	(25,166)	(26,766)
Net loans	914,953	933,952
Loans held for sale	1,508	4,755
Bank premises and equipment, net	24,466	24,934
Bank owned life insurance	53,711	53,532
Goodwill	62,520	62,520
Other intangible assets	2,082	2,350
Other assets	34,894	39,991
Total assets	\$1,802,703	\$1,837,985
Liabilities		
Deposits:		
Non-interest-bearing	\$222,075	\$215,069
Interest-bearing	1,136,751	1,146,531
Total deposits	1,358,826	1,361,600
Short-term borrowings	39,254	51,509
Long-term borrowings	151,703	157,703
Junior subordinated notes held by subsidiary trust	22,583	22,565
Accrued expenses and other liabilities	11,810	13,927
Total liabilities	1,584,176	1,607,304
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, 18,000 shares issued at June 30, 2011, and 39,000 issued at December 31, 2010	17,862	38,645
Common stock, no par value, 24,000,000 shares authorized, 11,086,968 shares issued at June 30, 2011 and 11,070,022 shares issued at December 31, 2010, including shares in treasury	166,555	166,298

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Retained earnings	48,518	45,547	
Accumulated other comprehensive income (loss), net of deferred income taxes	841	(4,453	)
Treasury stock, at cost, 608,819 shares at June 30, 2010 and 612,695 shares at December 31, 2010	(15,249	)(15,356	)
Total stockholders' equity	218,527	230,681	
Total liabilities and stockholders' equity	\$1,802,703	\$1,837,985	

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	For the Three Months		For the Six Months	
	Ended June 30, 2011	2010	Ended June 30, 2011	2010
Interest Income:				
Interest and fees on loans	\$12,389	\$14,604	\$25,067	\$29,431
Interest and dividends on taxable investment securities	6,163	7,720	12,366	15,704
Interest on tax-exempt investment securities	384	618	809	1,260
Other interest income	5	21	16	25
Total interest income	18,941	22,963	38,258	46,420
Interest Expense:				
Interest on deposits	3,674	4,953	7,659	10,097
Interest on short-term borrowings	26	66	61	147
Interest on long-term borrowings	1,317	2,279	2,627	4,572
Interest on junior subordinated notes held by subsidiary trust	493	492	985	990
Total interest expense	5,510	7,790	11,332	15,806
Net interest income	13,431	15,173	26,926	30,614
Provision for loan losses	(2,295)	(5,458)	(7,606)	(11,959)
Net interest income after provision for loan losses	11,136	9,715	19,320	18,655
Gross impairment losses on investment securities	—	(800)	—	(1,620)
Less: Non-credit losses included in other comprehensive income	—	—	—	166
Net impairment losses on investment securities	—	(800)	—	(1,786)
Other Income:				
Deposit account service charges	2,454	2,457	4,628	4,755
Insurance income	2,165	2,261	4,997	4,672
Trust and investment income	1,409	1,209	2,734	2,765
Electronic banking income	1,284	1,175	2,505	2,263
Mortgage banking income	286	267	660	502
Bank owned life insurance	92	173	179	358
Net gain on investment securities	56	3,018	416	3,034
Net loss on asset disposals and other transactions	(556)	(1,348)	(496)	(1,331)
Other non-interest income	201	230	562	471
Total other income	7,391	9,442	16,185	17,489
Other Expenses:				
Salaries and employee benefit costs	7,953	7,496	15,580	14,873
Net occupancy and equipment	1,472	1,440	2,973	2,958
Professional fees	1,013	601	1,808	1,293
FDIC insurance	450	612	1,112	1,229
Electronic banking expense	685	557	1,303	1,162
Data processing and software	453	527	916	1,097
Foreclosed real estate and other loan expenses	224	472	574	1,118
Franchise tax	358	374	759	747
Amortization of other intangible assets	152	235	314	480
Other non-interest expense	1,959	1,995	3,998	3,927
Total other expenses	14,719	14,309	29,337	28,884
Income before income taxes	3,808	4,048	6,168	5,474
Income tax expense	(887)	(763)	(1,378)	(874)

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Net income	\$2,921	\$3,285	\$4,790	\$4,600
Preferred dividends	(238	) (512	) (761	) (1,025
Net income available to common shareholders	\$2,683	\$2,773	\$4,029	\$3,575
Earnings per common share - basic	\$0.26	\$0.27	\$0.38	\$0.34
Earnings per common share - diluted	\$0.26	\$0.27	\$0.38	\$0.34
Weighted-average number of common shares outstanding - basic	10,478,362	10,422,126	10,475,109	10,406,919
Weighted-average number of common shares outstanding - diluted	10,507,895	10,429,369	10,492,712	10,415,999
Cash dividends declared on common shares	\$—	\$1,054	\$1,058	\$2,105
Cash dividends declared per common share	\$—	\$0.10	\$0.10	\$0.20
See Notes to the Unaudited Consolidated Financial Statements				

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2010	\$38,645	\$166,298	\$45,547	\$(4,453	)\$ (15,356	)\$230,681
Net income			4,790			4,790
Other comprehensive income, net of tax				5,294		5,294
Preferred stock dividends			(544	)		(544
Amortization of discount on preferred stock	217		(217	)		—
Common stock cash dividends declared			(1,058	)		(1,058
Reissuance of treasury stock for deferred compensation plan					176	176
Purchase of treasury stock					(69	)(69
Common shares issued under dividend reinvestment plan		161				161
Stock-based compensation expense		96				96
Repurchase of preferred stock	(21,000	)				(21,000
Balance, June 30, 2011	\$17,862	\$166,555	\$48,518	\$841	\$(15,249	)\$218,527

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Six Months Ended June 30,	
	2011	2010
Net cash provided by operating activities	\$23,343	\$23,351
Investing activities:		
Available-for-sale securities:		
Purchases	(119,777	)(135,204
Proceeds from sales	30,759	51,237
Proceeds from maturities, calls and prepayments	61,577	101,640
Purchase of held-to-maturity securities	—	(2,000
Net decrease in loans	11,881	20,164
Net expenditures for premises and equipment	(656	)(685
Proceeds from sales of other real estate owned	880	310
Investment in limited partnership and tax credit funds	(234	)(249
Net cash (used in) provided by investing activities	(15,570	)35,213
Financing activities:		
Net increase in non-interest-bearing deposits	7,006	5,559
Net decrease in interest-bearing deposits	(9,826	)(2,718
Net decrease in short-term borrowings	(12,255	)(27,156
Proceeds from long-term borrowings	—	5,000
Payments on long-term borrowings	(5,999	)(11,131
Repurchase of preferred shares	(21,000	)—
Preferred stock dividends	(675	)(975
Cash dividends paid on common shares	(2,034	)(1,894
Purchase of treasury stock	(69	)(91

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Proceeds from issuance of common shares	84	444	
Excess tax expense for stock-based compensation	—	(7	)
Net cash used in financing activities	(44,768	) (32,969	)
Net (decrease) increase in cash and cash equivalents	(36,995	) 25,595	
Cash and cash equivalents at beginning of period	74,644	41,773	
Cash and cash equivalents at end of period	\$37,649	\$67,368	

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, 2010 (“2010 Form 10-K”).

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

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

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 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.

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

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Obligations of:				
U.S. Treasury and government agencies	\$36	\$—	\$36	\$—
U.S. government sponsored agencies	12,321	—	12,321	—
States and political subdivisions	38,091	—	38,091	—
Residential mortgage-backed securities	540,931	—	540,931	—
Commercial mortgage-backed securities	35,288	—	35,288	—
Bank-issued trust preferred securities	13,385	—	13,385	—
Equity securities	3,546	3,425	121	—
Total available-for-sale securities	\$643,598	\$3,425	\$640,173	\$—
December 31, 2010				
Obligations of:				
U.S. Treasury and government agencies	\$39	\$—	\$39	\$—
U.S. government sponsored agencies	12,262	—	12,262	—
States and political subdivisions	47,379	—	47,379	—
Residential mortgage-backed securities	507,534	18,179	489,355	—
Commercial mortgage-backed securities	30,700	3,545	27,155	—
Bank-issued trust preferred securities	12,984	—	12,984	—
Equity securities	3,088	2,960	128	—
Total available-for-sale securities	\$613,986	\$24,684	\$589,302	\$—

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

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

**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 June 30, 2011, impaired loans with an aggregate outstanding principal balance of \$20.6 million were

measured and reported at a fair value of \$13.4 million. For the three and six months ended June 30, 2011, Peoples recognized losses on impaired loans of \$3.0 million and \$7.2 million, respectively, through the allowance for loan losses.

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Other Real Estate Owned: Other real estate owned ("OREO") is measured and reported at fair value when the current book value exceeds the estimated fair value of the property. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the property based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 Inputs). At June 30, 2011, Peoples had \$3.5 million of OREO which was measured and reported at a fair value of \$2.2 million. As a result, Peoples recorded losses of \$1.3 million through earnings for the three and six months ended June 30, 2011.

The following table presents the fair values of financial assets and liabilities carried on Peoples' consolidated balance sheet, 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)	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$37,649	\$37,649	\$74,644	\$74,644
Investment securities	670,920	670,909	641,307	641,296
Loans	916,461	824,929	938,707	825,547
Financial liabilities:				
Deposits	\$1,358,826	\$1,372,923	\$1,361,600	\$1,380,336
Short-term borrowings	39,254	39,254	51,509	51,509
Long-term borrowings	151,703	160,716	157,703	164,075
Junior subordinated notes held by subsidiary trust	22,583	23,811	22,565	23,861

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

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

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

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

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

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

fair values are not intended to represent the aggregate fair value of Peoples.

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## 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
June 30, 2011				
Obligations of:				
U.S. Treasury and government agencies	\$35	\$1	\$—	\$36
U.S. government sponsored agencies	12,503	55	(237)	) 12,321
States and political subdivisions	36,399	1,699	(7)	) 38,091
Residential mortgage-backed securities	538,507	15,339	(12,915)	) 540,931
Commercial mortgage-backed securities	36,128	268	(1,108)	) 35,288
Bank-issued trust preferred securities	13,882	84	(581)	) 13,385
Equity securities	1,213	2,429	(96)	) 3,546
Total available-for-sale securities	\$638,667	\$19,875	\$(14,944)	) \$643,598
December 31, 2010				
Obligations of:				
U.S. Treasury and government agencies	\$38	\$1	\$—	\$39
U.S. government sponsored agencies	12,753	55	(546)	) 12,262
States and political subdivisions	46,717	1,063	(401)	) 47,379
Residential mortgage-backed securities	512,398	14,155	(19,019)	) 507,534
Commercial mortgage-backed securities	30,124	648	(72)	) 30,700
Bank-issued trust preferred securities	13,877	79	(972)	) 12,984
Equity securities	1,214	1,970	(96)	) 3,088
Total available-for-sale securities	\$617,121	\$17,971	\$(21,106)	) \$613,986

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

At June 30, 2011, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies that exceeded 10% of stockholders' equity. Peoples had pledged investment securities with a carrying value of \$370.7 million and \$394.7 million at June 30, 2011 and December 31, 2010, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged investment securities with carrying values of \$48.1 million and \$28.1 million at June 30, 2011 and December 31, 2010, respectively, to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

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

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2011	2010	June 30, 2011	2010
Gross gains realized	\$56	\$3,018	\$498	\$3,034
Gross losses realized	—	—	82	—
Net gain realized	\$56	\$3,018	\$416	\$3,034

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.

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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
June 30, 2011								
Obligations of:								
U.S. government sponsored agencies	\$11,423	\$237	1	\$4	\$—	1	\$11,427	\$237
States and political subdivisions	221	7	1	—	—	—	221	7
Residential mortgage-backed securities	81,877	4,763	13	51,049	8,152	14	132,926	12,915
Commercial mortgage-backed securities	29,980	1,108	3	—	—	—	29,980	1,108
Bank-issued trust preferred securities	6,356	34	4	3,473	547	4	9,829	581
Equity securities	—	—	—	80	96	1	80	96
Total	\$129,857	\$6,149	22	\$54,606	\$8,795	20	\$184,463	\$14,944
December 31, 2010								
Obligations of:								
U.S. government sponsored agencies	\$11,202	\$546	1	\$—	\$—	—	\$11,202	\$546
States and political subdivisions	13,055	401	19	—	—	—	13,055	401
Residential mortgage-backed securities	152,075	13,080	23	39,540	5,939	9	191,615	19,019
Commercial mortgage-backed securities	21,388	72	4	—	—	—	21,388	72
Bank-issued trust preferred securities	4,290	47	3	5,144	925	5	9,434	972
Equity securities	—	—	—	80	96	1	80	96
Total	\$202,010	\$14,146	50	\$44,764	\$6,960	15	\$246,774	\$21,106

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

At June 30, 2011, the residential and commercial mortgage-backed securities that have been at an unrealized loss position for less than twelve months consisted almost entirely of securities issued by U.S government sponsored agencies. Additionally, approximately 93% of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more were issued by U.S government sponsored agencies. Of the remaining mortgage-backed securities, all of the underlying mortgages were originated prior to 2004. Furthermore, five of the eight bank-issued trust preferred securities were within 98% of book value, while the unrealized losses for the remaining three were primarily attributable to the floating nature of these investments and the current interest rate environment.

Of the positions with a fair value less than 90% of their book value, five of the ten securities were mortgage-backed securities issued by U.S government sponsored agencies. The remaining securities were limited to three variable rate bank-issued trust preferred securities, which had an aggregate book value of \$3.0 million and fair value of \$2.5 million at June 30, 2011, and two variable rate residential mortgage-backed securities with book and market values of \$2.0 million and \$1.7 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and current market interest rates.

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

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	
Amortized cost						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$12	\$23	\$—	\$35	
U.S. government sponsored agencies	—	843	11,660	—	12,503	
States and political subdivisions	2,601	6,574	9,618	17,606	36,399	
Residential mortgage-backed securities	—	6,210	56,040	476,257	538,507	
Commercial mortgage-backed securities	—	—	34,635	1,493	36,128	
Bank-issued trust preferred securities	—	—	—	13,882	13,882	
Equity securities	—	—	—	1,213	1,213	
Total available-for-sale securities	\$2,601	\$13,639	\$111,976	\$510,451	\$638,667	
Fair value						
Obligations of:						
U.S. Treasury and government agencies	\$—	\$13	\$23	\$—	\$36	
U.S. government sponsored agencies	—	898	11,423	—	12,321	
States and political subdivisions	2,638	6,821	10,321	18,311	38,091	
Residential mortgage-backed securities	—	6,775	58,246	475,910	540,931	
Commercial mortgage-backed securities	—	—	33,625	1,663	35,288	
Bank-issued trust preferred securities	—	—	—	13,385	13,385	
Equity securities	—	—	—	3,546	3,546	
Total available-for-sale securities	\$2,638	\$14,507	\$113,638	\$512,815	\$643,598	
Total average yield	5.63	%5.69	%4.35	%3.76	%3.91	%

**Held-to-Maturity**

At June 30, 2011, Peoples' held-to-maturity investments consisted of two qualified school construction bonds that are classified as held-to-maturity because of Peoples' intent and ability to hold the securities to maturity given uncertainty regarding ownership rights of associated tax credits. These securities are carried at an aggregate amortized cost of \$3.0 million and have gross unrealized losses totaling \$10,744; weighted average cash coupon and tax credit rates of 1.83% and 6.09%, respectively, and remaining contractual maturity over 10 years.

**Other Securities**

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

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## 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:

	June 30, 2011	December 31, 2010
(Dollars in thousands)		
Commercial real estate	\$430,832	\$452,875
Commercial and industrial	148,254	153,192
Real estate construction	28,136	22,478
Residential real estate	196,428	200,275
Home equity lines of credit	47,784	48,130
Consumer	86,540	81,567
Deposit account overdrafts	2,145	2,201
Total loans	\$940,119	\$960,718

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

	June 30, 2011	December 31, 2010
(Dollars in thousands)		
Commercial real estate	\$3,245	\$3,616
Commercial and industrial	201	200
Residential real estate	16,371	17,893
Consumer	123	123
Total outstanding balance	\$19,940	\$21,832
Net carrying amount	\$19,431	\$21,229

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$185.6 million and \$181.8 million at June 30, 2011 and December 31, 2010, respectively. Peoples also had pledged commercial loans to secure borrowings with the Federal Reserve Bank of Cleveland. The outstanding balances of these loans totaled \$138.1 million and \$195.6 million at June 30, 2011 and December 31, 2010, respectively.

**Nonaccrual and Past Due Loans**

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

	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
(Dollars in thousands)				
Commercial real estate	\$27,455	\$34,392	\$—	\$—
Commercial and industrial	1,325	1,714	—	—
Real estate construction	—	—	—	—
Residential real estate	2,358	3,790	124	27
Home equity lines of credit	283	554	—	—
Consumer	—	—	—	—

Total	\$ 31,421	\$ 40,450	\$ 124	\$ 27
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At December 31, 2010, nonaccrual commercial real estate loans with an aggregate carrying amount of \$951,000 were classified as held-for-sale and thus excluded for the table above. During the second quarter of 2011, one loan with a carrying value of \$379,000 was sold for a gain of \$371,000, while the remaining loans were transferred to OREO.

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

(Dollars in thousands)	Loans Past Due			Total	Current Loans	Total Loans
	30 - 59 days	60 - 89 days	90 + Days			
June 30, 2011						
Commercial real estate	\$ 3,242	\$ 277	\$ 12,369	\$ 15,888	\$ 414,944	\$ 430,832
Commercial and industrial	370	668	—	1,038	147,216	148,254
Real estate construction	—	—	400	400	27,736	28,136
Residential real estate	4,020	1,266	2,083	7,369	189,059	196,428
Home equity lines of credit	477	46	—	523	47,261	47,784
Consumer	33	57	283	373	86,167	86,540
Deposit account overdrafts	69	—	—	69	2,076	2,145
Total	\$ 8,211	\$ 2,314	\$ 15,135	\$ 25,660	\$ 914,459	\$ 940,119
December 31, 2010						
Commercial real estate	\$ 3,208	\$ 5,378	\$ 14,652	\$ 23,238	\$ 429,637	\$ 452,875
Commercial and industrial	563	11	247	821	152,371	153,192
Real estate construction	4	—	815	819	21,659	22,478
Residential real estate	4,321	2,022	1,959	8,302	191,973	200,275
Home equity lines of credit	725	119	—	844	47,286	48,130
Consumer	186	58	458	702	80,865	81,567
Deposit account overdrafts	—	—	—	—	2,201	2,201
Total	\$ 9,007	\$ 7,588	\$ 18,131	\$ 34,726	\$ 925,992	\$ 960,718

**Credit Quality Indicators**

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

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

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

“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardizes the orderly repayment of debt. They are characterized by the distinct possibility that the bank 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.



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

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

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
June 30, 2011						
Commercial real estate	\$ 316,757	\$ 56,243	\$ 55,968	\$ 5	\$ 1,859	\$ 430,832
Commercial and industrial	102,192	16,785	8,261	—	21,016	148,254
Real estate construction	21,590	2,981	2,945	—	620	28,136
Residential real estate	4,044	2,308	7,223	40	182,813	196,428
Home equity lines of credit	1,028	521	1,372	—	44,863	47,784
Consumer	93	—	—	—	86,447	86,540
Deposit account overdrafts	—	—	—	—	2,145	2,145
Total	\$ 445,704	\$ 78,838	\$ 75,769	\$ 45	\$ 339,763	\$ 940,119
December 31, 2010						
Commercial real estate	\$ 320,306	\$ 49,901	\$ 77,634	\$ —	\$ 5,034	\$ 452,875
Commercial and industrial	122,874	6,325	9,427	247	14,319	153,192
Real estate construction	14,991	3,017	3,495	—	975	22,478
Residential real estate	5,186	2,135	8,031	—	184,923	200,275
Home equity lines of credit	283	339	2,106	—	45,402	48,130
Consumer	89	—	—	—	81,478	81,567
Deposit account overdrafts	—	—	—	—	2,201	2,201
Total	\$ 463,729	\$ 61,717	\$ 100,693	\$ 247	\$ 334,332	\$ 960,718

## 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
June 30, 2011							
Commercial real estate	\$ 54,033	\$ 1,308	\$ 25,291	\$ 26,599	\$ 523	\$ 27,060	\$ —