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

FORM 10-Q

(Mark One)

x 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

o 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, Marietta, Ohio	45750
(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 x No o

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 x No o

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,595,132 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

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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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2011	2010	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)

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

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PEOPLES BANCORP INC. AND SUBSIDIARIES
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)

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

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

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:

	June 30, 2011		December 31, 2010	
(Dollars in thousands)	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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	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:

	Less than 12 Months			12 Months or More			Total	
(Dollars in thousands)	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:

(Dollars in thousands)	June 30, 2011	December 31, 2010
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:

(Dollars in thousands)	June 30, 2011	December 31, 2010
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	
(Dollars in thousands)	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
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:

	Loans Past Due				Current	Total
(Dollars in thousands)	30 - 59 days	60 - 89 days	90 + Days	Total	Loans	Loans
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:

	Unpaid	Recorded Investment		Total		Average	Interest
	Principal	With	Without	Recorded	Related	Recorded	Income
(Dollars in thousands)	Balance	Allowance	Allowance	Investment	Allowance	Investment	Recognized
June 30, 2011							
Commercial real estate	$54,033	$1,308	$25,291	$26,599	$523	$27,060	$—
Commercial and industrial	2,188	1,318	—	1,318	772	1,433	—
Real estate construction	1,574	—	760	760	—	794	—
Residential real estate	1,115	—	662	662	—	555	—
Home equity lines of credit	424	—	275	275	—	353	—
Total	$59,334	$2,626	$26,988	$29,614	$1,295	$30,195	$—
December 31, 2010							
Commercial real estate	$58,178	$6,403	$27,550	$33,953	$1,789	$21,361	$10
Commercial and industrial	2,333	1,086	729	1,815	572	1,713	5
Real estate construction	1,755	330	485	815	22	913	—
Residential real estate	1,170	631	506	1,137	320	867	9

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

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Allowance for Loan Losses

Changes in the allowance for loan losses in the periods ended June 30, 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, 2011	$21,806	$2,160	$1,400	$—	$431	$721	$248	$26,766
Charge-offs	(9,275)	(937)	(957)	—	(330)	(458)	(293)	(12,250)
Recoveries	1,360	546	569	—	26	390	153	3,044
Net (charge-offs) recoveries	(7,915)	(391)	(388)	—	(304)	(68)	(140)	(9,206)
Provision for loan losses	5,470	1,300	175	—	425	130	106	7,606
Balance, June 30, 2011	$19,361	$3,069	$1,187	$—	$552	$783	$214	$25,166
Period-end amount allocated to:								
Loans individually evaluated for impairment	$523	$772	$—	$—	$—	$—	$—	$1,295
Loans collectively evaluated for impairment	18,838	2,297	1,187	—	552	783	214	23,871
Ending balance	$19,361	$3,069	$1,187	$—	$552	$783	$214	$25,166
Balance, January 1, 2010	$22,125	$1,586	$1,619	$—	$528	$1,074	$325	$27,257
Charge-offs	(11,098)	(1,076)	(346)	(68)	(19)	(591)	(453)	(13,651)
Recoveries	779	144	86	—	25	389	180	1,603
Net (charge-offs) recoveries	(10,319)	(932)	(260)	(68)	6	(202)	(273)	(12,048)
Provision for loan losses	8,392	3,300	—	68	—	—	199	11,959
Balance, June 30, 2010	$20,198	$3,954	$1,359	$—	$534	$872	$251	$27,168
Period-end amount allocated to:								
Loans individually evaluated for impairment	$—	$—	$—	$—	$—	$—	$—	$—
Loans collectively evaluated for impairment	20,198	3,954	1,359	—	534	872	251	27,168
Ending balance	$20,198	$3,954	$1,359	$—	$534	$872	$251	$27,168

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Note 5 Stockholders' Equity

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

	Preferred Stock	Common Stock	Treasury Stock
Shares at December 31, 2010	39,000	11,070,022	612,695
Changes related to stock-based compensation awards:			
Release of restricted common shares		5,337	647
Changes related to deferred compensation plan:			
Purchase of treasury stock			(9,209)
Reissuance of treasury stock			4,686
Repurchase of preferred shares	(21,000)		
Common shares issued under dividend reinvestment plan		11,609	
Shares at June 30, 2011	18,000	11,086,968	608,819

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

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

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

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

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

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

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In the second quarter of 2011, Peoples' Board of Directors adopted a new schedule for considering the declaration of dividends payable to common shareholders. Beginning with the second quarter 2011 dividend, Peoples' Board of Directors will determine whether to declare future dividends payable to common shareholders, if financial conditions warrant, during the first month of the following calendar quarter. In recent quarters, the Board of Directors declared dividends in the final month of each calendar quarter. As a result of this change, no dividends on common shares were declared during the second quarter of 2011, which had a positive impact on Peoples' common equity and corresponding capital ratios at June 30, 2011. On July 28, 2011, the Board of Directors declared a cash dividend of $0.10 per common share with respect to second quarter 2011 results at a regularly scheduled Board meeting. This dividend is payable on August 22, 2011, to shareholders of record on August 8, 2011.

Note 6 Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Net income	$2,921	$3,285	$4,790	$4,600
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding gain (loss) arising in the period	8,066	(1,779)	8,484	(7,766)
Related tax (expense) benefit	(2,823)	623	(2,969)	2,718
Less: reclassification adjustment for net gain included in net income	56	2,218	416	1,248
Related tax expense	(19)	(776)	(145)	(436)
Net effect on other comprehensive income (loss)	5,206	(2,598)	5,244	(5,860)
Defined benefit plans:				
Amortization of unrecognized loss and service cost on pension plan	38	77	77	77
Related tax expense	(13)	(27)	(27)	(27)
Net effect on other comprehensive income	25	50	50	50
Total other comprehensive income (loss), net of tax	5,231	(2,548)	5,294	(5,810)
Total comprehensive income (loss)	$8,152	$737	$10,084	$(1,210)

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

(Dollars in thousands)	Unrealized (Loss) Gain on Securities	Unrecognized Net Pension and Postretirement Costs	Accumulated Comprehensive (Loss) Income
Balance, December 31, 2010	$(2,038)	$(2,415)	$(4,453)
Current period change, net of tax	5,244	25	5,269
Balance, June 30, 2011	$3,206	$(2,390)	$816

Note 7 Employee Benefit Plans

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

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

Pension Benefits:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Service cost	$—	$187	$—	$375
Interest cost	201	196	373	392
Expected return on plan assets	(276)	(287)	(556)	(574)
Amortization of prior service cost	—	1	—	2
Amortization of net loss	22	37	30	75
Net periodic benefit cost	$(53)	$134	$(153)	$270

Postretirement Benefits:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Service cost	$—	$—	$—	$—
Interest cost	3	3	6	6
Expected return on plan assets	—	—	—	—
Amortization of prior service cost	—	—	—	(1)
Amortization of net loss	(2)	(3)	(4)	(5)
Net periodic benefit cost	$1	$—	$2	$—

Note 8 Stock-Based Compensation

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

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

Stock Options

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

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The following table summarizes Peoples' stock options outstanding at June 30, 2011:

Range of Exercise Prices			Options Outstanding & Exercisable Common Shares Subject to Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$15.55	to	$21.71	9,876	0.9 years	$20.08
$21.72	to	$23.58	47,640	1.4 years	22.32
$23.59	to	$25.94	41,343	0.9 years	23.96
$26.01	to	$27.74	41,354	2.8 years	27.08
$28.25	to	$28.26	34,028	3.7 years	28.25
$28.57	to	$30.00	31,410	3.4 years	29.02
Total			205,651	2.3 years	$25.50

Stock Appreciation Rights

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

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

Exercise Prices	Number of Common Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
$23.26	5,000	2.4 years
$23.77	18,936	6.6 years
$23.80	1,000	6.4 years
$29.25	17,506	4.4 years
Total	42,442	5.2 years

Restricted Shares

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

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

	Time Vesting		Performance Vesting	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	7,337	$19.88	—	$—
Awarded	37,423	13.33	3,531	13.14
Released	5,337	22.09	—	—
Outstanding at June 30	39,423	$13.37	3,531	$13.14

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

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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:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2011	2010	2011	2010
Total stock-based compensation	$63	$25	$96	$51
Recognized tax benefit	(22)	(9)	(34)	(18)
Net expense recognized	$41	$16	$62	$33

Total unrecognized stock-based compensation expense related to unvested awards was $336,000 at June 30, 2011, which will be recognized over a weighted-average period of 1.4 years.

Note 9 Earnings Per Common Share

Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental common shares issuable upon exercise of outstanding stock options, SARs and non-vested restricted common shares using the treasury stock method. As disclosed in Note 5, Peoples had a Warrant to purchase 313,505 common shares outstanding at June 30, 2011. This Warrant was excluded from the calculation of diluted earnings per common share since it was anti-dilutive. In addition, stock options and SARs covering 248,093 and 269,185 common shares were excluded from the calculations for the six months ended June 30, 2011 and 2010, respectively, since they were anti-dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per common share data)	2011	2010	2011	2010
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
Weighted-average common shares outstanding	10,478,362	10,422,126	10,475,109	10,406,919
Effect of potentially dilutive common shares	29,533	7,243	17,603	9,080
Total weighted-average diluted common shares outstanding	10,507,895	10,429,369	10,492,712	10,415,999
Earnings per common share:				
Basic	$0.26	$0.27	$0.38	$0.34
Diluted	$0.26	$0.27	$0.38	$0.34

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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 June 30,		At or For the Six Months Ended June 30,	
	2011	2010	2011	2010
SIGNIFICANT RATIOS				
Return on average stockholders' equity	5.48 %	5.43 %	4.47 %	3.81 %
Return on average common stockholders' equity	5.49 %	5.45 %	4.18 %	3.52 %
Return on average assets	0.65 %	0.66 %	0.53 %	0.46 %
Net interest margin	3.43 %	3.49 %	3.43 %	3.51 %
Efficiency ratio (a)	67.43 %	60.28 %	66.30 %	60.17 %
Average stockholders' equity to average assets	11.82 %	12.15 %	11.89 %	12.13 %
Average loans to average deposits	69.33 %	72.98 %	69.78 %	74.22 %
Dividend payout ratio	— %	38.01 %	26.26 %	58.88 %
ASSET QUALITY RATIOS				
Nonperforming loans as a percent of total loans (b)(c)	3.35 %	3.77 %	3.35 %	3.77 %
Nonperforming assets as a percent of total assets (b)(c)	1.95 %	2.21 %	1.95 %	2.21 %
Allowance for loan losses to loans net of unearned interest (c)	2.68 %	2.66 %	2.68 %	2.66 %
Allowance for loan losses to nonperforming loans (b)(c)	79.78 %	70.50 %	79.78 %	70.50 %
Provision for loan losses to average loans (annualized)	0.97 %	2.10 %	1.61 %	2.29 %
Net charge-offs as a percentage of average loans (annualized)	0.67 %	1.86 %	1.94 %	2.31 %
CAPITAL INFORMATION (c)				
Tier 1 common capital ratio	12.05 %	11.07 %	12.05 %	11.07 %
Tier 1 capital ratio	15.62 %	16.11 %	15.62 %	16.11 %
Total risk-based capital ratio	16.97 %	17.44 %	16.97 %	17.44 %
Leverage ratio	10.10 %	10.14 %	10.10 %	10.14 %
Tangible equity to tangible assets (d)	8.86 %	9.21 %	8.86 %	9.21 %
Tangible common equity to tangible assets (d)	7.83 %	7.18 %	7.83 %	7.18 %
Tangible assets (d)	$1,738,101	$1,901,908	$1,738,101	$1,901,908
Tangible equity (d)	153,925	175,142	153,925	175,142
Tangible common equity (d)	$136,063	$136,549	$136,063	$136,549
PER COMMON SHARE DATA				
Earnings per share – Basic	$0.26	$0.27	$0.38	$0.34
Earnings per share – Diluted	0.26	0.27	0.38	0.34
Cash dividends declared per share	—	0.10	0.10	0.20
Book value per share (c)	19.15	19.35	19.15	19.35
Tangible book value per share (c) (d)	$12.99	$13.10	$12.99	$13.10
Weighted-average common shares outstanding – Basic	10,478,362	10,422,126	10,475,109	10,406,919
Weighted-average common shares outstanding – Diluted	10,507,895	10,429,369	10,492,712	10,415,999
Common shares outstanding at end of period	10,478,149	10,423,317	10,478,149	10,423,317

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

(b) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans. Nonperforming assets include nonperforming loans and other real estate owned.

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

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

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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:

(1) 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;

(2) 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;

(3) changes in the interest rate environment, which may adversely impact interest margins;

(4) 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;

(5) 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;

(6) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;

(7) legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations to be promulgated thereunder, which may adversely affect the business of Peoples and its subsidiaries;

(8) changes in accounting standards, policies, estimates or procedures may adversely affect Peoples’ reported financial condition or results of operations;

(9) 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;

(10) Peoples’ ability to receive dividends from its subsidiaries;

(11) Peoples’ ability to maintain required capital levels and adequate sources of funding and liquidity;

(12) the impact of larger or similar financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples;

(13) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;

(14) the costs and effects of regulatory and legal developments, including the outcome of regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations; and

(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, 2010 (the “2010 Form 10-K”).

All forward-looking statements speak only as of the execution date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management’s knowledge of Peoples’ business and operations, it is 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 and/or from Peoples Bancorp Inc.'s website – www.peoplesbancorp.com under the "Investor Relations" section.

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

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

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

Critical Accounting Policies

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

Goodwill and Other Intangible Assets

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

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

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

Summary of Recent Transactions and Events

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

As described in Note 5 of the Notes to the Consolidated Financial Statements, no dividends were declared on common shares during the second quarter of 2011 as a result of Peoples' Board of Directors adopting a new schedule for declaring such dividends. The lack of dividends declared on common shares due to this change had a positive impact on Peoples' common equity and corresponding capital ratios at June 30, 2011. On July 28, 2011, the Board of

Directors declared a cash dividend of $0.10 per common share with respect to second quarter 2011 results at a regularly scheduled Board meeting. This dividend is payable on August 22, 2011, to shareholders of record on August 8, 2011.

As described in Note 5 of the Notes to the Consolidated Financial Statements, on January 30, 2009, Peoples received $39.0 million of new equity capital under the U.S. Treasury's TARP Capital Purchase Program. The investment was in the form of newly-issued non-voting cumulative perpetual preferred shares and a related 10-year warrant to purchase common shares sold by Peoples to the U.S. Treasury (the "TARP Capital Investment"). On February 2, 2011, Peoples completed a partial redemption of the TARP Capital Investment by repurchasing $21.0 million of the

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preferred shares held by the U.S. Treasury (the "Partial TARP Capital Redemption"). In connection with the Partial TARP Capital Redemption, Peoples recognized the portion of the unamortized discount associated with the preferred shares repurchased, which was $186,000 and reduced diluted earnings per share by $0.02. Future quarterly preferred dividends are expected to approximate $240,000 compared to $513,000 in prior quarters.

Since 2008, Peoples periodically has taken actions to reduce interest rate exposures within the investment portfolio and entire balance sheet, which have included the sale of low yielding investment securities and repayment of high-cost borrowings. These actions included the sale of $86.6 million of investment securities, primarily low yielding U.S. agency mortgage-backed securities and U.S. government-backed student loan pools, during the third quarter of 2010. The proceeds from these investment sales were used to prepay $60.0 million of wholesale repurchase agreements thereby deleveraging the balance sheet. The repurchase agreements had a weighted-average cost of 4.53% and originally were scheduled to mature over the next two years.

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

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

In 2009, the Board of Directors of the Federal Deposit Insurance Corporation (“FDIC”) took steps to restore the Deposit Insurance Fund, which affected all FDIC-insured depository institutions. These actions included increasing base assessment rates, imposing a one-time special assessment and requiring the prepayment of assessments for fourth quarter 2009 and full years 2010 through 2012. As a result, Peoples has incurred higher FDIC insurance costs compared to historical amounts. On April 1, 2011, new regulations required by the Dodd-Frank Act became effective changing the deposit insurance assessment base from total domestic deposits to average total assets minus average tangible equity, as well as changing the assessment system for large institutions and the assessment rate schedule. The new assessment base reduced Peoples' FDIC insurance costs beginning with the amount recorded for the second quarter of 2011.

Peoples' net interest income and margin are impacted by changes in market interest rates based upon actions taken by the Federal Reserve either directly or through its Open Market Committee. Between August 2007 and December 2008, the Federal Reserve reduced the target Federal Funds rate 500 basis points to a range of 0% to 0.25% and reduced the Discount Rate 575 basis points to 0.50%. These actions caused a corresponding downward shift in short-term market interest rates. In 2009, the Federal Reserve maintained the target Federal Funds Rate and Discount Rate at their historically low levels of 0% to 0.25% and 0.50%, respectively. In February 2010, the Federal Reserve increased the Discount Rate by 25 basis points to 0.75% while leaving its target Federal Funds Rate range unchanged, thereby widening the spread between the Discount Rate and the high end of the target Federal Funds Rate. No changes to either the Federal Funds Rate or Discount Rate have occurred during the remainder of 2010 or the first half of 2011.

In late 2008, the Federal Reserve initiated a plan to buy mortgage-backed and other debt securities through its open market operations as a means of lowering longer-term market interest rates and stimulating the economy – a policy commonly referred to as “quantitative easing”. The resulting purchases caused a flattening of the yield curve in the first half of 2009. The yield curve steepened moderately in the second half of 2009 after the Federal Reserve halted its investment purchases. In mid-2010, the Federal Reserve signaled the possibility of additional quantitative easing, which resulted in a flatter yield curve during much of the second half of 2010. In late 2010, the yield curve steepened after the Federal Reserve announced its plan to purchase U.S. Treasury securities with shorter maturities than anticipated by many market participants.

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

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EXECUTIVE SUMMARY

For the second quarter of 2011, net income available to common shareholders was $2.7 million, or $0.26 per diluted common share, versus $2.8 million and $0.27 per diluted common share a year ago and $1.3 million, or $0.13 per diluted common share for the first quarter of 2011 (or "linked quarter"). The linked quarter earnings improvement was driven by a reduction in loan-related credit losses. Second quarter 2010 earnings included net security gains of $2.2 million or $0.14 per share after-tax. On a year-to-date basis, earnings per diluted common share improved 12% to $0.38 compared to the $0.34 earned in the first half of 2010.

Provision for loan losses totaled $2.3 million in the second quarter of 2011, versus $5.3 million for the linked quarter and $5.5 million for the second quarter of 2010. Provision for loan losses totaled $7.6 million for the first six months of 2011, versus $12.0 million for the first six months of 2010. The recorded provision reflects the amount needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis.

Second quarter 2011 net interest income and margin were comparable with the linked quarter as lower deposit costs from the repricing of a large government deposit relationship offset the impact of the sustained low interest rate environment on asset yields. Year-over-year, net interest income decreased 11% and net interest margin compressed six basis points in the second quarter of 2011, attributable to the combination of declining loan balances and lower reinvestment rates with limited opportunities for offsetting reductions in funding costs. These factors also accounted for the 12% reduction in net interest income and eight basis points compression of net interest margin on a year-to-date basis.

Non-interest income, excluding gains and losses on securities and asset disposals, increased 2% in the second quarter of 2011, compared to the prior year. This increase was driven by stronger revenues from fiduciary, brokerage and electronic banking activities. Compared to the linked quarter, non-interest income decreased 6% as a result of Peoples' recognizing $943,000 of annual performance-based insurance revenues in the first quarter. Through six months of 2011, total non-interest income was up 3% over the same period last year, due mostly to higher debit card revenue and mortgage banking income.

Total non-interest expense, while comparable to the linked quarter, was 3% higher than the prior year second quarter and up 2% on a year-to-date basis. Increased employee benefit costs and professional fees were mostly offset by reduced FDIC insurance costs and lower foreclosed real estate and other loan costs.

Total assets were down 2% compared to year-end 2010 to $1.80 billion at June 30, 2011. Cash and cash equivalents decreased $37.0 million, which was partially offset by a $29.6 million increase in investment securities. These changes were due primarily to the Partial TARP Redemption and reinvestment of short-term investments into longer-term investments. Total portfolio loan balances declined $20.6 million to $940.1 million at June 30, 2011. These declines were primarily the result of commercial loan payoffs and charge-offs exceeding production. Despite weak economic conditions, Peoples experienced strong growth in consumer loans during the second quarter of 2011 as a result of increased auto lending efforts due to targeted promotional efforts.

Total liabilities decreased $23.1 million during the six months ended June 30, 2011, to $1.58 billion. Total retail deposit balances were essentially unchanged during the second quarter of 2011, as declines in interest-bearing retail deposits were nearly matched by increases in non-interest-bearing deposits. The lower interest-bearing deposit balances were a result of management maintaining its focus on reducing higher-cost, non-core deposits. Total borrowed funds were $213.5 million at June 30, 2011, down $18.2 million since December 31, 2010, as Peoples continued to repay maturing wholesale borrowings.

Total stockholders' equity was $218.5 million at June 30, 2011, a $12.2 million reduction from $230.7 million at December 31, 2010, reflecting the impact of the Partial TARP Capital Redemption. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio increased to 12.05% at June 30, 2011, while the Total Capital ratio was 16.97% versus 18.24% at December 31, 2010, with the decrease the result of the Partial TARP Capital Redemption.

RESULTS OF OPERATIONS

Net Interest Income

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

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

	For the Three Months Ended								
	June 30, 2011			March 31, 2011			June 30, 2010		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$9,200	$5	0.20 %	$20,204	$11	0.22 %	$34,077	$21	0.25 %
Investment Securities (1):									
Taxable	632,657	6,209	3.93 %	617,915	6,248	4.04 %	678,806	7,766	4.58 %
Nontaxable (2)	38,050	591	6.21 %	41,323	654	6.33 %	60,400	951	6.31 %
Total investment securities	670,707	6,800	4.06 %	659,238	6,902	4.19 %	739,206	8,717	4.72 %
Loans (3):									
Commercial	614,173	7,618	4.98 %	630,087	7,835	5.04 %	694,004	9,313	5.38 %
Real estate (4)	246,716	3,271	5.30 %	249,918	3,353	5.37 %	262,270	3,642	5.55 %
Consumer	86,731	1,528	7.07 %	83,419	1,516	7.37 %	85,736	1,674	7.83 %
Total loans	947,620	12,417	5.25 %	963,424	12,704	5.33 %	1,042,010	14,629	5.63 %
Less: Allowance for loan losses	(27,835)			(28,338)			(30,669)		
Net loans	919,785	12,417	5.41 %	935,086	12,704	5.49 %	1,011,341	14,629	5.80 %
Total earning assets	1,599,692	19,222	4.81 %	1,614,528	19,617	4.89 %	1,784,624	23,367	5.24 %
Intangible assets	64,682			64,820			65,248		
Other assets	144,357			145,379			146,234		
Total assets	$1,808,731			$1,824,727			$1,996,106		
Deposits:									
Savings accounts	$137,518	$62	0.18 %	$128,784	$55	0.17 %	$121,017	$48	0.16 %
Interest-bearing demand accounts	248,258	440	0.71 %	232,932	622	1.08 %	237,262	650	1.10 %
Money market accounts	264,195	225	0.34 %	278,664	245	0.36 %	294,138	654	0.89 %
Brokered deposits	69,747	570	3.28 %	81,688	632	3.14 %	111,222	761	2.74 %
Retail certificates of deposit	420,497	2,377	2.27 %	426,917	2,431	2.31 %	454,533	2,840	2.51 %
Total interest-bearing deposits	1,140,215	3,674	1.29 %	1,148,985	3,985	1.41 %	1,218,172	4,953	1.63 %
Borrowed Funds:									
Short-term FHLB advances	2,216	1	0.11 %	1,401	1	0.14 %	—	—	— %
Retail repurchase agreements	40,320	25	0.26 %	44,923	34	0.31 %	48,931	66	0.53 %
Total short-term borrowings	42,536	26	0.25 %	46,324	35	0.30 %	48,931	66	0.53 %
Long-term FHLB advances	86,771	754	3.49 %	88,901	765	3.49 %	105,058	929	3.55 %
Wholesale repurchase agreements	65,000	563	3.43 %	65,000	546	3.36 %	135,000	1,350	3.96 %
Other borrowings	22,579	493	8.64 %	22,570	492	8.73 %	22,544	492	8.64 %

Total long-term borrowings	174,350	1,810	4.13 %	176,471	1,803	4.11 %	262,602	2,771	4.19 %
Total borrowed funds	216,886	1,836	3.37 %	222,795	1,838	3.32 %	311,533	2,837	3.62 %
Total interest-bearing liabilities	1,357,101	5,510	1.63 %	1,371,780	5,823	1.72 %	1,529,705	7,790	2.04 %
Non-interest-bearing deposits	226,669			222,656			209,602		
Other liabilities	11,257			12,001			14,317		
Total liabilities	1,595,027			1,606,437			1,753,624		
Preferred equity	17,856			25,245			38,581		
Common equity	195,848			193,045			203,901		
Total stockholders' equity	213,704			218,290			242,482		
Total liabilities and stockholders' equity	$1,808,731			$1,824,727			$1,996,106		
Interest rate spread		$13,712	3.18 %		$13,794	3.17 %		$15,577	3.20 %
Net interest margin			3.43 %			3.43 %			3.49 %

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	For the Six Months Ended							
	June 30, 2011				June 30, 2010			
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost		Average Balance	Income/ Expense	Yield/Cost	
Short-term investments	$ 14,672	$ 16	0.22	%	$ 20,772	$ 25	0.25	%
Investment Securities (1):								
Taxable	625,327	12,457	3.98	%	692,017	15,782	4.56	%
Nontaxable (2)	39,677	1,245	6.28	%	61,409	1,938	6.31	%
Total investment securities	665,004	13,702	4.12	%	753,426	17,720	4.71	%
Loans (3):								
Commercial	622,086	15,453	5.01	%	698,918	18,680	5.39	%
Real estate (4)	248,308	6,624	5.34	%	264,283	7,412	5.61	%
Consumer	85,084	3,044	7.21	%	87,764	3,388	7.78	%
Total loans	955,478	25,121	5.29	%	1,050,965	29,480	5.64	%
Less: Allowance for loan losses	(28,085)				(30,004)			
Net loans	927,393	25,121	5.45	%	1,020,961	29,480	5.81	%
Total earning assets	1,607,069	38,839	4.85	%	1,795,159	47,225	5.28	%
Intangible assets	64,751				65,365			
Other assets	144,864				144,111			
Total assets	$ 1,816,684				$ 2,004,635			
Deposits:								
Savings accounts	$ 133,175	$ 117	0.18	%	$ 118,807	$ 95	0.16	%
Interest-bearing demand accounts	240,637	1,062	0.89	%	233,467	1,311	1.13	%
Money market accounts	271,390	470	0.35	%	283,910	1,311	0.93	%
Brokered deposits	75,685	1,202	3.20	%	108,726	1,564	2.90	%
Retail certificates of deposit	423,689	4,808	2.29	%	464,773	5,816	2.52	%
Total interest-bearing deposits	1,144,576	7,659	1.35	%	1,209,683	10,097	1.68	%
Borrowed Funds:								
Short-term FHLB advances	1,811	2	0.12	%	17,072	10	0.11	%
Retail repurchase agreements	42,609	59	0.28	%	50,363	137	0.54	%
Total short-term borrowings	44,420	61	0.27	%	67,435	147	0.43	%
Long-term FHLB advances	87,830	1,518	3.49	%	104,320	1,837	3.55	%
Wholesale repurchase agreements	65,000	1,109	3.39	%	137,099	2,735	3.97	%
Other borrowings	22,574	985	8.68	%	22,539	990	8.74	%
Total long-term borrowings	175,404	3,612	4.12	%	263,958	5,562	4.21	%
Total borrowed funds	219,824	3,673	3.34	%	331,393	5,709	3.44	%
Total interest-bearing liabilities	1,364,400	11,332	1.67	%	1,541,076	15,806	2.06	%
Non-interest-bearing deposits	224,674				206,398			
Other liabilities	11,626				14,008			
Total liabilities	1,600,700				1,761,482			
Preferred equity	21,530				38,568			
Common equity	194,454				204,585			

Total stockholders' equity	215,984				243,153			
Total liabilities and stockholders' equity	$1,816,684				$2,004,635			
Interest rate spread		$27,507	3.18	%		$31,419	3.22	%
Net interest margin			3.43	%			3.51	%

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(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 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:

	Three Months Ended			Six Months Ended	
(Dollars in thousands)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net interest income, as reported	$13,431	$13,495	$15,173	$26,926	$30,614
Taxable equivalent adjustments	281	299	404	581	805
Fully tax-equivalent net interest income	$13,712	$13,794	$15,577	$27,507	$31,419

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

	Three Months Ended June 30, 2011 Compared to						Six Months Ended June 30, 2011 Compared to		
(Dollars in thousands)	March 31, 2011			June 30, 2010			June 30, 2010		
Increase (decrease) in:	Rate	Volume	Total (1)	Rate	Volume	Total (1)	Rate	Volume	Total (1)
INTEREST INCOME:									
Short-term investments	$(1)	$(5)	$(6)	$(3)	$(13)	$(16)	$(3)	$(6)	$(9)
Investment Securities: (2)									
Taxable	(667)	628	(39)	(1,055)	(502)	(1,557)	(1,886)	(1,439)	(3,325)
Nontaxable	(12)	(51)	(63)	(15)	(345)	(360)	(10)	(683)	(693)
Total investment income	(679)	577	(102)	(1,070)	(847)	(1,917)	(1,896)	(2,122)	(4,018)
Loans:									
Commercial	(73)	(144)	(217)	(670)	(1,025)	(1,695)	(1,262)	(1,965)	(3,227)
Real estate	(40)	(42)	(82)	(159)	(212)	(371)	(353)	(435)	(788)
Consumer	(242)	254	12	(270)	124	(146)	(242)	(102)	(344)
Total loan income	(355)	68	(287)	(1,099)	(1,113)	(2,212)	(1,857)	(2,502)	(4,359)
Total interest income	(1,035)	640	(395)	(2,172)	(1,973)	(4,145)	(3,756)	(4,630)	(8,386)
INTEREST EXPENSE:									
Deposits:									
Savings accounts	3	4	7	7	7	14	10	12	22
Interest-bearing demand accounts	(430)	248	(182)	(400)	190	(210)	(359)	110	(249)
Money market accounts	(9)	(11)	(20)	(368)	(61)	(429)	(786)	(55)	(841)
Brokered certificates of deposit	159	(221)	(62)	715	(906)	(191)	396	(758)	(362)
Retail certificates of deposit	(30)	(24)	(54)	(259)	(204)	(463)	(516)	(492)	(1,008)
Total deposit cost	(307)	(4)	(311)	(305)	(974)	(1,279)	(1,255)	(1,183)	(2,438)
Borrowed funds:									

Short-term borrowings	(7)	(2)	(9)	(31)	(9)	(40)	(56)	(30)	(86)
Long-term borrowings	26	(19)	7	(179)	(782)	(961)	(393)	(1,557)	(1,950)
Total borrowed funds cost	19	(21)	(2)	(210)	(791)	(1,001)	(449)	(1,587)	(2,036)
Total interest expense	(288)	(25)	(313)	(515)	(1,765)	(2,280)	(1,704)	(2,770)	(4,474)
Net interest income	$(747)	$665	$(82)	$(1,657)	$(208)	$(1,865)	$(2,052)	$(1,860)	$(3,912)

(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.

Second quarter 2011 net interest income was consistent with the linked quarter, as lower deposit costs offset the impact of the low interest rate environment on asset yields. The reduction in deposit costs occurred primarily as the result of the repricing of large governmental deposit relationship early in the second quarter. Compared to the prior year, net interest income was down 11% and 12% for the second quarter and first half of 2011, respectively, while net interest margin compressed six and eight basis points, respectively. The main driver of these reductions was the sustained low interest rate environment, coupled with a decline in average loan balances experienced as a result of significant payoffs and charge-offs in prior quarters. Peoples' deposit pricing strategy over the past several quarters has caused a moderate decrease in money market balances and high-cost retail certificates of deposit.
During the second half of 2011, Peoples' balance sheet strategies will focus on growing loans profitably, remaining disciplined with loan and deposit pricing and maintaining good liquidity. Opportunities to reduce funding costs will be limited, as minimal high-cost funding is scheduled to mature. As a result, management believes there will be downward pressure on net interest income and margin unless the Federal Reserve takes steps to raise short-term interest rates or loan demand strengthens.
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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
(Dollars in thousands)	2011	2011	2010	2011	2010
Provision for checking account overdrafts	$95	$11	$179	$106	$199
Provision for other loan losses	2,200	5,300	5,279	7,500	11,760
Total provision for loan losses	$2,295	$5,311	$5,458	$7,606	$11,959
As a percentage of average gross loans (a)	0.97%	2.24%	2.10%	1.61%	2.29%

(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.
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 for the three and six months ended June 30:

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
(Dollars in thousands)	2011	2011	2010	2011	2010
Net (loss) gain on OREO	$(1,002)	$57	$(1,261)	$(945)	$(1,231)
Gain (loss) on loans held-for-sale	468	—	(93)	468	(93)
Net (loss) gain on asset disposals	(22)	3	6	(19)	(7)
Net other (losses) gains	$(556)	$60	$(1,348)	$(496)	$(1,331)

OREO losses for the second quarter of both 2011 and 2010 were the result of write-downs on commercial properties whose fair value had declined during the quarter. The losses in the second quarter of 2011 were partially offset by $248,000 in gains from sales of other properties. Also in the second quarter of 2011, Peoples sold two commercial real estate loans, with an aggregate carrying value of $1.0 million and secured by property located outside Peoples' primary market area, at modest gains.

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Non-Interest Income

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

	Three Months Ended			Six Months Ended	
(Dollars in thousands)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Overdraft and non-sufficient funds fees	$2,070	$1,718	$2,202	$3,788	$4,110
Account maintenance fees	353	253	217	606	408
Other fees and charges	31	203	38	234	237
Total deposit account service charges	$2,454	$2,174	$2,457	$4,628	$4,755

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. New regulations governing overdraft fees limiting the ability of banks to impose overdraft fees on certain transactions became effective during the third quarter of 2010. While these regulations have had some impact on Peoples' revenues, the year-over-year decline in overdraft and non-sufficient funds fees was mostly attributable to reduced volumes driven by changes in customer behavior. Second quarter 2011 account maintenance fees reflected a full quarter's impact of Peoples' new consumer checking account product offering and pricing structure.

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

	Three Months Ended			Six Months Ended	
(Dollars in thousands)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Property and casualty insurance commissions	$1,949	$1,678	$2,014	$3,627	$3,698
Performance-based commissions	1	943	—	944	585
Life and health insurance commissions	125	161	141	286	262
Credit life and A&H insurance commissions	43	30	35	73	48
Other fees and charges	47	20	71	67	79
Total insurance income	$2,165	$2,832	$2,261	$4,997	$4,672

Peoples continues to be successful at retaining insurance customers. However, growth in property and casualty insurance commission levels has been restrained by the effects of a contracting economy on commercial insurance needs. The performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers.

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

	Three Months Ended			Six Months Ended	
(Dollars in thousands)	June 30, 2011	March 31, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Fiduciary	$1,103	$1,039	$971	$2,142	$2,289
Brokerage	306	286	238	592	476
Total trust and investment income	$1,409	$1,325	$1,209	$2,734	$2,765

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010

Trust assets under management	$846,052	$852,972	$836,587	$795,335	$742,044
Brokerage assets under management	265,384	260,134	256,579	233,308	214,421
Total managed assets	$1,111,436	$1,113,106	$1,093,166	$1,028,643	$956,465
Quarterly average	$1,119,484	$1,105,329	$1,055,936	$998,307	$986,794

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Peoples' fiduciary and brokerage revenues are primarily driven by the value of assets under management. Second quarter 2011 fiduciary revenues included annual tax compliance fees, which accounted for most of the linked quarter growth. On a year-to-date basis, fiduciary revenues were lower than the prior year as a result of the non-recurrence of estate management fees, which totaled $256,000 in 2010. The changes in asset values primarily reflect the fluctuations experienced in the financial markets as a whole.

Second quarter 2011 mortgage banking income, while comparable with the prior year, was down 24% from the linked quarter driven mostly by significant refinancing activity in the first quarter of 2011 based on long-term mortgage interest rates offered by the secondary market. In the second quarter of 2011, Peoples sold approximately $10 million of loans to the secondary market compared to $16 million in the linked quarter and $10 million for the second quarter of 2010.

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			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
(Dollars in thousands)	2011	2011	2010	2011	2010
Base salaries and wages	$5,116	$5,276	$5,063	$10,392	$10,119
Sales-based and incentive compensation	1,172	986	891	2,077	1,603
Employee benefits	1,235	945	1,318	2,180	2,654
Stock-based compensation	63	33	25	96	51
Deferred personnel costs	(333)	(292)	(286)	(625)	(568)
Payroll taxes and other employment costs	700	679	485	1,460	1,014
Total salaries and employee benefit costs	$7,953	$7,627	$7,496	$15,580	$14,873
Full-time equivalent employees:					
Actual at end of period	537	543	527	537	527
Average during the period	537	538	530	537	531

Base salaries and wages for the three and six months ended June 30, 2011, were higher than the same periods in 2010, due to annual base salary adjustments plus a modest increase in full-time equivalent employees. In the second quarter of 2011, sales-based and incentive compensation was impacted by increased expense accruals associated with corporate incentive plans, which are based in part on Peoples' performance. The higher employee benefit costs for the second quarter of 2011 compared to the linked quarter was due entirely to increased employee medical benefit plan expenses. Year-over-year, employee benefit costs reflect the impact of freezing pension benefits, which became effective on March 1, 2011. The result was Peoples recording a net pension benefit in the first half of 2011 versus net pension costs last year. The lower pension costs were partially offset by higher 401(k) plan costs resulting from Peoples restoring the company match to 2009 levels. The freeze of pension benefits significantly reduced the threshold for recognizing settlement charges corresponding with lump sum distributions to participants in 2011 and subsequent years. Given the levels of lump sum distributions during the first half of 2011, management believes it is possible Peoples will incur settlement charges in the second half of 2011, which could offset the benefit currently being recognized by Peoples.

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

	Three Months Ended			Six Months Ended	
	June 30,	March 31,	June 30,	June 30,	June 30,
(Dollars in thousands)	2011	2011	2010	2011	2010
Depreciation	$505	$489	$499	$995	$991
Repairs and maintenance costs	398	416	373	814	829
Net rent expense	221	225	219	447	441

Property taxes, utilities and other costs	348	371	349	717	697
Total net occupancy and equipment expense	$1,472	$1,501	$1,440	$2,973	$2,958

Depreciation expense was held relatively flat during the first half of 2011 due in large part to management limiting capital expenditures during 2010 in connection with various cost saving initiatives. The variances in repairs and maintenance costs were driven primarily by seasonal variances in maintenance costs, such as snow removal costs.

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In the second quarter of 2011, professional fees were up significantly compared to both the linked and prior year quarters. The key driver of these variances was the timing of external legal services for problem loan workouts and external consulting services for various strategic initiatives. Contributing to the higher professional fees in 2011 has been the costs related to the benefits associated with Peoples' new Power checking product, which was introduced at the start of the year.

Foreclosed real estate and other loan expenses, which include costs associated with maintaining foreclosed assets, were lower during the first six months of 2011 compared to the prior year, due mostly to costs associated with commercial properties acquired through foreclosure in the fourth quarter of 2009. These costs are anticipated to remain comparable with the amount incurred for the second quarter of 2011 during the remainder of 2011. However, actual costs for future quarters will continue to be dependent upon the level and nature of Peoples' problem assets.

Over the next several quarters, management intends to implement several strategic initiatives designed to increase lending activity, enhance revenue generation and position Peoples for long-term growth. Peoples also will take steps to enhance its sales and sale management discipline across all lines of business. These actions could cause an increase to various non-interest expense categories, such as higher personnel costs from adding associates in key positions, additional depreciation expense or increased marketing expenses. However, management will work to enhance operating efficiency by capitalizing on cost savings opportunities, such as the planned closure of two banking offices during the third quarter of 2011.

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

Income Tax Expense

For the six months ended June 30, 2011, Peoples recorded income tax expense of $1,378,000, for an effective tax rate of 22.3%. This effective tax rate represents management's current estimate of the rate for the entire year. In comparison, Peoples recorded income tax expense of $874,000 for the same period in 2010, which included the entire $625,000 tax benefit associated with the investment impairment losses recognized in both the first and second quarters of 2010.

FINANCIAL CONDITION

Cash and Cash Equivalents

At June 30, 2011, Peoples' interest-bearing deposits in other banks included excess cash reserves at the Federal Reserve Bank of $4.6 million compared to $44.6 million at December 31, 2010. This decline occurred as a result of Peoples using these funds in the Partial TARP Redemption. The remaining decline occurred as the funds were redeployed into the investment portfolio.

Through six months of 2011, Peoples' total cash and cash equivalents decreased $37.0 million, due mostly to cash used in financing activities for the Partial TARP Redemption and $18.3 million reduction in borrowed funds. Investing activities used net cash of $15.6 million, primarily purchases of securities in the investment portfolio, which was more than offset by cash from operating activities of $23.3 million.

In comparison, Peoples’ operating and investing activities in the first half of 2010 provided net cash of $23.4 million and $35.2 million, respectively, of which $33.0 million was used in financing activities, producing a $25.6 million increase in total cash and cash equivalents. Net cash provided by investing activities consisted of funds generated by normal principal payments and payoffs on loans exceeding new originations, plus proceeds from securities sales and principal runoff. During the first half of 2010, Peoples reduced borrowed funds, which accounted for virtually all of the net cash used by financing activities.

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

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Investment Securities

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

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Fair value:					
Obligations of:					
U.S. Treasury and government agencies	$36	$38	$39	$60	$62
U.S. government sponsored agencies	12,321	12,084	12,262	13,005	1,245
States and political subdivisions	38,091	38,401	47,379	51,288	58,682
Residential mortgage-backed securities	540,931	523,844	507,534	485,663	548,455
Commercial mortgage-backed securities	35,288	41,189	30,700	44,854	25,319
U.S. government-backed student loan pools	—	—	—	—	47,202
Bank-issued trust preferred securities	13,385	13,266	12,984	12,904	12,599
Equity securities	3,546	3,318	3,088	3,009	2,905
Total fair value	$643,598	$632,140	$613,986	$610,783	$696,469
Total amortized cost	$638,667	$635,218	$617,121	$608,427	$685,382
Net unrealized gain (loss)	$4,931	$(3,078)	$(3,135)	$2,356	$11,087

The size and composition of Peoples' investment portfolio has changed significantly since June 30, 2010, primarily reflecting the deleveraging undertaken in the third quarter of 2010. While the majority of the proceeds from the third quarter 2010 investment sales were used to prepay long-term borrowings, a portion was reinvested into bonds issued by U.S. government sponsored agencies, which accounted for the increase in this segment during the third quarter of 2010. The lower investment in obligations of states and political subdivisions reflects the strategic sale of selected securities during the first quarter of 2011 and fourth quarter of 2010. Further changes in the size and composition of the investment portfolio may occur in future quarters, as management may reinvest principal runoff from mortgage-backed securities into other security types.

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

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Residential	$87,697	$101,760	$113,559	$141,779	$156,962
Commercial	1,663	2,734	26,090	23,749	25,319
Total fair value	$89,360	$104,494	$139,649	$165,528	$182,281
Total amortized cost	$86,747	$102,295	$136,997	$162,066	$181,727
Net unrealized gain	$2,613	$2,199	$2,652	$3,462	$554

The non-agency portfolio consists entirely of first lien residential and commercial mortgages. Nearly all of the underlying loans in these securities were originated in 2003 or earlier and have fixed interest rates. Over the last several quarters, management has reinvested the principal runoff from the non-agency securities into U.S agency investments, which accounted for the decline experienced in recent quarters.

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Loans

The following table provides information regarding outstanding loan balances:

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Gross portfolio loans:					
Commercial real estate	$430,832	$438,224	$452,875	$454,499	$471,046
Commercial and industrial	148,254	147,386	153,192	178,014	165,916
Real estate construction	28,136	32,839	22,478	39,621	36,490
Residential real estate	196,428	197,513	200,275	205,125	207,314
Home equity lines of credit	47,784	47,906	48,130	49,435	50,259
Consumer	86,540	82,521	81,567	82,894	83,735
Deposit account overdrafts	2,145	1,640	2,201	1,291	1,346
Total portfolio loans	$940,119	$948,029	$960,718	$1,010,879	$1,016,106
Percent of loans to total loans:					
Commercial real estate	45.8%	46.2%	47.1%	45.0%	46.4%
Commercial and industrial	15.8%	15.5%	15.9%	17.6%	16.3%
Real estate construction	3.0%	3.5%	2.3%	3.9%	3.6%
Residential real estate	20.9%	20.8%	20.8%	20.3%	20.4%
Home equity lines of credit	5.1%	5.1%	5.0%	4.9%	4.9%
Consumer	9.2%	8.7%	8.7%	8.2%	8.3%
Deposit account overdrafts	0.2%	0.2%	0.2%	0.1%	0.1%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Residential real estate loans being serviced for others	$259,352	$258,626	$250,630	$235,538	$234,134

During the first half of 2011, new commercial loan production remained steady, driven in part by the addition of several new lenders in recent months. However, total loan balances declined during each of the first two quarters, due in large part to sizable paydowns. The utilization of lines of credit by commercial borrowers remains lower than historical levels, which contributed to the decreased loan balances. During the first quarter of 2011, total loan balances were negatively impacted by charge-offs remaining elevated, plus the payoff of a single $10 million commercial and industrial loan. Consumer loan balances grew at a 20% annualized rate during the second quarter of 2011, primarily as the result of targeted promotions.

One of Peoples' strategic goals for the remainder of 2011, and future years, will be quality loan growth. Given current concentrations in commercial real estate loans, the primary emphasis of future lending activity will be on other commercial lending opportunities, including small business lending and new niches, such as health care and oil and gas lending. Peoples also plans to make investments over the next several quarters to increase lending activity by expanding its consumer lending activities, restructuring its commercial lending function and opening loan production offices. Management intends to balance loan growth with prudent risk management and sound underwriting standards.

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

Loans secured by commercial real estate, including commercial construction loans, continue to comprise 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 June 30, 2011:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
Commercial Real Estate Loans:					
Lodging and lodging related	$67,348	$170	$67,518	15.4	%
Apartment complexes	55,231	548	55,779	12.7	%
Office buildings and complexes:					
Owner occupied	6,593	251	6,844	1.6	%
Non-owner occupied	28,900	122	29,022	6.6	%
Total office buildings and complexes	35,493	373	35,866	8.2	%
Retail facilities:					
Owner occupied	11,153	1	11,154	2.5	%
Non-owner occupied	23,518	361	23,879	5.5	%
Total retail facilities	34,671	362	35,033	8.0	%
Residential property:					
Owner occupied	3,216	515	3,731	0.9	%
Non-owner occupied	26,805	85	26,890	6.1	%
Total residential property	30,021	600	30,621	7.0	%
Light industrial facilities:					
Owner occupied	19,616	90	19,706	4.5	%
Non-owner occupied	11,139	—	11,139	2.5	%
Total light industrial facilities	30,755	90	30,845	7.0	%
Assisted living facilities and nursing homes	30,448	—	30,448	7.0	%
Mixed commerical use facilities:					
Owner occupied	8,607	104	8,711	2.0	%
Non-owner occupied	14,867	11	14,878	3.4	%
Total mixed commercial use facilities	23,474	115	23,589	5.4	%
Day care facilities	18,528	—	18,528	4.2	%
Other	104,863	4,451	109,314	25.0	%
Total commercial real estate	$430,832	$6,709	$437,541	100.0	%
Real Estate Construction Loans:					
Health care facilities	$2,855	$9,681	$12,536	28.4	%
Assisted living facilities and nursing homes	8,809	2,114	10,923	24.7	%
Mixed commercial use facilities - non-owner occupied	5,969	404	6,373	14.4	%
Restuarants	692	2,737	3,429	7.8	%
Day care facilities	2,969	—	2,969	6.7	%
Other	6,842	1,090	7,932	18.0	%
Total real estate construction	$28,136	$16,026	$44,162	100.0	%

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balance in each state was less than $4.0 million at both June 30, 2011 and December 31, 2010.

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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)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Commercial real estate	$19,361	$19,613	$21,806	$21,382	$20,198
Commercial and industrial	3,069	1,734	2,160	2,826	3,954
Residential real estate	1,187	1,642	1,400	1,414	1,359
Home equity lines of credit	552	444	431	497	534
Consumer	783	790	721	830	872
Deposit account overdrafts	214	226	248	261	251
Total allowance for loan losses	$25,166	$24,449	$26,766	$27,210	$27,168
As a percentage of total loans	2.68%	2.58%	2.79%	2.68%	2.66%

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. The increased allowance for commercial and industrial loans in the second quarter of 2011 primarily reflected changes to the qualitative factors used in determining the appropriate level of allowance given the recent credit quality trends. At June 30, 2011, the allowance for loan losses was higher than the linked quarter, reflecting the impact of specific reserves for loans that became impaired and placed on nonaccrual status during the second quarter. 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 changes in loan balances in each category.

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The following table summarizes Peoples' net charge-offs:

(Dollars in thousands)	Three Months Ended June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Gross charge-offs:					
Commercial real estate	$2,197	$7,078	$6,913	$7,557	$4,676
Commercial and industrial	102	835	109	97	157
Residential real estate	756	201	400	382	145
Real estate construction	—	—	—	—	68
Home equity lines of credit	83	247	72	40	6
Consumer	175	283	236	247	242
Deposit account overdrafts	157	136	194	282	223
Total gross charge-offs	3,470	8,780	7,924	8,605	5,517
Recoveries:					
Commercial real estate	1,045	315	187	355	275
Commercial and industrial	487	59	48	28	119
Residential real estate	126	443	111	28	68
Real estate construction	—	—	—	—	—
Home equity lines of credit	16	10	7	2	1
Consumer	168	222	127	156	153
Deposit account overdrafts	50	103	48	73	58
Total recoveries	1,892	1,152	528	642	674
Net charge-offs (recoveries):					
Commercial real estate	1,152	6,763	6,726	7,202	4,401
Commercial and industrial	(385)	776	61	69	38
Residential real estate	630	(242)	289	354	77
Real estate construction	—	—	—	—	68
Home equity lines of credit	67	237	65	38	5
Consumer	7	61	109	91	89
Deposit account overdrafts	107	33	146	209	165
Total net charge-offs	$1,578	$7,628	$7,396	$7,963	$4,843
Ratio of net charge-offs to average loans (annualized):					
Commercial real estate	0.49%	2.84%	2.72%	2.81%	1.70%
Commercial and industrial	(0.16)%	0.33%	0.02%	0.03%	0.01%
Residential real estate	0.27%	(0.10)%	0.12%	0.14%	0.03%
Real estate construction	—%	—%	—%	—%	0.03%
Home equity lines of credit	0.03%	0.10%	0.02%	0.01%	—%
Consumer	—%	0.03%	0.04%	0.04%	0.03%
Deposit account overdrafts	0.04%	0.01%	0.01%	0.08%	0.06%
Total	0.67%	3.21%	2.93%	3.11%	1.86%

The majority of the second quarter 2011 charge-offs was attributable to write-downs on commercial real estate loans, which became impaired and placed on nonaccrual status during the quarter. Peoples also experienced substantial recoveries from the final disposition of several impaired loans, which included the sale of underlying collateral.

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The following table details Peoples' nonperforming assets:

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Loans 90+ days past due and accruing:					
Commercial real estate	$—	$—	$—	$—	$459
Commercial and industrial	—	37	—	31	—
Residential real estate	124	—	27	—	22
Total	124	37	27	31	481
Nonaccrual loans:					
Commercial real estate	27,455	27,934	34,392	30,083	29,676
Commercial and industrial	1,325	1,536	1,714	2,051	2,877
Residential real estate	2,358	2,491	3,790	4,481	4,933
Home equity	283	361	554	562	564
Consumer	—	—	—	7	—
Total	31,421	32,322	40,450	37,184	38,050
Total nonperforming loans (NPLs)	31,545	32,359	40,477	37,215	38,531
Other real estate owned (OREO)					
Commercial	3,546	4,220	4,280	4,305	4,752
Residential	—	180	215	30	140
Total	3,546	4,400	4,495	4,335	4,892
Total nonperforming assets (NPAs)	$35,091	$36,759	$44,972	$41,550	$43,423
NPLs as a percent of total loans	3.35%	3.41%	4.19%	3.67%	3.77%
NPAs as a percent of total assets	1.95%	2.04%	2.45%	2.21%	2.21%
NPAs as a percent of gross loans and OREO	3.71%	3.85%	4.64%	4.08%	4.23%
Allowance for loan losses as a percent of NPLs	79.78%	75.56%	66.10%	73.10%	70.50%

In the second quarter of 2011, nonperforming assets were down 5% over the linked quarter, due mostly to write-downs on commercial OREO attributable to declining real estate values. Peoples also experienced an 8% decline in substandard-rated loans to $76.1 million at quarter-end from a combination of paydowns and charge-offs. This decline was limited by two commercial relationships with aggregate balances of $1.0 million being downgraded and placed on nonaccrual status during the quarter in response to updated financial information regarding the borrowers. The level of watch-rated loans remained virtually unchanged during the second quarter as the impact of downgrading two large commercial real estate loans was matched by payoffs and upgrades.

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

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Deposits

The following table details Peoples’ deposit balances:

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Interest-bearing deposits:					
Retail certificates of deposit	$421,167	$420,828	$430,886	$436,250	$448,900
Money market deposit accounts	264,677	270,574	289,657	297,229	290,477
Governmental/public funds	150,319	149,961	119,572	139,843	136,119
Savings accounts	133,352	132,323	122,444	120,975	120,086
Interest-bearing demand accounts	99,324	97,561	96,507	92,585	94,542
Total retail interest-bearing deposits	1,068,839	1,071,247	1,059,066	1,086,882	1,090,124
Brokered certificates of deposits	67,912	70,522	87,465	95,862	105,093
Total interest-bearing deposits	1,136,751	1,141,769	1,146,531	1,182,744	1,195,217
Non-interest-bearing deposits	222,075	219,175	215,069	209,693	203,559
Total deposits	$1,358,826	$1,360,944	$1,361,600	$1,392,437	$1,398,776

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

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

Borrowed Funds

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

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Short-term borrowings:					
Retail repurchase agreements	$39,254	$42,283	$51,509	$49,060	$49,765
Long-term borrowings:					
FHLB advances	86,703	86,907	92,703	99,720	104,981
National market repurchase agreements	65,000	65,000	65,000	65,000	135,000
Total long-term borrowings	151,703	151,907	157,703	164,720	239,981
Subordinated notes held by subsidiary trust	22,583	22,574	22,565	22,557	22,548
Total borrowed funds	$213,540	$216,764	$231,777	$236,337	$312,294

The reduction in national market repurchase agreements since June 30, 2010 was the result of management's planned deleveraging of the balance sheet. Peoples has repaid maturing long-term borrowings over the last several quarters, using funds generated from retail deposit growth, contributing to the decline since September 30, 2009. The level and composition of borrowed funds may change in future quarters, as management will continue to use a combination of short-term and long-term borrowings to manage the interest rate risk of the balance sheet.

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Capital/Stockholders’ Equity

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

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

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Capital Amounts:					
Tier 1 common	$136,842	$133,891	$133,197	$133,624	$134,298
Tier 1	177,287	174,314	194,407	194,800	195,439
Total (Tier 1 and Tier 2)	192,663	189,672	209,738	210,768	211,509
Net risk-weighted assets	$1,135,234	$1,142,758	$1,149,587	$1,200,754	$1,212,816
Capital Ratios:					
Tier 1 common	12.05%	11.72%	11.59%	11.13%	11.07%
Tier 1	15.62%	15.25%	16.91%	16.22%	16.11%
Total (Tier 1 and Tier 2)	16.97%	16.60%	18.24%	17.55%	17.44%
Leverage ratio	10.10%	9.81%	10.63%	10.26%	10.14%

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

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Tangible Equity:					
Total stockholders' equity, as reported	$218,527	$210,485	$230,681	$233,759	$240,280
Less: goodwill and other intangible assets	64,602	64,765	64,870	64,934	65,138
Tangible equity	$153,925	$145,720	$165,811	$168,825	$175,142
Tangible Common Equity:					
Tangible equity	$153,925	$145,720	$165,811	$168,825	$175,142
Less: preferred stockholders' equity	17,862	17,850	38,645	38,619	38,593
Tangible common equity	$136,063	$127,870	$127,166	$130,206	$136,549
Tangible Assets:					
Total assets, as reported	$1,802,703	$1,801,590	$1,837,985	$1,883,689	$1,967,046
Less: goodwill and other intangible assets	64,602	64,765	64,870	64,934	65,138
Tangible assets	$1,738,101	$1,736,825	$1,773,115	$1,818,755	$1,901,908
Tangible Book Value per Share:					
Tangible common equity	$136,063	$127,870	$127,166	$130,206	$136,549
Common shares outstanding	10,478,149	10,474,507	10,457,327	10,438,510	10,423,317
Tangible book value per share	$12.99	$12.21	$12.16	$12.47	$13.10
Tangible Equity to Tangible Assets Ratio:					
Tangible equity	$153,925	$145,720	$165,811	$168,825	$175,142
Tangible assets	$1,738,101	$1,736,825	$1,773,115	$1,818,755	$1,901,908
Tangible equity to tangible assets	8.86%	8.39%	9.35%	9.28%	9.21%
Tangible Common Equity to Tangible Assets Ratio:					
Tangible common equity	$136,063	$127,870	$127,166	$130,206	$136,549
Tangible assets	$1,738,101	$1,736,825	$1,773,115	$1,818,755	$1,901,908
Tangible common equity to tangible assets	7.83%	7.36%	7.17%	7.16%	7.18%

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

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Interest Rate Sensitivity and Liquidity

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

Interest Rate Risk

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

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

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

Increase in Interest Rate	Estimated Increase in Net Interest Income				Estimated (Decrease) Increase in Economic Value of Equity			
(in Basis Points)	June 30, 2011		December 31, 2010		June 30, 2011		December 31, 2010	
300	$6,890	13.1 %	$8,973	17.2 %	$(24,718)	(11.0)%	$(9,005)	(3.9)%
200	5,459	10.4 %	6,860	13.2 %	(13,601)	(6.1)%	(3,297)	(1.4)%
100	3,283	6.2 %	4,048	7.8 %	(3,622)	(1.6)%	1,599	0.7 %

At June 30, 2011, Peoples' 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 manners, with the differences in both the timing and magnitude 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.

Liquidity

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

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

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

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At June 30, 2011, Peoples had available borrowing capacity through its wholesale funding sources, primarily the Federal Home Loan Bank of Cincinnati and Federal Reserve Bank of Cleveland, and unpledged investment securities totaling approximately $329 million that can be used to satisfy liquidity needs, compared to $286 million at year-end 2010. This liquidity position excludes excess cash reserves being maintained and the impact of Peoples' ability to obtain additional funding by either offering higher rates on retail deposits or issuing additional brokered deposits Management believes the current balance of cash and cash equivalents and anticipated cash flows from the investment portfolio, along with the availability of other funding sources, will allow Peoples to meet anticipated cash obligations, as well as special needs and off-balance sheet commitments.

Off-Balance Sheet Activities and Contractual Obligations

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

(Dollars in thousands)	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010
Home equity lines of credit	$39,758	$40,293	$40,021	$39,585	$39,650
Unadvanced construction loans	16,026	16,418	6,107	11,954	14,878
Other loan commitments	106,311	111,720	108,995	103,726	108,281
Loan commitments	162,095	168,431	155,123	155,265	162,809
Standby letters of credit	$41,198	$41,553	$42,097	$42,158	$43,505

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 June 30, 2011. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

(a) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be accumulated and communicated to Peoples' management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;

(b) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

(c) Peoples' disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples' fiscal quarter ended June 30, 2011, 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' 2010 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples' business, financial condition and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
The following table details repurchases by Peoples and purchases by "affiliated purchasers" as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, of Peoples' common shares during the three months ended June 30, 2011:

Period	(a) Total Number of Common Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)
April 1 – 30, 2011	1,268 (2)	$ 12.61 (2)	—	—
May 1 – 31, 2011	735 (2)	$ 12.24 (2)	—	—
June 1 – 30, 2011	521 (2)	$ 11.50 (2)	—	—
Total	2,524	$ 12.27	—	—

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION
None.

ITEM 6. EXHIBITS

The exhibits required to be filed with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see "Exhibit Index" beginning at page 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: July 29, 2011	By: /s/	CHARLES W. SULERZYSKI Charles W. Sulerzyski President and Chief Executive Officer
Date: July 29, 2011	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 JUNE 30, 2011

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

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

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Exhibit Number	Description	Exhibit Location
4.1	Warrant to purchase 313,505 Shares of Common Stock (common shares) of Peoples Bancorp Inc., issued to the United States Department of the Treasury on January 30, 2009	Incorporated herein by reference to Exhibit 4.1 to Peoples’ February 2, 2009 Form 8-K
4.2	Letter Agreement, dated January 30, 2009, including Securities Purchase Agreement – Standard Terms attached thereto as Exhibit A, between Peoples Bancorp Inc. and the United States Department of the Treasury [NOTE: Exhibit A to the Securities Purchase Agreement is not included therewith; filed as Exhibit 3.1 to Peoples’ February 2, 2009 Form 8-K and incorporated by reference at Exhibit 3.1(f) to this Quarterly Report on Form 10-Q]	Incorporated herein by reference to Exhibit 10.1 to Peoples’ February 2, 2009 Form 8-K
4.3	Letter Agreement, dated February 2, 2011, between Peoples Bancorp Inc. and the United States Department of the Treasury.	Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K dated and filed February 4, 2011 (File No. 0-16772).
10.1	Summary of Base Salaries for Peoples' Executive Officers*	Incorporated herein by reference to Exhibit 10.1 of Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (File No. 0-16722)("Peoples' March 31, 2011 Form 10-Q")
10.2	Change in Control Agreement between Peoples Bancorp Inc. and Charles W. Sulerzyski (adopted April 4, 2011).*	Filed herewith
10.3	Letter Agreement, dated April 4, 2011, between Peoples Bancorp Inc. and Charles W. Sulerzyski.*	Filed herewith
12	Statements regarding Computation of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends Appearing in Quarterly Report on Form 10-Q	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]	Filed herewith
32	Section 1350 Certifications	Furnished herewith

*Management Compensation Plan or Agreement

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Exhibit Number	Description	Exhibit Location
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 June 30, 2011 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensive Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at June 30, 2011 and December 31, 2010; (ii) Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2011 and 2010; (iii) Consolidated Statement of Stockholders' Equity (unaudited) for the six months ended June 30, 2011; (ix) Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2011 and 2010; and (v) Notes to the Unaudited Consolidated Financial Statements.

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