PEOPLES BANCORP INC
Form 10-Q
October 25, 2012
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 September 30, 2012

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: 10,690,009 common shares, without par value, at October 24, 2012.

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

PART I – FINANCIAL INFORMATION

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

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

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

See Notes to the Unaudited Consolidated Financial Statements

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

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

Earnings per common share - basic	$0.45	$0.35	$1.56	$0.74
Earnings per common share - diluted	$0.45	$0.35	$1.56	$0.73
Weighted-average number of common shares outstanding - basic	10,530,800	10,484,609	10,522,874	10,478,310
Weighted-average number of common shares outstanding - diluted	10,530,876	10,519,673	10,522,905	10,498,708
Cash dividends declared on common shares	$1,175	$1,060	$3,522	$2,118
Cash dividends declared per common share	$0.11	$0.10	$0.33	$0.20

See Notes to the Unaudited Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Net income	$4,824	$3,921	$16,511	$8,711
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding gain arising in the period	(107)	4,505	1,468	12,989
Related tax expense	37	(1,577)	(514)	(4,546)
Less: reclassification adjustment for net gain included in net income	112	57	3,275	473
Related tax expense	(39)	(21)	(1,146)	(166)
Net effect on other comprehensive income (loss)	(143)	2,892	(1,175)	8,136
Defined benefit plans:				
Net gain arising during the period	—	—	318	—
Related tax expense	—	—	(111)	—
Amortization of unrecognized loss and service cost on pension plan	41	387	472	464
Related tax expense	(14)	(136)	(165)	(163)
Net effect on other comprehensive income (loss)	27	251	514	301
Total other comprehensive income (loss), net of tax	(116)	3,143	(661)	8,437
Total comprehensive income	$4,708	$7,064	$15,850	$17,148

CONSOLIDATED STATEMENT OF STOCKHOLDERS’ EQUITY (Unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2011	$—	$166,969	$53,580	$1,412	$(15,304)	$206,657
Net income			16,511			16,511
Other comprehensive loss, net of tax				(661)		(661)
Repurchase of common stock warrant		(1,201)				(1,201)
Common stock cash dividends declared			(3,522)			(3,522)
Tax benefit from exercise of stock options		13				13
Reissuance of treasury stock for deferred compensation plan					163	163
Purchase of treasury stock					(80)	(80)
Common shares issued under dividend reinvestment plan		264				264
Common shares issued under Board of Directors' compensation plan		(35)			124	89
Stock-based compensation expense		602				602
Balance, September 30, 2012	$—	$166,612	$66,569	$751	$(15,097)	$218,835

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

See Notes to the Unaudited Consolidated Financial Statements

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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, 2011 ("2011 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2011 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2012, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2011, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2011 Form 10-K.

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

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

Note 2 Fair Value of Financial Instruments

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

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

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.

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

Assets measured at fair value on a recurring basis comprised the following at September 30, 2012:

		Fair Value Measurements at Reporting Date Using		
(Dollars in thousands)		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Fair Value	(Level 1)	(Level 2)	(Level 3)
September 30, 2012				
Obligations of:				
U.S. Treasury and government agencies	$28	$—	$28	$—
U.S. government sponsored agencies	575	—	575	—
States and political subdivisions	42,154	—	42,154	—
Residential mortgage-backed securities	472,439	—	472,439	—
Commercial mortgage-backed securities	61,345	—	61,345	—
Bank-issued trust preferred securities	10,105	—	10,105	—
Equity securities	2,714	2,594	120	—
Total available-for-sale securities	$589,360	$2,594	$586,766	$—
December 31, 2011				
Obligations of:				
U.S. Treasury and government agencies	$32	$—	$32	$—
U.S. government sponsored agencies	13,037	—	13,037	—
States and political subdivisions	35,745	—	35,745	—
Residential mortgage-backed securities	527,003	—	527,003	—
Commercial mortgage-backed securities	37,289	—	37,289	—
Bank-issued trust preferred securities	12,211	—	12,211	—
Equity securities	3,254	3,126	128	—
Total available-for-sale securities	$628,571	$3,126	$625,445	$—

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

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans. Management’s determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2012, impaired loans with an aggregate outstanding principal balance of $6.2 million were measured and reported at a fair value of $4.6 million. For the three and nine months ended September 30, 2012, Peoples recognized losses on impaired loans of $0.2 million and $1.6 million, respectively, through the allowance for loan losses.

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

	September 30, 2012		December 31, 2011	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$59,277	$59,277	$38,950	$38,950
Investment securities	646,593	647,954	669,228	669,632
Loans	982,899	886,038	918,060	828,477
Financial liabilities:				
Deposits	$1,452,487	$1,463,796	$1,351,080	$1,363,742
Short-term borrowings	37,651	37,651	51,643	51,643
Long-term borrowings	106,270	119,791	142,312	157,553
Junior subordinated notes held by subsidiary trust	22,627	23,681	22,600	23,760

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

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

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

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

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

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

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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
September 30, 2012				
Obligations of:				
U.S. Treasury and government agencies	$28	$—	$—	$28
U.S. government sponsored agencies	540	35	—	575
States and political subdivisions	38,541	3,614	(1)	42,154
Residential mortgage-backed securities	469,514	12,106	(9,181)	472,439
Commercial mortgage-backed securities	58,923	2,458	(36)	61,345
Bank-issued trust preferred securities	10,962	70	(927)	10,105
Equity securities	1,214	1,601	(101)	2,714
Total available-for-sale securities	$579,722	$19,884	$(10,246)	$589,360
December 31, 2011				
Obligations of:				
U.S. Treasury and government agencies	$32	$—	$—	$32
U.S. government sponsored agencies	12,291	746	—	13,037
States and political subdivisions	32,763	2,982	—	35,745
Residential mortgage-backed securities	521,231	15,607	(9,835)	527,003
Commercial mortgage-backed securities	35,712	1,577	—	37,289
Bank-issued trust preferred securities	13,886	12	(1,687)	12,211
Equity securities	1,213	2,134	(93)	3,254
Total available-for-sale securities	$617,128	$23,058	$(11,615)	$628,571

Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both September 30, 2012 and December 31, 2011. At September 30, 2012, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies, that exceeded 10% of stockholders' equity.

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

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

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

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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
September 30, 2012								
Obligations of:								
U.S. Treasury and government agencies	$—	$—	—	$—	$—	—	$—	$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	380	1	2	—	—	—	380	1
Residential mortgage-backed securities	87,565	1,274	17	96,086	7,907	20	183,651	9,181
Commercial mortgage-backed securities	7,705	36	2	—	—	—	7,705	36
Bank-issued trust preferred securities	2,376	18	2	5,185	909	5	7,561	927
Equity securities	—	—	—	75	101	1	75	101
Total	$98,026	$1,329	23	$101,346	$8,917	26	$199,372	$10,246
December 31, 2011								
Obligations of:								
U.S. Treasury and government agencies	$—	$—	—	$3	$—	1	$3	$—
U.S. government sponsored agencies	—	—	—	—	—	—	—	—
States and political subdivisions	—	—	—	—	—	—	—	—
Residential mortgage-backed securities	60,148	756	13	91,400	9,079	15	151,548	9,835
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—
Bank-issued trust preferred securities	6,872	625	4	4,329	1,062	5	11,201	1,687
Equity securities	—	—	—	83	93	1	83	93
Total	$67,020	$1,381	17	$95,815	$10,234	22	$162,835	$11,615

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2012, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2012 and December 31, 2011, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2012, approximately 96% of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored enterprises. The remaining 4%, or seven positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Three of the seven positions had a fair value less than 90% of their book value, with an aggregate book and fair value of $2.1 million and $1.6 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, four of the seven bank-issued trust preferred securities at an unrealized loss position were within 90% of book value, while the unrealized losses for the remaining three were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector. The remaining three securities had an aggregate book value of approximately $3.0 million and fair value of $2.3 million at September 30, 2012.

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The table below presents the amortized cost, fair value and weighted-average yield of available-for-sale securities by contractual maturity at September 30, 2012. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

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

Held-to-Maturity

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
Obligations of:				
States and political subdivisions	$3,862	$410	$—	$4,272
Residential mortgage-backed securities	20,770	536	—	21,306
Commercial mortgage-backed securities	7,940	415	—	8,355
Total held-to-maturity securities	$32,572	$1,361	$—	$33,933
December 31, 2011				
Obligations of:				
States and political subdivisions	$3,525	$262	$—	$3,787
Residential mortgage-backed securities	12,776	230	(88)	12,918
Total held-to-maturity securities	$16,301	$492	$(88)	$16,705

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three and nine months ended September 30, 2012.

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
September 30, 2012								
Obligations of:								
States and political subdivisions	$—	$—	—	$—	$—	—	$—	$—
Residential mortgage-backed securities	—	—	—	—	—	—	—	—
Total	$—	$—	—	$—	$—	—	$—	$—
December 31, 2011								
Obligations of:								
States and political subdivisions	$—	$—	—	$—	$—	—	$—	$—
Residential mortgage-backed securities	6,416	88	1	—	—	—	6,416	88
Total	$6,416	$88	1	$—	$—	—	$6,416	$88

The table below presents the amortized cost, fair value and weighted-average yield of held-to-maturity securities by contractual maturity at September 30, 2012. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	$—	$—	$340	$3,522	$3,862
Residential mortgage-backed securities	—	—	550	20,220	20,770
Commercial mortgage-backed securities	—	—	—	7,940	7,940
Total held-to-maturity securities	$—	$—	$890	$31,682	$32,572
Fair value					
Obligations of:					
States and political subdivisions	$—	$—	$344	$3,928	$4,272
Residential mortgage-backed securities	—	—	563	20,743	21,306
Commercial mortgage-backed securities	—	—	—	8,355	8,355
Total held-to-maturity securities	$—	$—	$907	$33,026	$33,933
Total average yield	—%	—%	2.61%	3.17%	3.15%

Other Securities

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

Pledged Securities

Peoples had pledged available-for-sale investment securities with a carrying value of $340.8 million and $359.1 million at September 30, 2012 and December 31, 2011, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Additionally, Peoples had pledged held-to-maturity investment securities with a carrying value of $30.2 million and $3.0 million at September 30, 2012 and December 31, 2011, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of $53.6 million and $65.2 million at September 30, 2012 and December 31, 2011, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

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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. The major classifications of loan balances, excluding loans held for sale, were as follows:

(Dollars in thousands)	September 30, 2012	December 31, 2011
Commercial real estate	$379,561	$410,352
Commercial and industrial	172,068	140,857
Real estate construction	50,804	30,577
Residential real estate	233,501	219,619
Home equity lines of credit	51,137	47,790
Consumer	100,116	87,531
Deposit account overdrafts	1,580	1,780
Total loans	$988,767	$938,506

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

(Dollars in thousands)	September 30, 2012	December 31, 2011
Commercial real estate	$3,052	$3,754
Commercial and industrial	74	109
Residential real estate	13,407	14,497
Consumer	91	101
Total outstanding balance	$16,624	$18,461
Net carrying amount	$16,148	$17,954

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled $186.7 million and $184.8 million at September 30, 2012 and December 31, 2011, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled $146.4 million and $124.0 million at September 30, 2012 and December 31, 2011, respectively.

Nonaccrual and Past Due Loans

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

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

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

(Dollars in thousands)	Loans Past Due 30 - 59 days	60 - 89 days	90 + Days	Total	Current Loans	Total Loans
September 30, 2012						
Commercial real estate	$785	$1,497	$5,740	$8,022	$371,539	$379,561
Commercial and industrial	554	62	27	643	171,425	172,068
Real estate construction	—	—	—	—	50,804	50,804
Residential real estate	2,436	490	2,331	5,257	228,244	233,501
Home equity lines of credit	272	24	16	312	50,825	51,137
Consumer	709	72	10	791	99,325	100,116
Deposit account overdrafts	60	—	—	60	1,520	1,580
Total	$4,816	$2,145	$8,124	$15,085	$973,682	$988,767
December 31, 2011						
Commercial real estate	$2,700	$2,286	$11,363	$16,349	$394,003	$410,352
Commercial and industrial	230	360	37	627	140,230	140,857
Real estate construction	—	—	—	—	30,577	30,577
Residential real estate	5,750	1,187	3,082	10,019	209,600	219,619
Home equity lines of credit	206	—	349	555	47,235	47,790
Consumer	874	86	—	960	86,571	87,531
Deposit account overdrafts	66	—	—	66	1,714	1,780
Total	$9,826	$3,919	$14,831	$28,576	$909,930	$938,506

Credit Quality Indicators

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

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

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

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

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

"Loss" (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category.

Consumer loans and other smaller-balance loans are evaluated and categorized as "substandard", "doubtful" or "loss" based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually nor meeting the regulatory conditions to be categorized as described above would be

considered as being “not rated”.
The following table summarizes the risk category of Peoples' loan portfolio based upon the most recent analysis performed:

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
September 30, 2012						
Commercial real estate	$312,346	$29,817	$33,710	$—	$3,688	$379,561
Commercial and industrial	144,105	14,869	8,982	—	4,112	172,068
Real estate construction	47,140	—	1,106	—	2,558	50,804
Residential real estate	22,868	1,977	8,189	—	200,467	233,501
Home equity lines of credit	1,358	—	1,104	—	48,675	51,137
Consumer	84	—	23	—	100,009	100,116
Deposit account overdrafts	—	—	—	—	1,580	1,580
Total	$527,901	$46,663	$53,114	$—	$361,089	$988,767
December 31, 2011						
Commercial real estate	$310,996	$40,165	$56,142	$—	$3,049	$410,352
Commercial and industrial	113,391	18,636	6,625	—	2,205	140,857
Real estate construction	23,710	2,932	2,062	—	1,873	30,577
Residential real estate	28,507	2,913	10,097	20	178,082	219,619
Home equity lines of credit	1,491	42	1,394	—	44,863	47,790
Consumer	72	—	32	—	87,427	87,531
Deposit account overdrafts	—	—	—	—	1,780	1,780
Total	$478,167	$64,688	$76,352	$20	$319,279	$938,506

Impaired Loans
The following tables summarize loans classified as impaired:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2012							
Commercial real estate	$23,041	$1,948	$9,647	$11,595	$731	$12,178	$—
Commercial and industrial	479	—	408	408	—	492	—
Real estate construction	—	—	—	—	—	—	—
Residential real estate	1,099	259	734	993	36	1,514	—
Home equity lines of credit	—	—	—	—	—	167	—
Total	$24,619	$2,207	$10,789	$12,996	$767	$14,351	$—
December 31, 2011							
Commercial real estate	$49,402	$6,882	$16,501	$23,383	$1,026	$23,058	$—
Commercial and industrial	2,290	1,801	420	2,221	407	1,098	—
Real estate construction	—	—	—	—	—	—	—
Residential real estate	3,901	323	2,226	2,549	49	2,081	—
Home equity lines of credit	420	—	269	269	—	332	—
Total	$56,013	$9,006	$19,416	$28,422	$1,482	$26,569	$—

At September 30, 2012, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDRs'). The restructuring of a loan is considered a TDR if both (i) the borrower is experiencing financial difficulties and (ii) the creditor has granted a concession.
In assessing whether or not a borrower is experiencing financial difficulties, Peoples considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the debtor is currently in payment default on any of its debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the debtor has declared or is in the process of declaring bankruptcy and (iv) the debtor's projected cash flow is insufficient to satisfy contractual payments due under the original terms of the loan without a modification.

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

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

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

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

	Three Months Ended				Nine Months Ended			
		Recorded Investment (1)				Recorded Investment (1)		
	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2011	Number of Contracts	Pre-Modification	Post-Modification	At September 30, 2011
Commercial real estate	—	$—	$ —	$—	4	$3,197	$ 3,197	$3,001

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

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

Peoples had approximately $7,000 of additional commitments to lend additional funds to the related debtors whose terms have been modified in a TDR.

Allowance for Loan Losses

Changes in the allowance for loan losses in the periods ended September 30, were as follows:

(Dollars in thousands)	Consumer	Total

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

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Note 5 Long-Term Borrowings

Long-term borrowings consisted of the following at:

	September 30, 2012		December 31, 2011	
(Dollars in thousands)	Balance	Weighted-Average Rate	Balance	Weighted-Average Rate
Callable national market repurchase agreements	$40,000	3.63 %	$65,000	3.43 %
FHLB putable non-amortizing, fixed rate advances	50,000	3.32 %	60,000	3.28 %
FHLB amortizing, fixed rate advances	16,270	3.61 %	17,312	3.59 %
Total long-term borrowings	$106,270	3.48 %	$142,312	3.38 %

Peoples' national market repurchase agreements consisted of agreements with unrelated financial service companies and have original maturities ranging from 5 to 10 years. In general, these agreements may not be terminated by Peoples prior to maturity without incurring additional costs. The callable agreements contain call option features, in which the buyer has the right, at its discretion, to terminate the repurchase agreement after an initial period ranging from 3 months to 5 years. After the initial call period, the buyer has the right to terminate the agreement on a quarterly basis thereafter until maturity. If the buyer exercises its option, Peoples would be required to repay the agreement in whole at the quarterly date. During the first quarter of 2012, Peoples prepaid $35.0 million of wholesale borrowings resulting in early termination fees of $3.1 million. The borrowings had a weighted-average cost of 3.09%.

The FHLB advances consisted of various borrowings with original maturities ranging from 5 to 20 years that generally may not be repaid prior to maturity without Peoples incurring a penalty. The rates on the convertible rate advances are fixed for initial periods ranging from one to four years, depending on the specific advance. After the initial fixed rate period, the FHLB has the option to convert each advance to a LIBOR based, variable rate advance. If the FHLB exercises its option, Peoples may repay the advance in whole or in part on the conversion date or any subsequent repricing date without a prepayment fee. At all other times, early repayment of any convertible rate advance would result in Peoples incurring a prepayment penalty. For the putable advances, the FHLB has the option, at its sole discretion following an initial period of three months, to terminate the debt and require Peoples to repay the advance prior to the final stated maturity. After the initial period, the FHLB has the option to terminate the debt on a quarterly basis. If the advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then-offered by the FHLB, subject to normal FHLB underwriting criteria. As discussed in Notes 8 and 9 of the Notes to the Consolidated Financial Statements included in Peoples' 2011 Form 10-K, long-term FHLB advances are collateralized by assets owned by Peoples.

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

(Dollars in thousands)	Balance	Weighted-Average Rate
Three Months Ending December 31, 2012	$1,365	3.80 %
Year Ending December 31, 2013	2,225	3.67 %
Year Ending December 31, 2014	1,721	3.55 %
Year Ending December 31, 2015	1,466	3.55 %
Year Ending December 31, 2016	1,257	3.56 %
Thereafter	98,236	3.47 %
Total long-term borrowings	$106,270	3.48 %

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Note 6 Stockholders' Equity

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

	Preferred Stock	Common Stock	Treasury Stock
Shares at December 31, 2011	—	11,122,247	615,123
Changes related to stock-based compensation awards:			
Release of restricted common shares		4,000	1,441
Changes related to deferred compensation plan:			
Purchase of treasury stock			2,820
Reissuance of treasury stock			(8,897)
Common shares issued under dividend reinvestment plan		13,853	
Common shares issued under Board of Directors' compensation plan		—	(4,832)
Shares at September 30, 2012	—	11,140,100	605,655

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by the Board of Directors. In 2009, Peoples' Board of Directors created a series of preferred shares designated as Peoples' Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of $1,000 per share, and fixed 39,000 shares as the authorized number of such shares (the "Series A Preferred Shares"). These Series A Preferred Shares subsequently were sold to the United States Department of the Treasury (the "U.S. Treasury"), along with a ten-year warrant (the "Warrant") to purchase 313,505 Peoples common shares at an exercise price of $18.66 per share (subject to certain anti-dilution and other adjustments), for an aggregate purchase price of $39 million in cash in connection with Peoples' participation in the U.S. Treasury's TARP Capital Purchase Program. The entire 39,000 Series A Preferred Shares were repurchased during 2011 at an aggregate price of $39 million.

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

Accumulated Other Comprehensive Income (Loss)

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

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

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Note 7 Employee Benefit Plans

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

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

	Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest cost	$2	$3	$7	$9
Expected return on plan assets	—	—	—	—
Amortization of net loss	—	(3)	(1)	(7)
Settlement of benefit obligation	—	—	—	—
Net periodic cost	$2	$—	$6	$2

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

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

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

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

Note 8 Stock-Based Compensation

Under the Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan (the “2006 Equity Plan”), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, unrestricted common share awards or any combination thereof covering up to 500,000 common shares to employees and non-employee directors. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights (“SARs”) to be settled in common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

Stock Options

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

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The following table summarizes Peoples' stock options outstanding at September 30, 2012:

Range of Exercise Prices			Options Outstanding & Exercisable Common Shares Subject to Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$15.55	to	$21.71	4,043	0.5	$21.71
$21.72	to	$23.58	28,993	0.5	22.32
$23.59	to	$25.94	4,892	1.1	24.83
$26.01	to	$27.74	25,710	1.9	27.03
$28.25	to	$28.26	18,573	3.3	28.25
$28.57	to	$30.00	21,483	2.5	29.09
Total			103,694	1.8	$26.05

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted vested three years after the grant date and expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes Peoples' SARs outstanding at September 30, 2012:

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

Restricted Shares

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

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

	Time Vesting		Performance Vesting	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	26,544	$12.89	3,363	$13.14
Awarded	45,628	14.44	15,360	16.76
Released	4,000	12.15	—	—
Forfeited	2,379	15.20	858	16.98
Outstanding at September 30	65,793	$13.93	17,865	$16.07

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

Stock-Based Compensation

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

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

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

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

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Note 9 Earnings Per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per common share data)	2012	2011	2012	2011
Distributed earnings allocated to common shareholders	$1,166	$1,056	$3,496	$2,110
Undistributed earnings allocated to common shareholders	3,620	2,614	12,900	5,584
Net earnings allocated to common shareholders	$4,786	$3,670	$16,396	$7,694
Weighted-average common shares outstanding	10,530,800	10,484,609	10,522,874	10,478,310
Effect of potentially dilutive common shares	76	35,064	31	20,398
Total weighted-average diluted common shares outstanding	10,530,876	10,519,673	10,522,905	10,498,708
Earnings per common share:				
Basic	$0.45	$0.35	$1.56	$0.74
Diluted	$0.45	$0.35	$1.56	$0.73

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

Note 10 Acquisitions

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

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

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

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

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

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

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

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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 September 30,				At or For the Nine Months Ended September 30,			
	2012		2011		2012		2011	
SIGNIFICANT RATIOS								
Return on average stockholders' equity	8.86	%	7.03	%	10.41	%	5.35	%
Return on average common stockholders' equity	8.86	%	7.19	%	10.41	%	5.22	%
Return on average assets	1.04	%	0.86	%	1.21	%	0.64	%
Net interest margin	3.30	%	3.39	%	3.38	%	3.42	%
Efficiency ratio (a)	70.06	%	69.70	%	68.36	%	67.44	%
Average stockholders' equity to average assets	11.73	%	12.27	%	11.61	%	12.02	%
Average loans to average deposits	67.65	%	69.95	%	68.31	%	69.84	%
Dividend payout ratio	24.36	%	28.77	%	21.33	%	27.46	%
ASSET QUALITY RATIOS								
Nonperforming loans as a percent of total loans (b)(c)	1.55	%	3.47	%	1.55	%	3.47	%
Nonperforming assets as a percent of total assets (b)(c)	0.89	%	2.04	%	0.89	%	2.04	%
Allowance for loan losses to loans net of unearned interest (c)	1.88	%	2.65	%	1.88	%	2.65	%
Allowance for loan losses to nonperforming loans (b)(c)	119.98	%	76.16	%	119.98	%	76.16	%
(Recovery of) provision for loan losses to average loans (annualized)	(0.39	)%	0.36	%	(0.59	)%	1.19	%
Net charge-offs as a percentage of average loans (annualized)	0.15	%	0.34	%	0.13	%	1.41	%
CAPITAL INFORMATION (c)								
Tier 1 common capital ratio	13.86	%	12.40	%	13.86	%	12.40	%
Tier 1 capital ratio	15.85	%	15.98	%	15.85	%	15.98	%
Total risk-based capital ratio	17.16	%	17.33	%	17.16	%	17.33	%
Leverage ratio	10.13	%	10.37	%	10.13	%	10.37	%
Tangible equity to tangible assets (d)	8.37	%	9.19	%	8.37	%	9.19	%
Tangible common equity to tangible assets (d)	8.37	%	8.16					