PEOPLES BANCORP INC
Form 10-K
February 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 (State or other jurisdiction of incorporation or organization)	31-0987416 (I.R.S. Employer Identification No.)
138 Putnam Street, PO Box 738, Marietta, Ohio (Address of principal executive offices)	45750-0738 (Zip Code)
Registrant’s telephone number, including area code:	(740) 373-3155

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares, without par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes oNo x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes oNo x

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 Act). Yes o No x

As of June 30, 2011, the aggregate market value of the registrant's Common Shares (the only common equity of the registrant) held by non-affiliates was $112,647,000 based upon the closing price as reported on The NASDAQ Global Select Market. For this purpose, executive officers and directors of the registrant are considered affiliates.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: 10,678,613 common shares, without par value, at February 27, 2012.

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Documents Incorporated by Reference:
Portions of Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held April 26, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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As used in this Annual Report on Form 10-K (“Form 10-K”), “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. Unless otherwise indicated, all note references contained in this Form 10-K refer to the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

PART I

ITEM 1. BUSINESS

Corporate Overview

Peoples Bancorp Inc. is an Ohio corporation and a financial holding company organized in 1980. Peoples operates principally through its wholly-owned subsidiary, Peoples Bank, National Association (“Peoples Bank”). As of the date of this Form 10-K, Peoples' other wholly-owned subsidiaries included Peoples Investment Company and PEBO Capital Trust I. Peoples Bank owned Peoples Insurance Agency, LLC (“Peoples Insurance”) and PBNA, L.L.C., an asset management company. Peoples Investment Company owned Peoples Capital Corporation.

Peoples Bank was first chartered in 1902 as an Ohio banking corporation under the name “The Peoples Banking and Trust Company” in Marietta, Ohio, and was later reorganized as a national banking association under its current name in 2000. Peoples Insurance was first chartered in 1994 as an Ohio corporation under the name “Northwest Territory Property and Casualty Insurance Agency, Inc.” In late 1995, Peoples Insurance was awarded insurance agency powers in the State of Ohio, becoming the first insurance agency in Ohio to be affiliated with a financial institution. In 2009, Peoples Insurance was converted from an Ohio corporation to an Ohio limited liability company under its current name.

Peoples Investment Company, its subsidiary, Peoples Capital Corporation, and PBNA, L.L.C. were formed in 2001 to optimize Peoples' consolidated capital position and provide new investment opportunities as a means of enhancing profitability. These opportunities include, but are not limited to, investments in low-income housing tax credit funds or projects, venture capital and other higher risk investments, which are either limited or restricted as investments by Peoples Bank. Presently, the operations of these companies do not represent a material part of Peoples' overall business activities.

Business Overview

Peoples makes available a complete line of banking, investment, insurance and trust solutions through its financial units – Peoples Bank, Peoples Insurance and Peoples Financial Advisors (a division of Peoples Bank). These products and services include the following:

- various demand deposit accounts, savings accounts, money market accounts and certificates of deposit
- commercial, consumer and real estate mortgage loans (both commercial and residential) and lines of credit
- debit and automated teller machine (“ATM”) cards
- corporate and personal trust services
- safe deposit rental facilities
- travelers checks, money orders and cashier's checks
- full range of life, health and property and casualty insurance products
- custom-tailored fiduciary and wealth management services

Peoples' financial products and services are offered through its financial service locations and ATMs in Ohio, West Virginia and Kentucky, as well as telephone and internet-based banking through both PCs and mobile devices. Brokerage services are offered exclusively through an unaffiliated registered broker-dealer located at Peoples Bank's offices. Peoples also makes available credit cards to consumers and businesses, as well as merchant credit card processing services, through joint marketing arrangements with third parties.

Peoples' business activities are currently confined to one reporting unit and reportable segment, which is community banking. For a discussion of Peoples' financial performance for the fiscal year ended December 31, 2011, see Peoples' Consolidated Financial Statements and Notes to the Consolidated Financial Statements found in Item 8 of this Form 10-K.

Peoples has a history of expanding its business, including its customer base and primary market area, through a combination of internal growth and targeted acquisitions. The internal growth has included the opening of de novo banking and loan production offices located in or near Peoples' existing market area. Acquisitions have consisted of traditional banking offices, both individually and as part of entire institutions, and insurance agencies. The primary objectives of Peoples' expansion efforts include: (1) provide opportunities to integrate non-traditional products and services, such as

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insurance and investments, with the traditional banking products offered to its clients; (2) increase market share in existing markets; (3) expand Peoples' core financial service businesses of banking, insurance and wealth management and (4) improve operating efficiency by redirecting resources to offices and markets with greater growth potential.

Recent Corporate Developments

As more fully described in Note 11 of the Notes to the Consolidated Financial Statements, Peoples received $39 million of equity capital from the United States Department of the Treasury (the “U.S. Treasury”) on January 30, 2009. This new equity capital was obtained under the TARP Capital Purchase Program and was in the form of 39,000 Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of $1,000 per share (the “Series A Preferred Shares”) and a 10-year warrant to purchase 313,505 Peoples' common shares (the “Warrant”). During 2011, Peoples repurchased the entire 39,000 Series A Preferred Shares from the U.S. Treasury at their liquidation value of $39.0 million. On February 15, 2012, Peoples repurchased the Warrant for an aggregate price of $1.2 million. Additional information regarding the TARP Capital Purchase Program and the restrictions imposed on Peoples can be found under the “TARP Capital Purchase Program” heading in the “Supervision and Regulation” section included later in this Item 1.

Primary Market Area and Customers

Peoples considers its primary market area to consist of the counties where it has a physical presence and neighboring counties. This market area currently includes the counties of Athens, Belmont, Fairfield, Franklin, Gallia, Guernsey, Meigs, Morgan, Muskingum, Noble, Tuscarawas and Washington in Ohio; Cabell, Kanawha, Mason, Wetzel and Wood in West Virginia; and Boyd and Greenup in Kentucky. This market area encompasses the Metropolitan Statistical Areas (“MSA”) of Parkersburg-Marietta-Vienna, WV-OH, Charleston, WV and Huntington-Ashland, WV-KY-OH, and portions of the Columbus, OH and Wheeling, WV-OH MSAs. This primary market area largely consists of rural or small urban areas with a diverse group of industries and employers. Principal industries in this area include health care, education and other social services; plastics and petrochemical manufacturing; oil, gas and coal production; and tourism and other service-related industries. Because of this diversity, Peoples is not dependent upon any single industry segment for its business opportunities.

Lending Activities

Peoples Bank originates various types of loans, including commercial and commercial real estate loans, residential real estate loans, home equity lines of credit, real estate construction loans, and consumer loans. Peoples Bank's lending activities are focused principally on lending opportunities within its primary market areas, although Peoples Bank occasionally originates loans outside its primary markets related to existing customer relationships. In general, Peoples Bank retains the majority of loans it originates; however, certain longer-term fixed-rate mortgage loan originations, primarily one-to-four family residential mortgages, are sold into the secondary market.

Peoples Bank's loans consist of credits to borrowers spread over a broad range of industrial classifications. At December 31, 2011, Peoples Bank had no concentration of loans to borrowers engaged in the same or similar industries that exceeded 10% of total loans nor had any loans outstanding to non-U.S. entities.

Legal Lending Limit

Federal regulations impose a limit on the aggregate amount a financial institution may lend to one borrower, including certain related or affiliated borrowers. This legal lending limit is generally 15% of the institution's total capital, as defined by risk-based capital regulations, plus any allowance for loan losses not already included in total capital. At December 31, 2011, Peoples Bank's legal lending limit was approximately $26.2 million. During 2011, Peoples Bank did not extend credit to any one borrower or group of affiliated borrowers in excess of its legal lending limit.

Commercial Lending

Commercial, financial and agricultural loans (“commercial loans”), including loans secured by commercial real estate, represent the largest portion of Peoples' total loan portfolio, comprising approximately 58.7% of total loans at December 31, 2011. Commercial lending inherently involves a significant degree of risk of loss since commercial loan relationships generally involve larger loan balances than other loan classes. Additionally, repayment of commercial loans normally depends on adequate cash flows of a business, which can be negatively impacted by adverse changes in the general economy or in a specific industry.

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Commercial Lending Practices. Loan terms include amortization schedules and interest rates commensurate with the purpose of each loan, the source of repayment and the risk involved. The majority of Peoples' commercial loans carry variable interest rates equal to an underlying index rate plus a margin. Peoples Bank occasionally originates commercial loans with fixed interest rates for periods generally ranging from 3 to 5 years. The primary analytical technique used in determining whether to grant a commercial loan is the review of a schedule of cash flows to evaluate whether the borrower's anticipated future cash flows will be adequate to service both interest and principal due.

On an annual basis, Peoples Bank evaluates all loan relationships whose aggregate debt to Peoples Bank is greater than $500,000 for possible credit deterioration. This loan review process provides Peoples Bank with opportunities to identify potential problem loans and take proactive actions to assure repayment of the loan or minimize Peoples Bank's risk of loss, such as reviewing the relationship more frequently based upon the loan quality rating and aggregate debt outstanding. Upon detection of the reduced ability of a borrower to meet cash flow obligations, the loan is reviewed for possible downgrading or placement on nonaccrual status.

Real Estate Loans

While commercial loans comprise the largest portion of Peoples' loan portfolio, generating residential real estate loans remains a major focus of Peoples' lending efforts, whether the loans are ultimately sold into the secondary market or retained in Peoples' loan portfolio. At December 31, 2011, portfolio residential real estate loans comprised 23.4% of total loans. Peoples also had $3.2 million of residential real estate loans held for sale and was servicing $275.7 million of loans, consisting primarily of one-to-four family residential mortgages, previously sold in the secondary market.

Peoples Bank originates both fixed-rate and adjustable-rate real estate loans. Typically, the longer-term fixed-rate real estate loans are sold in the secondary market, with Peoples retaining servicing rights on those loans. In select cases, Peoples Bank may retain certain fixed-rate real estate loans or sell the loans without retaining the servicing rights.

Real Estate Lending Practices. Peoples Bank typically requires residential real estate loan amounts to be no more than 80% of the purchase price or the appraised value of the real estate securing the loan, whichever is lower, unless private mortgage insurance is obtained by the borrower for the percentage exceeding 80%. In limited circumstances, Peoples Bank may lend up to 100% of the appraised value of the real estate, although such lending currently is limited to loans that qualify under established federally backed rural housing programs. The risk conditions of real estate loans are considered during underwriting for the purposes of establishing an interest rate commensurate with the risks inherent in mortgage lending and the remaining equity of the home, if any.

Real estate loans are typically secured by first mortgages with evidence of title in favor of Peoples Bank in the form of an attorney's opinion of the title or a title insurance policy. Peoples Bank also requires proof of hazard insurance, with Peoples Bank named as the mortgagee and loss payee. Licensed appraisals are required for all real estate loans.

Home Equity Lines of Credit

Peoples Bank originates home equity lines of credit that provide consumers with greater flexibility in financing personal expenditures. At December 31, 2011, home equity lines of credit comprised 5.1% of Peoples' total loans. Peoples Bank currently offers home equity lines of credit with a prime-based variable rate for the entire 10-year term of the loan. Peoples Bank also offers a home equity line of credit whose terms include a fixed rate for the first five years and converting to a variable interest rate for the remaining five years. At December 31, 2011, total outstanding principal balances and available credit amounts of these convertible rate home equity lines of credit were $16.8 million and $22.5 million, respectively, and the weighted-average remaining maturity was 4.2 years.

Home Equity Lending Practices. Home equity lines of credit are generally made as second mortgages by Peoples Bank. The maximum amount of a home equity line of credit is generally limited to 80% of the appraised value of the property less the balance of the first mortgage. Peoples Bank may lend up to 90% of the appraised value of the property at higher interest rates that are commensurate with the additional risk being assumed in these situations. The home equity lines of credit are written with ten-year terms and are subject to review upon request for renewal.

Construction Loans

Peoples Bank originates various construction loans to provide temporary financing during the construction phase for commercial and residential properties. At December 31, 2011, construction loans comprised 3.3% of Peoples' loan

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portfolio. Construction financing is generally considered to involve the highest risk since Peoples Bank is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. If the estimated construction cost proves to be inaccurate, Peoples Bank may be required to advance funds beyond the amount originally committed to enable completion of the project. In certain cases, such as real estate development projects, repayment of construction loans occurs as a result of subsequent sales of the developed real estate.

Construction Lending Practices. Peoples Bank's construction lending is focused primarily on commercial and residential projects of select real estate developers and homebuilders. These projects include the construction of office, retail or industrial complexes and real estate development for either residential or commercial uses. The underwriting criteria for construction loans is generally the same as for non-construction loans.

To mitigate the risk of construction lending, Peoples Bank requires periodic site inspections by a construction loan manager, appraiser or architect to ensure appropriate completion of the project prior to any disbursements. Construction loans are structured to provide sufficient time to complete construction, including consideration for weather or other variables that influence completion time, although Peoples Bank generally requires the term to be less than two years.

Consumer Lending

Peoples Bank's consumer lending activities primarily involve loans secured by automobiles, boats, recreational vehicles and other personal property. At December 31, 2011, consumer loans comprised 9.3% of Peoples' loan portfolio.

Consumer Lending Practices. Consumer loans generally involve more risk as to collectability than real estate mortgage loans because of the type and nature of the collateral and, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower's continued financial stability, and are at more risk from adverse changes in personal circumstances. In addition, application of various state and federal laws, including bankruptcy and insolvency laws, could limit the amount that may be recovered under these loans. Credit approval for consumer loans typically requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, credit history and sufficient collateral for secured loans. It is the policy of Peoples Bank to review its consumer loan portfolio monthly and to charge-off loans that do not meet its standards, and to adhere strictly to all laws and regulations governing consumer lending. A qualified compliance officer is responsible for monitoring regulatory compliance performance and for advising and updating loan personnel.

Peoples Bank makes available optional credit life insurance and accident and health insurance to all qualified borrowers, thus reducing risk of loss when a borrower's income is terminated or interrupted due to accident, disability or death.

Overdraft Privilege

Peoples Bank grants Overdraft Privilege to qualified customers. Overdraft Privilege is a service that provides overdraft protection to retail deposit customers by establishing an Overdraft Privilege amount. After a 30-day waiting period to verify deposit ability, each new checking account usually receives an Overdraft Privilege amount of either $400 or $700, based on the type of account and other parameters. Once established, customers are permitted to overdraw their checking account at Peoples Bank's discretion, up to their Overdraft Privilege limit, with each item being charged Peoples Bank's regular overdraft fee. Customers repay the overdraft with their next deposit. Overdraft Privilege is designed to allow Peoples Bank to fill the void between traditional overdraft protection, such as a line of credit, and “check cashing stores”. Under federal banking regulations, Peoples Bank is required to obtain the consent of its customers in order to apply Overdraft Privilege to ATM and one-time debit card transactions. While Overdraft Privilege generates fee income, Peoples maintains an allowance for losses from checking accounts with overdrafts deemed uncollectible. This allowance, along with the related provision and net charge-offs, is included in Peoples' allowance for loan losses.

Investment Activities

Investment securities comprise a significant portion of Peoples' total assets. The majority of Peoples' investment activities are conducted through Peoples Bank, although Peoples and its non-banking subsidiaries engage in investment activities from time-to-time. Investment activity by Peoples Bank is subject to certain regulatory guidelines and limitations on the types of securities eligible for purchase. As a result, the investment securities owned by Peoples Bank include obligations of the U.S. Treasury, agencies and corporations of the U.S. government, including mortgage-backed securities,

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bank eligible obligations of any state or political subdivision in the U.S. and bank eligible corporate obligations, including private-label mortgage-backed securities. The investments owned by Peoples are comprised of common stocks issued by various unrelated banking holding companies and tax-exempt municipal obligations. The investments owned by Peoples' non-banking subsidiaries currently consist of tax credit funds and corporate obligations.

Peoples' investment activities are governed internally by a written, Board-approved policy, which is administered by Peoples' Asset-Liability Management Committee ("ALCO"). The primary purpose of Peoples' investment portfolio is to: (1) employ excess funds not needed for loan demand; (2) provide a source of liquid assets to accommodate unanticipated deposit and loan fluctuations and overall liquidity needs; (3) provide eligible securities to secure public and trust funds; and (4) earn the maximum overall return commensurate with the investment's risk and corporate needs. Investment strategies to achieve these objectives are reviewed and approved by the ALCO. In its evaluation of investment strategies, the ALCO considers various factors, including the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and Peoples' overall interest rate sensitivity. The ALCO also has much broader responsibilities, which are discussed in the "Interest Rate Sensitivity and Liquidity" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of in this Form 10-K.

Funding Sources

Peoples' primary sources of funds for lending and investing activities are interest-bearing and non-interest-bearing deposits. Cash flows from both the loan and investment portfolios, which include scheduled payments, as well as prepayments, calls and maturities, also provide a relatively stable source of funds. Peoples also utilizes a variety of short-term and long-term borrowings to fund asset growth and satisfy liquidity needs. Peoples' funding sources are monitored and managed through Peoples' asset-liability management process, which is discussed further in the "Interest Rate Sensitivity and Liquidity" section of "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in Item 7 of this Form 10-K.

The following is a brief description of the various sources of funds utilized by Peoples:

Deposits

Peoples obtains deposits principally from individuals and businesses within its primary market area by offering a broad selection of deposit products to clients. Retail deposit account terms vary with respect to the minimum balance required, the time the funds must remain on deposit and service charge schedules. Interest rates paid on specific deposit types are determined based on (1) the interest rates offered by competitors, (2) the anticipated amount and timing of funding needs, (3) the availability and cost of alternative sources of funding and (4) the anticipated future economic conditions and interest rates. Retail deposits are attractive sources of funding because of their stability and relative cost in addition to providing opportunities for Peoples to build long-term client relationships through the cross-selling of its other products and services.

Peoples also offers its customers the ability to receive up to $30 million in federal deposit insurance coverage for certificates of deposit ("CDs") through the Certificate of Deposit Account Registry Service, ("CDARS"), program. Under this program, funds from large customer deposits are placed into CDs issued by other members of the CDARS network in increments below the federal deposit insurance limits to ensure both principal and interest remain eligible for insurance.

Peoples occasionally obtains deposits from clients outside Peoples' primary market area, generally in the form of CDs and often through deposit brokers. These deposits are used to supplement Peoples' retail deposits to fund loans originated to customers located outside Peoples' primary market area, as well as provide diversity in funding sources. While these deposits may carry slightly higher interest costs than other wholesale funds, they do not require Peoples to secure the funds with collateral, unlike most other borrowed funds.

Additional information regarding the amounts and composition of Peoples' deposits can be found in the "Deposits" section of "Management's Discussion and Analysis of Financial Condition and Results of Operation" included in Item 7 of this Form 10-K and in Note 7 of the Notes to the Consolidated Financial Statements.

Borrowed Funds

Peoples obtains funds through a variety of short-term and long-term borrowings, which typically include advances from the Federal Home Loan Bank of Cincinnati ("FHLB"), Federal Funds purchased, advances from the Federal

Reserve Discount Window and repurchase agreements. Occasionally, Peoples obtains funds from unrelated financial institutions in the form of loans or revolving lines of credit. Short-term borrowings are used generally to manage Peoples' daily liquidity needs since they typically may be repaid, in whole or part, at any time without a penalty.

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Long-term borrowings provide cost-effective options for funding asset growth and satisfying capital needs, due to the variety of pricing and maturity options available.

Additional information regarding the amounts and composition of Peoples' borrowed funds can be found in the “Borrowed Funds” section of “Management's Discussion and Analysis of Financial Condition and Results of Operation” included in Item 7 of this Form 10-K and in Notes 8 and 9 of the Notes to the Consolidated Financial Statements.

Peoples has an established statutory business trust subsidiary (PEBO Capital Trust I) that was formed for the sole purpose of issuing preferred securities and investing the proceeds in junior subordinated debt securities of Peoples. The trust preferred securities qualify as Tier 1 capital for regulatory capital purposes, subject to certain quantitative limits and qualitative standards. Additional information can be found in Note 10 of the Notes to the Consolidated Financial Statements.

Competition

Peoples experiences intense competition within its primary market area due to the presence of several national, regional and local financial institutions and other service providers, including finance companies, insurance agencies and mutual funds. Competition within the financial service industry continues to increase as a result of mergers between, and expansion of, financial service providers within and outside of Peoples' primary market areas. In addition, the deregulation of the financial services industry (see the discussion of the Gramm-Leach-Bliley Act of 1999 in the section of this item captioned “Supervision and Regulation – Bank Holding Company Act”) has allowed securities firms and insurance companies that have elected to become financial holding companies to acquire commercial banks and other financial institutions, which can create additional competitive pressure.

Peoples primarily competes based on client service, convenience and responsiveness to customer needs, available products, rates of interest on loans and deposits, and the availability and pricing of trust, brokerage and insurance services. However, some competitors may have greater resources and, as such, higher lending limits than Peoples, which adversely affects Peoples' ability to compete. Peoples' business strategy includes the use of a “needs-based” sales and service approach to serve customers and incentives intended to promote customers' continued use of multiple financial products and services. In addition, Peoples continues to emphasize the integration of traditional commercial banking products with non-traditional financial products, such as insurance and investment products.

Peoples historically has focused on providing its full range of products and services in smaller metropolitan markets rather than major metropolitan areas. While management believes Peoples has developed a level of expertise in serving the financial service needs of smaller communities, Peoples' primary market area has expanded into larger metropolitan areas, such as central Ohio. These larger areas typically contain entrenched service providers with an existing customer base much larger than Peoples' initial entry position. As a result, Peoples may be forced to compete more aggressively in order to grow its market share in these areas, which could reduce current and future profit potential from such markets.

Employees

At December 31, 2011, Peoples had 513 full-time equivalent employees.

Intellectual Property and Proprietary Rights

Peoples has registered the service marks “Peoples Bank (with logo)”, “Peoples Bancorp (with logo)”, “Peoples Financial Advisors (with logo)”, “Connect Card”, “Peoples Bank” and “peoplesbancorp.com” with the U.S. Patent and Trademark Office. These service marks currently have expiration dates ranging from 2014 to 2017. Peoples may renew the registrations of service marks with the U.S. Patent and Trademark Office generally for additional 10-year periods indefinitely, provided it continues to use the service marks and files appropriate maintenance and renewal documentation with the U.S. Patent and Trademark Office at times required by the federal trademark laws and regulations.

Peoples has a proprietary interest in the Internet domain name “pebo.com”. Internet domain names in the U.S. and in foreign countries are regulated, but the laws and regulations governing the Internet are continually evolving.

Supervision and Regulation

Peoples and its subsidiaries are subject to extensive supervision and regulation by federal and state agencies. The regulation of financial holding companies and their subsidiaries is intended primarily for the protection of consumers, depositors, borrowers, the federal deposit insurance fund and the banking system as a whole and not for the protection of

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shareholders. The following is a summary of the regulatory agencies, statutes and related regulations that have, or could have, a material impact on Peoples' business. This discussion is qualified in its entirety by reference to such regulations and statutes.

Financial Holding Company

Peoples is a legal entity separate and distinct from its subsidiaries and affiliated companies. As a financial holding company, Peoples is subject to regulation under the Bank Holding Company Act of 1956, as amended (the “BHC Act”), and to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

The Federal Reserve Board also has extensive enforcement authority over financial holding companies. In general, the Federal Reserve Board may initiate enforcement actions for violations of laws and regulations and unsafe or unsound practices. The Federal Reserve Board may assess civil money penalties, issue cease and desist or removal orders and require that a financial holding company divest subsidiaries, including subsidiary banks. Peoples is also required to file reports and other information with the Federal Reserve Board regarding its business operations and those of its subsidiaries.

Subsidiary Bank

Peoples Bank is subject to regulation and examination primarily by the Office of the Comptroller of the Currency (the "OCC") and secondarily by the Federal Reserve Board and the Federal Deposit Insurance Corporation (the “FDIC”). OCC regulations govern permissible activities, capital requirements, dividend limitations, investments, loans and other matters. The OCC has the authority to impose sanctions on Peoples Bank and, under certain circumstances, may place Peoples Bank into receivership.

Peoples Bank is subject to certain restrictions imposed by the Federal Reserve Act and Federal Reserve Board regulations regarding such matters as the maintenance of reserves against deposits, extensions of credit to the financial holding company or any of its subsidiaries, investments in the stock or other securities of the financial holding company or its subsidiaries and the taking of such stock or securities as collateral for loans to any borrower.

Non-Banking Subsidiaries

Peoples' non-banking subsidiaries are also subject to regulation by the Federal Reserve Board and other applicable federal and state agencies. Peoples Insurance, as a licensed insurance agency, is subject to regulation by the Ohio Department of Insurance and the state insurance regulatory agencies of those states where it may conduct business.

Other Regulatory Agencies

Securities and Exchange Commission (“SEC”) and NASDAQ Stock Market LLC (“NASDAQ”). Peoples is also under the jurisdiction of the SEC and certain state securities commissions for matters relating to the offering and sale of its securities. Peoples is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended (the “Securities Act”), and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the regulations promulgated thereunder, as administered by the SEC. Peoples' common shares are listed with NASDAQ under the symbol “PEBO” and Peoples is subject to the rules for NASDAQ listed companies.

Federal Home Loan Bank. Peoples Bank is a member of the FHLB, which provides credit to its members in the form of advances. As a member of the FHLB, Peoples Bank must maintain an investment in the capital stock of the FHLB in a specified amount. Upon the origination or renewal of an advance, the FHLB is required by law to obtain and maintain a security interest in certain types of collateral. The FHLB is required to establish standards of community investment or service that its members must maintain for continued access to long-term advances from the FHLB. The standards take into account a member's performance under the Community Reinvestment Act of 1977 (the "CRA") and its record of lending to first-time homebuyers.

Federal Deposit Insurance Corporation /Depository Insurance. The FDIC is an independent federal agency which insures the deposits, up to prescribed statutory limits, of federally-insured banks and savings associations and safeguards the safety and soundness of the financial institution industry. Peoples Bank's deposits are insured up to applicable limits by Deposit Insurance Fund of the FDIC and subject to deposit insurance assessments to maintain the Deposit Insurance Fund.

On February 7, 2011, the FDIC approved a final rule that changed the deposit insurance assessment base from domestic deposits to average assets minus average tangible equity, as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), beginning with the second quarter of 2011. In addition, the final rule also adopted a new large-bank pricing assessment scheme and established a

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target size for the Deposit Insurance Fund. Specifically, the final rule set a target size for the Deposit Insurance Fund at 2 percent of insured deposits and implements a lower assessment rate schedule when the fund reaches 1.15 percent and, in lieu of dividends, provides for a lower rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. The FDIC may terminate insurance coverage upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the institution's regulatory agency.

U.S. Treasury and Special Inspector General. As a result of Peoples' participation in the TARP Capital Purchase Program, Peoples was also subject in 2011 to the regulatory authority granted to the U.S. Treasury and the Special Inspector General for the Troubled Assets Relief Program under the Emergency Economic Stabilization Act of 2008 ("EESA") and the American Recovery and Reinvestment Act of 2009 (the "ARRA"), as discussed below under the caption "TARP Capital Purchase Program".

Dodd-Frank Act

Federal regulators continue to implement many provisions of the Dodd-Frank Act, which was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act created many new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. Currently, federal regulators are still in the process of drafting the implementing regulations for many portions of the Dodd-Frank Act. Peoples is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with these regulatory requirements. The following discussion summarizes significant aspects of the Dodd-Frank Act that may affect Peoples and Peoples Bank:

- the Consumer Financial Protection Bureau has been established and empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws;
- the Dodd-Frank Act restricts the preemption of state law by federal law and disallows subsidiaries and affiliates of national banks from availing themselves of such preemption;
- the deposit insurance assessment base for federal deposit insurance has been expanded from domestic deposits to average assets minus average tangible equity;
- the Dodd-Frank Act instructs appropriate federal banking agencies to make the capital requirements for banks and savings and loan holding companies and insured depository institutions countercyclical so that the amount of capital required to be maintained increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness;
- the prohibition on the payment of interest on demand deposits has been repealed, effective July 21, 2011, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- the standard maximum amount of deposit insurance per customer has been permanently increased to $250,000 and non-interest-bearing transaction accounts have unlimited deposit insurance through January 1, 2013;
- financial holding companies, such as Peoples, are required to be well capitalized and well managed and must continue to be both well capitalized and well managed in order to acquire banks located outside their home state;
- the Dodd-Frank Act extended the application to most bank holding companies of the same leverage and risk-based capital requirements that apply to insured depository institutions, which, among other things, will disallow treatment of trust preferred securities as Tier 1 capital under certain circumstances;
- new corporate governance requirements, which are generally applicable to most larger public companies, now require new compensation practices, including, but not limited to, providing shareholders the opportunity to cast a non-binding vote on executive compensation, to consider the independence of compensation advisors and new executive compensation disclosure requirements;
- the Dodd-Frank Act amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve Board the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer; and
- the authority of the Federal Reserve Board to examine financial holding companies and their non-bank subsidiaries was expanded.

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Many aspects of the Dodd-Frank Act are still subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Peoples, its subsidiaries, their respective customers or the financial services industry more generally.

Bank Holding Company Act

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. As a result of the Gramm-Leach-Bliley Act of 1999 - also known as the Financial Services Modernization Act of 1999 - which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity that is either (1) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the OCC) or (2) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board). Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. In 2002, Peoples elected, and received approval from the Federal Reserve Board, to become a financial holding company.

In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the CRA, which is more fully discussed in the section captioned “Community Reinvestment Act” included later in this item. In addition, financial holding companies like Peoples are permitted to acquire companies engaged in activities that are financial in nature and in activities that are incidental and complementary to financial activities without prior Federal Reserve Board approval.

The BHC Act and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition of more than 5% of the voting shares of a commercial bank or its parent holding company. Under the federal Bank Merger Act, the prior approval of the OCC is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the CRA and fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Under Federal Reserve Board policy, a financial holding company is expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each subsidiary bank. Under this policy, the Federal Reserve Board may require a financial holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the payment of dividends to the shareholders if the Federal Reserve Board believes the payment of such dividends would be an unsafe or unsound practice.

Capital Adequacy and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, identifies five capital categories for insured depository institutions and requires the respective federal regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements within such categories. The federal regulatory agencies, including the Federal Reserve Board and the OCC, have adopted substantially similar regulatory capital guidelines and regulations consistent with the requirements of FDICIA, as well as established a system of prompt corrective action to resolve certain of the problems of undercapitalized institutions. This system is based on five capital level categories for insured depository institutions: “well capitalized”; “adequately capitalized”; “undercapitalized”; “significantly undercapitalized” and “critically undercapitalized”.

The federal banking agencies may (or in some cases must) take certain supervisory actions depending upon a bank's capital level. For example, the banking agencies must appoint a receiver or conservator for a bank within 90 days after it becomes “critically undercapitalized” unless the bank's primary regulator determines, with the concurrence of the FDIC, that other action would better achieve regulatory purposes. Banking operations otherwise may be significantly affected depending on a bank's capital category. For example, a bank that is not “well capitalized” generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, and the holding company of any undercapitalized bank must guarantee, in part, specific aspects of the bank's capital plan for the plan to be acceptable.

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Both Peoples and Peoples Bank are subject to risk-based capital requirements and guidelines imposed by their respective primary regulatory agencies. These capital guidelines and regulations are based on the 1998 capital accord of the Basel Committee on Banking Supervision (the "Basel Committee") and divide the capital of Peoples and Peoples Bank into two tiers:

- "Tier 1 capital" consists of (1) common shareholders' equity; (2) qualifying perpetual preferred stock and trust preferred securities (up to 25% of total Tier 1 capital); and (3) minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other deductions including intangible assets and net unrealized gains and losses on available-for-sale securities.
- "Tier 2 capital" consists primarily of allowance for loan losses and net unrealized gains on certain available-for-sale equity securities, subject to limitations established by the guidelines, as well as any qualifying perpetual preferred stock and trust preferred securities amounts excluded from Tier 1 capital. Tier 2 capital may also include, among other things, certain amounts of hybrid capital instruments, mandatory convertible debt and subordinated debt.

In addition, each asset on Peoples and Peoples Bank's balance sheets, as well as credit equivalent amounts of certain derivatives and off-balance sheet items, are assigned to one of several broad risk weight categories: 0%, 20%, 50%, 100% and in some cases 200%, resulting in a calculation of "total risk-weighted assets".

Peoples and Peoples Bank are required to maintain sufficient capital to meet both a risk-based asset ratio test and leverage ratio test. From time to time, the regulatory agencies may require Peoples and Peoples Bank to maintain capital above these minimum levels should certain conditions exist, such as deterioration of their financial condition or growth in assets, either actual or expected. Additional information regarding Peoples and Peoples Bank's risk-based capital requirements and ratios can be found in Note 17 of the Notes to the Consolidated Financial Statements.

In November 2007, the U.S. federal regulatory agencies adopted a definitive final rule for implementing new capital standards - referred to as "Basel II" - which applied only to banking organizations and organizations with assets of at least $250 billion or on-balance sheet foreign exposures of at least $10 billion. The Dodd-Frank Act requires the Federal Reserve Board, the OCC and the FDIC to adopt regulations imposing a continuing "floor" of the Basel I-based capital requirements in cases where any future changes in capital regulations would permit lower requirements. In December 2010, the Federal Reserve Board, the OCC and the FDIC issued a joint notice of proposed rulemaking that would implement this requirement for banks and bank holding companies larger than Peoples Bank and Peoples.

In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation, now officially identified by the Basel Committee as "Basel III". Basel III, when implemented by the U.S. banking agencies and fully phased-in, will require bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity. However, the U.S. federal regulatory agencies are considering the extent to which Basel III principles will be applied to smaller bank holding companies and banks, such as Peoples and Peoples Bank.

The Basel III final capital framework, among other things, (1) introduces as a new capital measure "Common Equity Tier 1" ("CET1"); (2) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements; (3) defines CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (4) expands the scope of the adjustments as compared to existing regulations, including establishing the concept of a "capital conservation buffer" and "countercyclical capital buffer".

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased in over a four-year period, increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

The countercyclical capital buffer generally is to be imposed when national regulators determine that excess aggregate credit growth becomes associated with a buildup of systemic risk. This amount would be a CET1 add-on to the capital conservation buffer in the range of 0% to 2.5% when fully implemented - potentially resulting in total buffers of between 2.5% and 5%.

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The Basel III final framework provides for a number of new deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2014, and will be phased-in over a five-year period (20% per year).

As previously noted, the implementation of the Basel III final framework will be phased-in over the period of January 1, 2013, to January 1, 2019. During this period, the minimum capital ratios banking institutions will be required to maintain, including any required capital conservation buffer, will increase as follows:

Capital Ratio	Current Amount	As of January 1, 2013	2019
CETI to risk-weighted assets	none	3.5%	7%
Tier 1 capital to risk-weighted assets	4%	4.5%	8.5%
Total capital to risk-weighted assets	8%	8%	10.5%

Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, the Dodd-Frank Act requires or permits the federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to Peoples may be substantially different from the Basel III final framework as published in December 2010.

Community Reinvestment Act

The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. As of December 31, 2011, the OCC's most recent performance evaluation of Peoples Bank resulted in an overall rating of "Satisfactory".

TARP Capital Purchase Program

Pursuant to its authority under EESA, the U.S. Treasury created the TARP Capital Purchase Program under which the U.S. Treasury was authorized to invest up to $250 billion in senior preferred stock of U.S. banks and savings associations or their holding companies. As discussed in more detail in Note 11 of the Notes to the Consolidated Financial Statements, Peoples elected to participate in the TARP Capital Purchase Program and sold the Series A Preferred Shares and the Warrant for $39 million to the U.S. Treasury on January 30, 2009. As part of its participation in the TARP Capital Purchase Program, Peoples agreed that, until such time as the U.S. Treasury ceased to own any debt or equity securities of Peoples acquired pursuant to the TARP Capital Purchase Program (other than the Warrant if the U.S. Treasury ceased to own the Series A Preferred Shares), Peoples would be subject to various requirements and restrictions imposed on TARP Capital Purchase Program participants, including, but not limited to, restrictions on common share dividends and repurchases. Thereafter, on February 17, 2009, President Obama signed into law the ARRA enacted by the U.S. Congress. The ARRA, among other things, imposed certain new executive compensation and corporate expenditure limits on all current and future TARP Capital Purchase Program recipients.

On February 2, 2011, Peoples completed a partial repurchase of the Series A Preferred Shares issued to the U.S. Treasury. Thereafter, on December 28, 2011, Peoples completed the repurchase of the Series A Preferred Shares issued to the U.S. Treasury. On February 15, 2012, Peoples completed the repurchase of the Warrant issued to the U.S. Treasury.

Dividend Restrictions

Current federal banking regulations impose restrictions on Peoples Bank's ability to pay dividends to Peoples. These restrictions include a limit on the amount of dividends that may be paid in a given year without prior approval of the

OCC and a prohibition on paying dividends that would cause Peoples Bank's total capital to be less than the required minimum levels under the risk-based capital requirements imposed by the OCC. Peoples Bank's regulators

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may prohibit the payment of dividends at any time if the regulators determine the dividends represent unsafe and/or unsound banking practices or reduce Peoples Bank's total capital below adequate levels. For further discussion regarding regulatory restrictions on dividends, see Note 17 of the Notes to the Consolidated Financial Statements.

Peoples' ability to pay dividends to its shareholders may also be restricted. Current Federal Reserve Board policy requires a financial holding company to act as a source of financial strength to each of its banking subsidiaries. Under this policy, the Federal Reserve Board may require Peoples to commit resources or contribute additional capital to Peoples Bank, which could restrict the amount of cash available for dividends. The Federal Reserve Board requires a bank holding company to provide advance notification of, and obtain approval for, the declaration and payment of dividends to common shareholders under certain conditions.

Peoples also has entered into certain agreements that place restrictions on dividends. Specifically, Peoples will be prohibited from paying dividends on its common shares if it suspends interest payments related to the trust preferred securities issued by its trust subsidiary. Additional information regarding Peoples' trust subsidiary can be found in Note 10 of the Notes to the Consolidated Financial Statements.

Even when the legal ability exists, Peoples or Peoples Bank may decide to limit the payment of dividends in order to retain earnings for corporate use.

Customer Privacy and Other Consumer Protections

Peoples Bank is subject to regulations limiting the ability of financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated party. Peoples Bank is also subject to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Bank Secrecy Act, the Community Reinvestment Act and the Fair Credit Reporting Act.

USA Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA Patriot Act”) and related regulations, among other things, require financial institutions to establish programs specifying procedures for obtaining identifying information from customers and establishing enhanced due diligence policies, procedures and controls designed to detect and report suspicious activity. Peoples Bank has established policies and procedures that Peoples believes comply with the requirements of the USA Patriot Act.

Monetary Policy

The Federal Reserve Board regulates money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings, and changes in the reserve requirements against depository institutions' deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, as well as interest rates charged on loans and paid on deposits.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy, the money markets and the activities of monetary and fiscal authorities, Peoples can make no definitive predictions as to future changes in interest rates, credit availability or deposit levels.

Executive and Incentive Compensation

In June 2010, the Federal Reserve Board, the OCC and the FDIC issued joint interagency guidance on incentive compensation policies (the “Joint Guidance”) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should: (1) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks; (2) be compatible with effective internal controls and risk management; and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

Pursuant to the Joint Guidance, the Federal Reserve Board will review as part of a regular, risk-focused examination process, the incentive compensation arrangements of financial institutions such as Peoples. Such reviews

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will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination and deficiencies will be incorporated into the institution's supervisory ratings, which can affect the institution's ability to make acquisitions and take other actions. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and prompt and effective measures are not being taken to correct the deficiencies.

On February 7, 2011, federal banking regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the “Proposed Rules”). The Proposed Rules generally apply to financial institutions with $1.0 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees. The Proposed Rules: (i) prohibit covered financial institutions from maintaining incentive-based compensation arrangements that encourage covered persons to expose the institution to inappropriate risk by providing the covered person with “excessive” compensation; (ii) prohibit covered financial institutions from establishing or maintaining incentive-based compensation arrangements for covered persons that encourage inappropriate risks that could lead to a material financial loss; (iii) require covered financial institutions to maintain policies and procedures appropriate to their size, complexity and use of incentive-based compensation to help ensure compliance with the Proposed Rules; and (iv) require covered financial institutions to provide enhanced disclosure to regulators regarding their incentive-based compensation arrangements for covered persons within 90 days following the end of the fiscal year. Final rules related to incentive-based compensation arrangements are excepted to be issued in the latter half of 2012.

Public companies will also be required, once stock exchanges impose additional listing requirements under the Dodd-Frank Act, to implement “clawback” procedures for incentive compensation payments and to disclose the details of the procedures which allow recovery of incentive compensation that was paid on the basis of erroneous financial information necessitating a restatement due to material noncompliance with financial reporting requirements. This clawback policy is intended to apply to compensation paid within a three-year look-back window of the restatement and would cover all executives who received incentive awards.

The Dodd-Frank Act also provides shareholders the opportunity to cast a non-binding vote on executive compensation practices, imposes new executive compensation disclosure requirements, and contains additional considerations of the independence of compensation advisors.

Future Legislation

Various and significant legislation affecting financial institutions and the financial industry is from time to time introduced by the U.S. Congress, as evidenced by the sweeping reforms in the Dodd-Frank Act adopted in 2010. Such legislation may continue to change banking statutes and the operating environment of Peoples and its subsidiaries in substantial and unpredictable ways, and could significantly increase or decrease costs of doing business, limit or expand permissible activities or affect the competitive balance among financial institutions. With the enactment of the Dodd-Frank Act and the continuing implementation of final rules and regulations thereunder, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable.

Website Access to Peoples' SEC Filings

Peoples maintains an Internet website at www.peoplesbancorp.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate Peoples' Internet website into this Form 10-K). Peoples makes available free of charge on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after Peoples electronically files each such report or amendment with, or furnishes it to, the SEC.

ITEM 1A. RISK FACTORS

The following are certain risks that management believes are specific to Peoples' business. This should not be viewed as an all-inclusive list of risks or presenting the risk factors listed in any particular order. Additional risks that are not presently known or that Peoples presently deems to be immaterial could also have a material, adverse impact on Peoples' business, financial condition or results of operations.

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- Conditions in the financial markets, the real estate markets and economic conditions generally may adversely affect Peoples' business.

Beginning in the latter half of 2007 and continuing throughout 2011, negative developments in the capital markets resulted in uncertainty in the financial markets and an economic downturn. Business activity across a wide range of industries and regions decreased substantially causing the U.S. economy to be in a recession from December 2007 through June 2009. Since 2007, the general housing market also has been weak, resulting in decreased home prices and increased delinquencies and foreclosures. These conditions caused significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital or to merge with larger and stronger institutions. Some financial institutions have failed.

Peoples' financial performance generally is highly dependent upon the business environment and economic conditions in the markets where it operates and, to a lesser extent, the U.S as a whole. The local economies of the majority of Peoples' market area historically have been less robust than the economy of the nation as a whole and typically are not subject to the same fluctuations as the national economy. In general, a favorable business environment and economic conditions are generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Overall, the business environment and general economic conditions in 2011 were adverse for many households and businesses in the U.S. and worldwide. While some economic indicators show signs of improvement, many businesses, states and municipalities are still in serious difficulty, due to reduced cash flow and weakened financial condition. Further, there can be no assurance this improvement will continue. A lack of a return to favorable economic conditions in a reasonable timeframe could have an adverse affect on Peoples' asset quality, deposit levels and loan demand and, therefore, Peoples' financial condition and results of operations. Because a significant amount of Peoples' loans are secured by either commercial or residential real estate, additional decreases in real estate values could adversely affect the value of property used as collateral and Peoples' ability to sell the collateral upon foreclosure.

- Legislative or regulatory changes or actions, or significant litigation, could adversely impact Peoples or the businesses in which it is engaged.

The banking industry is heavily regulated under both federal and state law. Peoples is subject to regulation and supervision by the Federal Reserve Board, and Peoples Bank is subject to regulation and supervision by the OCC, and secondarily the FDIC. These regulations are primarily intended to protect depositors and the Deposit Insurance Fund, not Peoples' common shareholders. Peoples' non-bank subsidiaries are also subject to the supervision of the Federal Reserve Board, in addition to other regulatory and self-regulatory agencies, including the SEC and state securities and insurance regulators.

Regulations affecting banks and financial services businesses are undergoing continuous change, and management cannot predict the effect of those changes. The impact of any changes to laws and regulations or other actions by regulatory agencies could adversely affect Peoples' business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets and the adequacy of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against Peoples could cause Peoples to devote significant time and resources to defending its business and may lead to penalties that materially affect Peoples and its shareholders. Further information about government regulation of Peoples' business can be found under the caption “Supervision and Regulation” in Item 1 of this Form 10-K.

- The recently enacted Dodd-Frank Act may adversely impact Peoples' results of operations, financial condition or liquidity.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the U.S. There are a number of reform provisions that are likely to significantly impact the ways in which banks and bank holding companies, including Peoples and Peoples Bank, do business. Many provisions of the Dodd-Frank Act will not be implemented immediately and will require interpretation and rule making by federal regulators. Peoples is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with laws and regulations. While the ultimate effect of the Dodd-Frank Act on Peoples

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and Peoples Bank cannot currently be determined, the law and its implementing rules and regulations are likely to result in increased compliance costs and fees paid to regulators, along with possible restrictions on Peoples' and Peoples Bank's operations, all of which may have a material adverse affect on Peoples' operating results and financial condition. A detailed discussion regarding the Dodd-Frank Act can be found under the caption “Supervision and Regulation” in Item 1 of this Form 10-K.

- Removal or reduction in stimulus activities or financial stabilization efforts by the federal government and other agencies may significantly affect Peoples' financial condition and results of operations.

The Federal Reserve Board, the U.S. Congress, the U.S. Treasury, the FDIC and others have taken numerous actions to stimulate economic activity, as well as address the current liquidity and credit situation in the financial markets. These measures include actions to encourage loan restructuring and modification for homeowners; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; and coordinated efforts to address liquidity and other weaknesses in the banking sector.

The long-term effect of actions already taken as well as new legislation is unknown. Continued or renewed instability in the financial markets could weaken public confidence in financial institutions and adversely affect Peoples' ability to attract and retain new customers. Further, the removal or reduction in any of the economic stimulus or financial stabilization programs could cause higher market interest rates, which may have an adverse affect on Peoples' business, earnings and financial condition.

- Defaults by larger financial institutions could adversely affect Peoples' business, earnings and financial condition.

The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between and among the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This “systemic risk” may adversely affect Peoples' business.

Additionally, Peoples' investment portfolio continues to include investments in individual bank-issued trust preferred securities. Under current market conditions, the fair value of these security types is based predominately on the present value of cash flows expected to be received in future periods. Significant defaults by other financial institutions could adversely affect conditions within the financial services industry, thereby causing investors to require higher rates of return for these investments. These factors could cause Peoples to recognize additional impairment losses on its investment in bank-issued trust preferred securities in future periods.

- Increases in FDIC insurance premiums may have a material adverse affect on Peoples' earnings.

The number of bank failures has increased significantly since 2007, which dramatically increased resolution costs of the FDIC and depleted the Deposit Insurance Fund. Also during this period, the FDIC and the U.S. Congress have instituted two programs to further insure customer deposits at FDIC-member banks: deposit accounts are now insured up to $250,000 per customer (up from $100,000) and non-interest-bearing transactional accounts are fully insured (unlimited coverage) until the end of 2012. These actions have placed additional stress on the Deposit Insurance Fund.

Since late 2008, the FDIC has taken various actions intended to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund. These actions have included increasing assessment rates for all insured institutions, requiring riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels, imposing a special assessment on all insured depository institutions for the second quarter of 2009 and requiring insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 and full years 2010 through 2012. On February 7, 2011, the FDIC approved a final rule that changed the deposit insurance assessment base and assessment rate schedule, adopted a new large-bank pricing assessment scheme, and set a target size for the Deposit Insurance Fund. The rule, as mandated by the Dodd-Frank Act, finalized a target size for the Deposit Insurance Fund at 2 percent of insured deposits. The final rule went into effect beginning with the second quarter of 2011. Management does not expected these changes to have a material adverse effect on Peoples' future results of operations given the current structure of Peoples Bank's balance sheet.

Peoples Bank has limited ability to control the amount of premiums it is required to pay for FDIC insurance. If there are additional financial institution failures, the FDIC may be required to increase assessment rates or take actions similar to those taken during 2009. As a result, insured depository institutions, including Peoples Bank, may be required to pay even higher FDIC premiums in future periods. Increases in FDIC insurance premiums may have a material adverse effect on Peoples' results of operations and ability to continue to pay dividends on its common shares at the current rate or at all.

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• Changes in interest rates may adversely affect Peoples' profitability.

Peoples' earnings are dependent to a significant degree on net interest income, which is the amount by which interest income exceeds interest expense. Interest rates are highly sensitive to many factors that are beyond Peoples' control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the interest Peoples receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) Peoples' ability to originate loans and obtain deposits, (ii) the fair value of Peoples' financial assets and liabilities, and (iii) the average duration of Peoples' mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, Peoples' net interest income and, therefore, earnings could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Management uses various measures to monitor interest rate risk and believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on Peoples' results of operations. Management also periodically adjusts the mix of assets and liabilities to manage interest rate risk. However, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on Peoples' financial condition and results of operations. See the sections captioned “Interest Income and Expense” and “Interest Rate Sensitivity and Liquidity” in Item 7 of this Form 10-K for further discussion related to Peoples' interest rate risk.

• Peoples' exposure to credit risk could adversely affect Peoples' earnings and financial condition.

There are certain risks inherent in making loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks inherent in dealing with borrowers and, in the case of loans secured by collateral, risks resulting from uncertainties about the future value of the collateral.

Commercial and commercial real estate loans comprise a significant portion of Peoples' loan portfolio. Commercial loans generally are viewed as having a higher credit risk than residential real estate or consumer loans because they usually involve larger loan balances to a single borrower and are more susceptible to a risk of default during an economic downturn. Since Peoples' loan portfolio contains a significant number of commercial and commercial real estate loans, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, and ultimately could have a material adverse effect on Peoples' earnings and financial condition.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, Peoples may rely on information provided to us by customers and counterparties, including financial statements and other financial information. Peoples may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, Peoples may assume that the customer's audited financial statements conform with accounting principles generally accepted in the United States (“US GAAP”) and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Peoples may also rely on the audit report covering those financial statements. Peoples' financial condition, results of operations and cash flows could be negatively impacted to the extent that Peoples relies on financial statements that do not comply with US GAAP or on financial statements and other financial information that are materially misleading.

• Peoples' allowance for loan losses may be insufficient.

Peoples maintains an allowance for loan losses to provide for probable loan losses based on management's quarterly analysis of the loan portfolio. The determination of the allowance for loan losses requires management to make various assumptions and judgments about the collectibility of Peoples' loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Additional information regarding Peoples' allowance for loan losses methodology and the sensitivity of the estimates can be found in the discussion of Peoples' “Critical Accounting Policies” included in Item 7 of this Form 10-K. Peoples' estimation of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond Peoples' control, and these losses may exceed current estimates. Peoples cannot be assured of the amount or timing of losses nor whether the loan loss allowance will be adequate in the future.

If Peoples' assumptions prove to be incorrect, Peoples' allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions which could have a material adverse impact on Peoples'

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financial condition and results of operations. In addition, federal and state regulators periodically review Peoples' allowance for loan losses as part of their examination process and may require management to increase the allowance or recognize further loan charge-offs based on judgments different than those of management. Any increase in the provision for loan losses would decrease Peoples' pretax and net income.

- Changes in accounting standards, policies, estimates or procedures may impact Peoples' reported financial condition or results of operations.

The accounting standard setters, including the Financial Accounting Standards Board, the SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of Peoples' Consolidated Financial Statements. These changes can be difficult to predict and can materially impact how Peoples records and reports its financial condition and results of operations. In some cases, Peoples could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make significant estimates that affect the financial statements. Due to the inherent nature of these estimates, actual results may vary materially from management's estimates. Additional information regarding Peoples' critical accounting policies and the sensitivity of estimates can be found in the section captioned “Critical Accounting Policies” in Item 7 of this Form 10-K.

- Peoples and Peoples Bank may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

Peoples and Peoples Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. If capital requirements are raised or if Peoples Bank experiences loan losses, additional capital may be needed. In addition, Peoples and Peoples Bank may elect to raise additional capital to support their businesses or to finance acquisitions, if any, or for other as yet unanticipated reasons. Their ability to raise additional capital, if needed, will depend on financial performance, conditions in the capital markets, economic conditions and a number of other factors, many of which are outside their control. Therefore, there can be no assurance additional capital can be raised when needed or that capital can be raised on acceptable terms. The inability to raise capital may have a material adverse effect on Peoples' financial condition, results of operations and prospects.

- The financial services industry is very competitive.

Peoples experiences significant competition in originating loans, principally from other commercial banks, savings associations and credit unions. Several of Peoples' competitors have greater resources, larger branch systems and a wider array of banking services. This competition could reduce Peoples' net income by decreasing the number and size of loans that Peoples originates and the interest rates it may charge on these loans. Moreover, technology and other changes are allowing businesses and individuals to utilize alternative methods to complete financial transactions that historically have involved banks. For example, consumers can now maintain funds in brokerage accounts or mutual funds that in the past had been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating the use of banks to complete financial transactions could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and lower cost deposits as a source of funds could have a material adverse effect on Peoples' financial condition and results of operations. For a more complete discussion of Peoples' competitive environment, see “Competition” in Item 1 of this Form 10-K. If Peoples is unable to compete effectively, Peoples would lose market share, which could reduce income generated from deposits, loans and other products.

- Peoples' ability to pay dividends is limited.

Peoples is a separate and distinct legal entity from Peoples' subsidiaries. Peoples receives nearly all of its revenue from dividends from Peoples Bank, which are limited by federal banking laws and regulations. These dividends also serve as the primary source of funds to pay dividends on Peoples' common shares. The inability of Peoples Bank to pay sufficient dividends to Peoples could have a material, adverse effect on its business. Further discussion of Peoples' ability to pay dividends can be found under the caption “Supervision and Regulation - Dividend Restrictions” in Item 1 of this Form 10-K and Note 17 of the Notes to the Consolidated Financial Statements.

- Peoples' business could be adversely affected by material breaches in security of its systems.

Peoples collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both Peoples and third party service providers. Peoples has security and backup and recovery systems in place, as well as a business continuity plan, to ensure the computer systems will not be inoperable, to the extent possible. Peoples also has implemented security controls to prevent unauthorized access to

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the computer systems and requires Peoples' third party service providers to maintain similar controls. However, management cannot be certain these measures will be successful. A security breach of the computer systems and release of confidential information, such as customer account numbers and related information, could negatively affect customers' confidence in Peoples, which may cause a loss of business, and could result in Peoples' incurring financial losses for any fraudulent transactions completed by third parties due to the security breach.

- Anti-takeover provisions may delay or prevent an acquisition or change in control by a third party.

Provisions in the Ohio General Corporation Law and Peoples' Amended Articles of Incorporation and Code of Regulations, including a staggered board and a supermajority vote requirement for significant corporate changes, could discourage potential takeover attempts and make attempts by shareholders to remove Peoples' Board of Directors and management more difficult. These provisions may also have the effect of delaying or preventing a transaction or change in control that might be in the best interests of Peoples' shareholders.

- Peoples and its subsidiaries are subject to examinations and challenges by tax authorities.

In the normal course of business, Peoples and its subsidiaries are routinely subject to examinations and challenges from federal and state tax authorities regarding positions taken regarding their respective tax returns. State tax authorities have become increasingly aggressive in challenging tax positions taken by financial institutions, especially those positions relating to tax compliance and calculation of taxes subject to apportionment. Any challenge or examination by a tax authority may result in adjustments to the timing or amount of taxable net worth or taxable income or deductions or the allocation of income among tax jurisdictions.

Management believes it has taken appropriate positions on all tax returns filed, to be filed or not filed and does not anticipate any examination would have a material impact on Peoples' Consolidated Financial Statements. However, the outcome of such examinations and ultimate resolution of any resulting assessments are inherently difficult to predict. Thus, no assurance can be given that Peoples' tax liability for any tax year open to examination will not be different than what is reflected in Peoples' current and historical Consolidated Financial Statements. Further information can be found in the “Critical Accounting Policies - Income Taxes” section of “Management's Discussion and Analysis of Financial Condition and Results of Operations” included in this Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Peoples' sole banking subsidiary, Peoples Bank, generally owns its offices, related facilities and unimproved real property. In Ohio, Peoples Bank operates offices in Marietta (4 offices), Belpre (2 offices), Lowell, Reno, New Philadelphia, Nelsonville, Athens (3 offices), The Plains, Middleport, Pomeroy (2 offices), Gallipolis, Cambridge (2 offices), Byesville, Caldwell, McConnelsville, Baltimore, Carroll, Lancaster (2 offices), Westerville and Zanesville. In West Virginia, Peoples Bank operates offices in Charleston, Huntington (2 offices), New Martinsville (2 offices), Parkersburg (3 offices), Point Pleasant (2 offices), Steelton and Vienna. In Kentucky, Peoples Bank's office locations include Greenup, Summit, Ashland and Russell. Of these 45 offices, 16 are leased and the rest are owned by Peoples Bank. In the first quarter of 2012, Peoples will consolidate its offices in Steelton, Middleport and Carroll into nearby offices. Each of these offices were owned by Peoples and current plans are to sell these properties in the future.

Peoples Insurance Agency rents office space in various Peoples Bank offices. In addition, Peoples Insurance Agency leases office buildings in Marietta, Ohio, and Ashland, Kentucky.

Rent expense on the leased properties totaled $916,000 in 2011, which excludes intercompany rent expense. The following are the only properties that have a lease term expiring on or before June 2013:

Location	Address	Lease Expiration Date [a]
Athens Union Street	152 W Union Street Athens, Ohio	January 2012

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Location	Address	Lease Expiration Date [a]
Marietta Kroger	40 Acme Street Marietta, Ohio	March 2012
New Philadelphia	136 1/2 2nd Street NE New Philadelphia, Ohio	April 2012
Athens Mall	801 East State Street Athens, Ohio	June 2012
Charleston	10 Hale Street, Suite 410 Charleston, West Virginia	July 2012
Putnam Agency	1557 Winchester Avenue Ashland, Kentucky	September 2012
The Plains	70 N. Plains Road The Plains, Ohio	December 2012
Westerville	515 Executive Campus Drive Westerville, Ohio	March 2013

[a] Information represents the ending date of the current lease period. Peoples may have the option to renew the lease beyond this date under the terms of the lease agreement and intends to renew all expiring leases unless otherwise disclosed in this Item 2.

Additional information concerning the property and equipment owned or leased by Peoples and its subsidiaries is incorporated herein by reference from Note 5 of the Notes to the Consolidated Financial Statements.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Peoples' common shares are traded on The NASDAQ Global Select Market® under the symbol PEBO. At December 31, 2011, Peoples had 1,115 shareholders of record. The table presented below provides the high and low sales prices for Peoples' common shares as reported on The NASDAQ Global Select Market® and the cash dividends per share declared for the indicated periods.

	High Sales	Low Sales	Dividends Declared
2011			
Fourth Quarter	$15.33	$10.00	$0.10
Third Quarter	13.00	9.51	0.10
Second Quarter	13.94	10.43	—
First Quarter	16.07	11.78	0.10
2010			
Fourth Quarter	$16.98	$11.54	$0.10
Third Quarter	17.60	11.13	0.10
Second Quarter	19.02	12.82	0.10
First Quarter	17.72	9.25	0.10

Peoples plans to continue to pay quarterly cash dividends, subject to certain regulatory restrictions described in Note 17 of the Notes to the Consolidated Financial Statements, as well as in the section captioned “Supervision and Regulation – Dividend Restrictions” of Item 1 of this Form 10-K. On April 28, 2011, Peoples' Board of Directors adopted a new schedule for declaring dividends with respect to Peoples' common shares. Effective with the quarterly period ending June 30, 2011, Peoples' Board of Directors will determine whether financial conditions warrant the declaration of dividends in respect of common shares at the meeting of Peoples' Board of Directors held during the first month of the following calendar quarter. Such dividends, if declared, would then be paid to shareholders in the following month. Previously, the Board of Directors of Peoples had declared a cash dividend in respect of Peoples' common shares, when appropriate, in the third month of each calendar quarter. This change resulted in no dividends being declared during the second quarter of 2011 as the dividend with respect to second quarter earnings was declared in July versus June under the previous schedule.

Issuer Purchases of Equity Securities

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 December 31, 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)
October 1 – 31, 2011	431 (2)	$12.74 (2)	—	—
November 1 – 30, 2011	1,234 (2)	$12.15 (2)	—	—
December 1 – 31, 2011	366 (2)	$15.00 (2)	—	—
Total	2,031	$12.79	—	—

(1) Peoples’ Board of Directors did 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 Purchase Program.

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(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.

Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be deemed to be incorporated by reference into any future filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, each as amended, except to the extent that Peoples specifically incorporates the Performance Graph by reference into such filing.

The following line graph compares the five-year cumulative total shareholder return of Peoples' common shares, based on an initial investment of $100 on December 31, 2006, and assuming reinvestment of dividends, against that of an index comprised of all domestic common shares traded on The NASDAQ Stock Market (“NASDAQ Stocks (U.S. Companies)”), and an index comprised of all depository institutions (SIC Code #602) and depository institution holding companies (SIC Code #671) that are traded on The NASDAQ Stock Market (“NASDAQ Bank Stocks”).

COMPARISON OF FIVE-YEAR TOTAL RETURN AMONG
PEOPLES BANCORP INC., NASDAQ STOCKS (U.S. COMPANIES),
AND NASDAQ BANK STOCKS

	At December 31,					
	2006	2007	2008	2009	2010	2011
Peoples Bancorp Inc.	$100.00	$86.75	$69.72	$37.27	$62.08	$60.57
NASDAQ Stocks (U.S. Companies)	$100.00	$108.47	$66.35	$95.38	$113.19	$113.81
NASDAQ Bank Stocks	$100.00	$79.26	$57.79	$48.42	$57.29	$51.19

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ITEM 6. SELECTED FINANCIAL DATA

The information below has been derived from Peoples' Consolidated Financial Statements.

	At or For the Year Ended December 31,				
	2011	2010	2009	2008	2007
Operating Data					
Total interest income	$75,133	$89,335	$102,105	$106,227	$113,419
Total interest expense	21,154	29,433	40,262	47,748	59,498
Net interest income	53,979	59,902	61,843	58,479	53,921
Provision for loan losses	7,998	26,916	25,721	27,640	3,959
Net impairment loss on investment securities	—	(1,786)	(7,707)	(4,260)	(6,170)
Net (loss) gain on securities and asset transactions	(443)	(39)	1,343	2,424	184
Total non-interest income	32,944	31,634	32,050	32,097	31,350
FDIC insurance expense	1,867	2,470	3,442	361	146
Other non-interest expense	59,464	54,572	55,240	53,124	51,306
Preferred dividends (e)	1,343	2,052	1,876	—	—
Net income available to common shareholders	11,212	3,529	2,314	7,455	18,314
Balance Sheet Data					
Total assets	1,794,161	1,837,985	2,001,827	2,002,338	1,885,553
Investment securities	669,228	641,307	751,866	708,753	565,463
Gross loans	938,506	960,718	1,052,058	1,104,032	1,120,941
Allowance for loan losses	23,717	26,766	27,257	22,931	15,718
Total intangible assets	64,475	64,870	65,599	66,406	68,029
Non-interest-bearing deposits	239,837	215,069	198,000	180,040	175,057
Retail interest-bearing deposits	1,047,189	1,059,066	1,095,466	1,034,418	951,731
Brokered deposits	64,054	87,465	102,420	151,910	59,589
Short-term borrowings	51,643	51,509	76,921	98,852	222,541
Long-term borrowings	142,312	157,703	246,113	308,297	231,979
Junior subordinated notes held by subsidiary trusts	22,600	22,565	22,530	22,495	22,460
Preferred stockholders' equity (e)	—	38,645	38,543	—	—
Common stockholders' equity	206,657	192,036	205,425	186,626	202,836
Tangible assets (d)	1,729,686	1,773,115	1,936,228	1,935,932	1,817,524
Tangible equity (d)	142,182	165,811	178,369	120,220	134,807
Tangible common equity (d)	142,182	127,166	139,826	120,220	134,807
Per Common Share Data					
Earnings (loss) per share – Basic	$1.07	$0.34	$0.22	$0.72	$1.75
Earnings (loss) per share – Diluted	1.07	0.34	0.22	0.72	1.74
Cash dividends declared per share	0.30	0.40	0.66	0.91	0.88
Book value per share (c)	19.67	18.36	19.80	18.06	19.70
Tangible book value per share (c) (d)	$13.53	$12.16	$13.48	$11.63	$13.09
Weighted-average shares outstanding – Basic	10,482,318	10,424,474	10,363,975	10,315,263	10,462,933
Weighted-average shares outstanding – Diluted	10,482,318	10,431,990	10,374,792	10,348,579	10,529,634
Common shares outstanding at end of period	10,507,124	10,457,327	10,374,637	10,333,884	10,296,748

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	At or For the Year Ended December 31,				
	2011	2010	2009	2008	2007
SIGNIFICANT RATIOS					
Return on average stockholders' equity	5.72 %	2.33 %	1.80 %	3.67 %	9.21 %
Return on average common stockholders' equity	5.61	1.76	1.17	3.67	9.21
Return on average assets	0.69	0.28	0.21	0.39	0.98
Net interest margin	3.43	3.51	3.48	3.51	3.32
Efficiency ratio (a)	68.98	60.30	60.14	56.30	57.07
Average stockholders' equity to average assets	12.12	12.20	11.50	10.62	10.62
Average loans to average deposits	69.86	73.01	77.97	88.10	93.52
Dividend payout ratio	28.35 %	119.33 %	298.23 %	127.03 %	50.38 %
ASSET QUALITY RATIOS					
Nonperforming loans as a percent of total loans (b)(c)	3.19 %	4.19 %	3.27 %	3.74 %	0.83 %
Nonperforming assets as a percent of total assets (b)(c)	1.80	2.45	2.03	2.09	0.51
Allowance for loan losses to loans net of unearned interest (c)	2.53	2.79	2.59	2.08	1.40
Allowance for loan losses to nonperforming loans (b)(c)	79.00	66.10	79.30	55.50	168.00
Provision for loan losses to average loans (annualized)	0.84	2.61	2.35	2.48	0.35
Net charge-offs as a percentage of average loans	1.16 %	2.66 %	1.96 %	1.83 %	0.25 %
CAPITAL INFORMATION (c)					
Tier 1 common capital ratio	12.82 %	11.59 %	10.58 %	10.17 %	10.18 %
Tier 1 capital ratio	14.86 %	16.91 %	15.49 %	11.88 %	11.91 %
Total risk-based capital ratio	16.20 %	18.24 %	16.80 %	13.19 %	13.23 %
Leverage ratio	9.45 %	10.63 %	10.06 %	8.18 %	8.48 %
Tangible equity to tangible assets (d)	8.22 %	9.35 %	9.21 %	6.21 %	7.42 %
Tangible common equity to tangible assets (d)	8.22 %	7.17 %	7.22 %	6.21 %	7.42 %

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

(e) Amounts relate to preferred shares issued and sold by Peoples in connection with its participation in the TARP Capital Purchase Program. Additional information regarding the preferred shares can be found in Note 11 of the Notes to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain statements in this Form 10-K 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;

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(2) competitive pressures among financial institutions or from non-financial institutions may increase significantly, including product and pricing pressures and Peoples' ability to attract, develop and retain qualified professionals;
(3) changes in the interest rate environment, which may adversely impact interest margins and/or values of financial instruments;
(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 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 developments affecting the respective businesses of Peoples and its subsidiaries, including changes in laws and regulations relating to taxes, accounting, banking, securities and other aspects of the financial services industry, specifically the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 as well as future regulations which will be adopted by the relevant regulatory agencies, which may subject Peoples and its subsidiaries to a variety of new and more stringent legal and regulatory requirements;
(8) the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the SEC, the Public Company Accounting Oversight Board and other regulatory agencies, and the accuracy of our assumptions and estimates used to prepare Peoples' consolidated financial statements;
(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 sheet;
(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 costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
(14) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
(15) Peoples' ability to secure confidential information through the use of computer systems and telecommunications network may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss and
(16) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (“SEC”), including those risk factors included in the disclosure under Item 1A – Risk Factors of this Form 10-K.

All forward-looking statements speak only as of the execution date of this Form 10-K 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-K 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.

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The following discussion and analysis of Peoples' Consolidated Financial Statements is presented to provide insight into management's assessment of the financial results and condition for the periods presented. This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto, as well as the ratios and statistics, contained elsewhere in this Form 10-K.

Summary of Significant Transactions and Events

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

As described in Note 13 of the Notes to the Consolidated Financial Statements, Peoples incurred settlement charges of $815,000 during 2011 due to lump-sum distributions to participants exceeding the threshold for recognizing such charges during the third quarter. No such charges were recognized in prior years.

As described in Note 11 of the Notes to the Consolidated Financial Statements, the Board of Directors adopted a new schedule for declaring dividends with respect to Peoples' common shares during 2011. As a result, no common dividends were declared on common shares in the second quarter of 2011, which had a positive impact on Peoples' common equity and corresponding capital ratios. On January 26, 2012, the Board of Directors declared cash dividend of $0.11 per common share with respect to earnings for the fourth quarter of 2011. This cash dividend represents a 10% increase over the dividends declared and paid in recent quarters.

As described in Note 11 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 repurchased $21.0 million of the preferred shares held by the U.S. Treasury and the remaining $18.0 million on December 28, 2011 (collectively, the "TARP Capital Redemption"). In connection with these transactions, Peoples recognized the portion of the unamortized discount associated with the preferred shares repurchased, which was reduced net income available to common shareholders by $186,000 in the first quarter and $112,000 in the fourth quarter. On February 15, 2012, Peoples completed the repurchase of the Warrant for an aggregate price of $1.2 million. This transaction will be recognized as a reduction in the common stock component of Peoples' stockholders' equity. Thus, there will be no impact on Peoples's first quarter 2012 earnings.

Since 2008, Peoples periodically has taken actions to reduce interest rate exposures within the investment portfolio and the 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 in or before 2012.

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 had any exposure to CDO securities within its investment portfolio.

Since early 2008, Peoples' loan quality has been impacted negatively 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 Peoples to downgrade the loan quality ratings of various commercial real estate loans through its normal loan review process. In addition, several impaired loans became 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 in prior quarters were significantly higher than long-term historical levels. Peoples has also recognized losses on other real estate owned ("OREO") due to declining commercial real estate values.

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Beginning in the second quarter of 2011, Peoples has experienced generally improving trends in several asset quality metrics. Additionally, the amount of criticized loans has decreased due in part to Peoples upgrading the loan quality ratings of various commercial loans. These conditions have resulted in lower provisions for loan losses. However, unfavorable economic conditions within Peoples' market area, coupled with sustained weakness in commercial real estate values, continues to place stress on certain industries and segments of Peoples' loan portfolio, such as the hospitality sector.

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 incurred higher FDIC insurance costs in 2009 and 2010 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. These actions include changing its target Federal Funds Rate (the interest rate at which banks lend money to each other), Discount Rate (the interest rate charged to banks for money borrowed from the Federal Reserve) and longer-term market interest rates (primarily U.S. Treasury securities). Longer-term market interest rates also are affected by the demand for U.S. Treasury securities. The resulting changes in the yield curve slope have a direct impact on reinvestment rates for Peoples' earning assets. Since December 2008, the Federal Reserve has maintained its target Federal Funds Rate at a historically low level of 0% to 0.25%. Additionally, between December 2008 and February 2010, the Federal Reserve maintained the Discount Rate at 0.50%. These actions produced correspondingly low short-term market interest rates. 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. Both the Federal Funds Rate and Discount Rate have remained unchanged since February 2010. Since late 2008, the Federal Reserve has taken various actions to lower longer-term market interest rates as a means of stimulating the economy – a policy commonly referred to as "quantitative easing". These actions have included the buying and selling of mortgage-backed and other debt securities through its open market operations. As a result, the slope of the U.S. Treasury yield curve has fluctuated significantly. Substantial flattening occurred in late 2008, in mid-2010 and during the third quarter of 2011, while moderate steepening occurred in the second half of 2009 and late 2010.

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

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to generally accepted accounting principles in the United States of America ("US GAAP") and to general practices within the financial services industry. A summary of significant accounting policies is contained in Note 1 of the Notes to the Consolidated Financial Statements. While all of these policies are important to understanding the Consolidated Financial Statements, certain accounting policies require management to exercise judgment and make estimates or assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates or assumptions.

Management has identified the accounting policies described below as those that, due to the judgments, estimates and assumptions inherent in the policies, are critical to an understanding of Peoples' Consolidated Financial Statements and management's discussion and analysis of financial condition and results of operations.

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Income Recognition

Interest income on loans and investment securities is recognized by methods that result in level rates of return on principal amounts outstanding, including yield adjustments resulting from the amortization of loan costs and premiums on investment securities and accretion of loan fees and discounts on investment securities. Since mortgage-backed securities comprise a sizable portion of Peoples' investment portfolio, a significant increase in principal payments on those securities could impact interest income due to the corresponding acceleration of premium amortization or discount accretion.

Peoples discontinues the accrual of interest on a loan when conditions cause management to believe collection of all or any portion of the loan's contractual interest is doubtful. Such conditions may include the borrower being 90 days or more past due on any contractual payments or current information regarding the borrower's financial condition and repayment ability. All unpaid accrued interest deemed uncollectible is reversed, which would reduce Peoples' net interest income. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured.

Allowance for Loan Losses

In general, determining the amount of the allowance for loan losses requires significant judgment and the use of estimates by management. Peoples maintains an allowance for loan losses based on a quarterly analysis of the loan portfolio and estimation of the losses that are probable of occurrence within the loan portfolio. This formal analysis determines an appropriate level and allocation of the allowance for loan losses among loan types and resulting provision for loan losses by considering factors affecting losses, including specific losses, levels and trends in impaired and nonperforming loans, historical loan loss experience, current national and local economic conditions, volume, growth and composition of the portfolio, regulatory guidance and other relevant factors. Management continually monitors the loan portfolio through Peoples Bank's Loan Review Department and Loan Loss Committee to evaluate the adequacy of the allowance. The provision could increase or decrease each quarter based upon the results of management's formal analysis.

The amount of the allowance for loan losses for the various loan types represents management's estimate of probable losses from existing loans. Management evaluates lending relationships deemed to be impaired on an individual basis and makes specific allocations of the allowance for loan losses for each relationship based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. For all other loans, management evaluates pools of homogeneous loans (such as residential mortgage loans and consumer loans) and makes general allocations for each loan pool based upon historical loss experience. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses.

This evaluation of individual impaired loans requires management to make estimates of the amounts and timing of future cash flows on impaired loans, which consist primarily of loans placed on nonaccrual status, restructured or internally classified as substandard or doubtful. These reviews are based upon specific quantitative and qualitative criteria, including the size of the loan, the loan cash flow characteristics, loan quality ratings, value of collateral, repayment ability of borrowers, and historical experience factors. Allowances for homogeneous loans are evaluated based upon historical loss experience, adjusted for qualitative risk factors, such as trends in losses and delinquencies, growth of loans in particular markets, and known changes in economic conditions in each lending market. As part of the process of identifying the pools of homogenous loans, management takes into account any concentrations of risk within any portfolio segment, including any significant industrial concentrations. Consistent with the evaluation of allowances for homogenous loans, the allowance relating to the Overdraft Privilege program is based upon management's monthly analysis of accounts in the program. This analysis considers factors that could affect losses on existing accounts, including historical loss experience and length of overdraft.

There can be no assurance the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses at December 31, 2011, was adequate to provide for probable losses from existing loans based on information currently available. While management uses available information to estimate losses, the ultimate collectibility of a substantial portion of the loan portfolio, and the need for future additions to the allowance, will be based on changes in economic conditions and other relevant factors. As such, adverse changes in economic activity could reduce currently estimated cash flows for both commercial and individual borrowers, which would likely cause Peoples to experience increases in problem assets, delinquencies and losses on loans in the future.

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Investment Securities

Peoples' investment portfolio accounted for 37% of total assets at December 31, 2011, of which approximately 94% of the securities were classified as available-for-sale. Correspondingly, Peoples carries these securities at fair value on its Consolidated Balance Sheets, with any unrealized gain or loss recorded in stockholders' equity as a component of accumulated other comprehensive income. As a result, both the investment and equity sections of Peoples' Consolidated Balance Sheet are sensitive to changes in the overall market value of the investment portfolio, due to changes in market interest rates, investor confidence and other factors affecting market values.

While temporary changes in the fair value of available-for-sale securities are not recognized in earnings, Peoples is required to evaluate all investment securities with an unrealized loss on a quarterly basis to identify potential other-than-temporary impairment ("OTTI") losses. This analysis requires management to consider various factors that involve judgment and estimation, including duration and magnitude of the decline in value, the financial condition of the issuer or pool of issuers and structure of the security.

Under current US GAAP, an OTTI loss is recognized in earnings only when (1) Peoples intends to sell the debt security; (2) it is more likely than not that Peoples will be required to sell the security before recovery of its amortized cost basis or (3) Peoples does not expect to recover the entire amortized cost basis of the security. In situations where Peoples intends to sell or when it is more likely than not that Peoples will be required to sell the security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of accumulated other comprehensive income, net of deferred taxes. Prior to the second quarter of 2009, if Peoples determined a loss to be "other-than-temporary", then an impairment loss was recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date.

Additional information regarding impairment losses recognized can be found later in this discussion under the caption "Net Impairment Losses".

Goodwill and Other Intangible Assets

In prior years, Peoples recorded goodwill and other intangible assets as a result of acquisitions accounted for under the purchase method of accounting. Under the purchase method, Peoples is required to allocate the cost of an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired and is not amortized but is tested for impairment when indicators of impairment exist, or at least annually. Peoples' other intangible assets consist of customer relationship intangible assets, primarily core deposit intangibles, representing the present value of future net income to be earned from acquired customer relationships with definite useful lives, which are required to be amortized over their estimated useful lives.

The value of recorded goodwill is supported ultimately by revenue that is driven by the volume of business transacted and Peoples' ability to provide quality, cost-effective services in a competitive market place. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods. Potential goodwill impairment exists when the fair value of the reporting unit (as defined by US GAAP) is less than its carrying value. An impairment loss is recognized in earnings only when the carrying amount of goodwill is less than its implied fair value.

Peoples performs its required annual impairment test as of June 30 each year. The significant assumptions made by management in estimating the reporting unit's fair value were (1) level of future cash flows over the next five years, (2) long-term growth rate of cash flows after year five and (3) the discount rate. Based on this analysis, management estimated 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 of goodwill at June 30, 2011, indicated that a decline in the fair value of Peoples' single reporting unit of 29% or more would result in goodwill impairment. The analysis also indicated any of the following situations would cause a decline in the fair value of Peoples' reporting unit resulting in goodwill impairment: (1) a 30%

sustained decline in future cash flows or (2) a 350 basis point increase in the discount rate.

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Peoples is required to perform interim tests for goodwill impairment in subsequent quarters if events occur or circumstances change that indicate potential goodwill impairment exists, such as adverse changes to Peoples' business or a significant decline in Peoples' market capitalization. Since June 30, 2011, Peoples' market capitalization has continued to be less than its book value, which management considers to be an indicator of possible goodwill impairment. Since June 30, 2011 there has been improvement in loan related credit losses over prior periods which management expects will continue to have a positive impact on Peoples' future cash flows. Additionally, the market value of Peoples' common shares improved 32% between June 30 and December 31, 2011. Management considered these improvements to be further evidence that goodwill is not impaired as of December 31, 2011.

Peoples records mortgage servicing rights (“MSRs”) in connection with its mortgage banking activities, which are intangible assets representing the right to service loans sold to third party investors. These intangible assets are recorded initially at fair value and subsequently amortized over the estimated life of the loans sold. MSRs are stratified based on their predominant risk characteristics and assessed for impairment at the strata level at each reporting date based on their fair value. At December 31, 2011, management concluded no portion of the recorded MSRs was impaired since the fair value exceeded the carrying value. However, future events, such as a significant increase in prepayment speeds, could result in a fair value that is less than the carrying amount, which would require the recognition of an impairment loss in earnings.

Income Taxes

Income taxes are recorded based on the liability method of accounting, which includes the recognition of deferred tax assets and liabilities for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. In general, Peoples records deferred tax assets when the event giving rise to the tax benefit has been recognized in the Consolidated Financial Statements.

A valuation allowance is recognized to reduce any deferred tax asset that, based upon available information, it is more-likely-than-not all, or any portion, of the deferred tax asset will not be realized. Assessing the need for, and amount of, a valuation allowance for deferred tax assets requires significant judgment and analysis of evidence regarding realization of the deferred tax assets. In most cases, the realization of deferred tax assets is dependent upon Peoples generating a sufficient level of taxable income in future periods, which can be difficult to predict. Peoples' largest deferred tax assets involve differences related to Peoples' allowance for loan losses and realization of income tax credits received from Peoples' investments in low-income housing projects and funds. Given the nature of Peoples' deferred tax assets, management determined no valuation allowances were needed at either December 31, 2011 or 2010.

The calculation of tax liabilities is complex and requires the use of estimates and judgment since it involves the application of complex tax laws that are subject to different interpretations by Peoples and the various tax authorities. These interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

From time-to-time and in the ordinary course of business, Peoples is involved in inquiries and reviews by tax authorities that normally require management to provide supplemental information to support certain tax positions taken by Peoples in its tax returns. Uncertain tax positions are initially recognized in the Consolidated Financial Statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. The amount of unrecognized tax benefits were immaterial at both December 31, 2011 and 2010. Management believes it has taken appropriate positions on its tax returns, although the ultimate outcome of any tax review cannot be predicted with certainty. Consequently, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the current and historical financial statements.

Fair Value Measurements

As a financial services company, the carrying value of certain financial assets and liabilities is impacted by the application of fair value measurements, either directly or indirectly. In certain cases, an asset or liability is measured and reported at fair value on a recurring basis, such as available-for-sale investment securities. In other cases, management must rely on estimates or judgments to determine if an asset or liability not measured at fair value warrants an impairment write-down or whether a valuation reserve should be established. Given the inherent volatility, the use of fair value measurements may have a significant impact on the carrying value of assets or liabilities, or result in material changes to the consolidated financial statements, from period to period.

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Detailed information regarding fair value measurements can be found in Note 2 of the Notes to the Consolidated Financial Statements. The following is a summary of those assets and liabilities that may be affected by fair value measurements, as well as a brief description of the current accounting practices and valuation methodologies employed by Peoples:

Available-for-Sale Investment Securities

Investment securities classified as available-for-sale are measured and reported at fair value on a recurring basis. For most securities, the fair value is based upon quoted market prices (Level 1) or determined by pricing models that consider observable market data (Level 2). For structured investment securities, the fair value often must be based upon unobservable market data, such as non-binding broker quotes and discounted cash flow analysis or similar models, due to the absence of an active market for these securities (Level 3). As a result, management's determination of fair value for these securities is highly dependent on subjective or complex judgments, estimates and assumptions, which could change materially between periods. Management occasionally uses information from independent third-party consultants in its determination of the fair value of more complex structured investment securities. At December 31, 2011, all of Peoples' available-for-sale investment securities were measured using observable market data.

At December 31, 2011, the majority of the investment securities with Level 2 fair values were determined using information provided by third-party pricing services. Management reviews the fair values provided by these third parties on a monthly basis and challenges prices when it believes a discrepancy in pricing exists. Management also reviews the valuation methodology and quality controls utilized by the pricing services in their overall assessment of the reasonableness of the fair values provided. To the extent available, management utilizes an independent third party pricing source to assist in its assessment of the values provided by its primary pricing services. Management challenges third party valuations for any security where it believes a material difference in pricing exists. Based on Peoples' past experience, these challenges more-often-than-not result in the third party adjusting its valuation of the security.

Impaired loans

For loans considered impaired, the amount of impairment loss recognized is determined based on a discounted cash flow analysis or the fair value of the underlying collateral if repayment is expected solely from the sale of the collateral. Management typically relies on the fair value of the underlying collateral due to the significant uncertainty surrounding the borrower's ability to make future payments. The vast majority of the collateral securing impaired loans is real estate, although it may also include accounts receivable and equipment, inventory or similar personal property. The fair value of the collateral used by management represents the estimated proceeds to be received from the sale of the collateral, less costs incurred during the sale, based upon observable market data and market value data provided by independent, licensed or certified appraisers.

Goodwill

The process of evaluating goodwill for impairment involves highly subjective or complex judgments, estimates and assumptions regarding the fair value of Peoples' reporting unit and, in some cases, goodwill itself. As a result, changes to these judgments, estimates and assumptions in future periods could result in materially different results.

Peoples currently possesses a single reporting unit for goodwill impairment testing. While quoted market prices exist for Peoples' common shares since they are publicly traded, these market prices do not necessarily reflect the value associated with gaining control of an entity. Thus, management takes into account all appropriate fair value measurements in determining the estimated fair value of the reporting unit. These measurements include transaction prices of recently acquired institutions based upon multiples of book value or earnings and discounted cash flow analysis.

For Peoples' June 30, 2011 goodwill impairment test, management estimated the fair value of Peoples' reporting unit using both an income approach and a market approach. The income approach consisted of a discounted cash flow analysis of projected future earnings. The market approach was based upon multiples of book value of recently acquired financial institutions, including distressed institutions. The discount rate used represented the estimated cost of Peoples' common equity based upon observable market data. The fair values derived under both approaches were weighted to arrive at an overall estimated fair value. Management placed greater weight on the income approach due to the limited number of acquisitions occurring in 2011 involving healthy or non-distressed entities compared to prior years. Consequently, the estimated fair value of Peoples' reporting unit could be materially different in future periods due to changes in either projected future earnings or the cost of common equity.

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The measurement of any actual impairment loss requires management to calculate the implied fair value of goodwill by deducting the fair value of all tangible and separately identifiable intangible net assets (including unrecognized intangible assets) from the fair value of the reporting unit. The fair value of net tangible assets is calculated using the methodologies described in Note 2 of the Notes to the Consolidated Financial Statements. Customer relationship intangibles are the only separately identifiable intangible assets included in the calculation of the implied fair value of goodwill. The amount of these intangibles represents the present value of the future earnings stream attributable to the deposit relationships.

Mortgage Servicing Rights

MSRs are carried at the lower of cost or market value, and, therefore, can be subject to fair value measurements on a nonrecurring basis. MSRs do not trade in an active market with readily observable prices. Thus, management determines fair value based upon a valuation model that calculates the present value of estimated future net servicing income provided by an independent third party consultant. This valuation model is affected by various input factors, such as servicing costs, expected prepayment speeds and discount rates, which are subject to change between reporting periods. As a result, significant changes to these factors could result in a material change to the calculated fair value of MSRs.

EXECUTIVE SUMMARY

In 2011, net income available to common shareholders was $11.2 million, versus $3.5 million in 2010 and $2.3 million in 2009, representing diluted earnings per common share of $1.07, $0.34 and $0.22, respectively. The improvement in earnings was a result of significant reductions in loan-related losses, specifically the provision for loan losses. Earnings available to common shareholders were reduced by preferred dividends of $1.3 million in 2011, $2.1 million in 2010 and $1.9 million in 2009 related to the TARP Capital Investment. Despite these challenges, Peoples generated positive results in several key areas, including expansion of retail deposits, expense control and continued diversification of revenues.

Provision for loan losses totaled $8.0 million in 2011, compared to $26.9 million in 2010 and $25.7 million in 2009. The recorded provision reflects the amount needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis.

In 2011, net interest income decreased 10% to $54.0 million, as the impact of the sustained low interest rate environment and lower average loan balances caused a decline in interest income that exceeded the reduction in funding costs. Net interest margin remained relatively stable throughout 2011. In 2010, net interest income decreased 3% compared to 2009, due primarily to decreased earning assets as a result of commercial loan payoffs and charge-offs, coupled with lower reinvestment rates corresponding with market interest rates.

Total non-interest income, which excludes the impact of gains and losses, increased 4% in 2011 over the prior year. This increase was driven by stronger generation in virtually every major revenue category. The largest growth occurred in electronic banking income, which increased 10% year-over-year. In 2010, total non-interest income was down slightly in compared to 2009. Electronic banking income increased 19% in 2010, while trust and investment income grew 13%. Both of these increases were more than offset by lower deposit account service charges and insurance income.

Total non-interest expense increased 8% in 2011, to $61.3 million, due to higher salary and employee benefit cost. Other operating expenses were generally controlled as reduced FDIC insurance costs and foreclosed real estate and other loan costs offset the additional marketing expense and higher professional fees, primarily external legal and consulting services. In 2010, non-interest expense decreased 3% versus 2009 largely attributable to cost saving initiatives implemented during the year. The impact of these initiatives was tempered by costs associated with an elevated level of foreclosed real estate and problem loans.

At December 31, 2011, total assets were $1.79 billion, 2% lower than the prior year-end. Cash and cash equivalents decreased $35.7 million during the year due to a reduction in short-term assets. Total investment securities were $27.9 million higher than year-end 2010, reflecting the redeployment of short-term assets, plus a $14.6 million improvement in market value. Total portfolio loan balances decreased $22.2 million in 2011. Paydowns and charge-offs during the first half of the year were the key drivers of the decrease during the 2011.

Total liabilities decreased $19.8 million during the year, to $1.59 billion at December 31, 2011. Retail deposit balances increased $12.9 million in 2011 as a 12% growth in low-cost core deposit balances was partially offset by reductions in certificates of deposit and money market balances. The lower interest-bearing deposit balances were a result

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of management maintaining its focus on reducing higher-cost, non-core deposits. At December 31, 2011, total borrowed funds were $216.6 million, down $15.2 million since December 31, 2010, as Peoples repaid maturing wholesale borrowings.

Total stockholders' equity was $206.7 million at December 31, 2011, down $24.0 million from the prior year-end. This reduction was due to the TARP Capital Redemption. Peoples' common equity was positively impacted by earnings exceeding dividends by $8.0 million, plus a $5.9 million change in accumulated other comprehensive income, due mostly to improved market value of Peoples' available-for-sale investment portfolio. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Common Capital ratio increased to 12.82% at December 31, 2011, while the Total Capital ratio was 16.20% versus 18.24% at December 31, 2010, with the decrease the result of the TARP Capital Redemption.

RESULTS OF OPERATIONS

Interest Income and Expense

Peoples earns interest income on loans and investments and incurs interest expense on interest-bearing deposits and borrowed funds. 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 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.

Peoples monitors net interest income performance and manages its balance sheet composition through regular Asset-Liability Management Committee (“ALCO”) meetings. The asset/liability management process employed by the ALCO is intended to mitigate the impact of future interest rate changes on Peoples' net interest income and earnings. However, the frequency and/or magnitude of changes in market interest rates are difficult to predict, and may have a greater impact on net interest income than adjustments management is able to make.

As part of the analysis of net interest income, management converts tax-exempt income earned on obligations of states and political subdivisions to the pre-tax equivalent of taxable income using an effective tax rate of 35%. Management believes the resulting fully tax-equivalent (“FTE”) net interest income allows for a more meaningful comparison of tax-exempt income and yields to their taxable equivalents. Net interest margin, which is calculated by dividing 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.

The following table details the calculation of FTE net interest income for the years ended December 31:

(Dollars in thousands)	2011	2010	2009
Net interest income, as reported	$53,979	$59,902	$61,843
Taxable equivalent adjustments	1,133	1,542	1,605
Fully tax-equivalent net interest income	$55,112	$61,444	$63,448

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

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(Dollars in thousands)	2011 Average Balance	Income/ Expense	Yield/Cost	2010 Average Balance	Income/ Expense	Yield/Cost	2009 Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$11,522	$24	0.21 %	$36,508	$91	0.25 %	$28,496	$71	0.25 %
Investment Securities (1):									
Taxable	631,112	24,332	3.86 %	656,719	29,728	4.53 %	660,828	34,521	5.22 %
Nontaxable (2)	38,653	2,385	6.17 %	57,781	3,621	6.27 %	67,471	4,325	6.41 %
Total investment securities	669,765	26,717	3.99 %	714,500	33,349	4.67 %	728,299	38,846	5.33 %
Loans (3):									
Commercial	616,970	30,375	4.92 %	682,736	36,169	5.30 %	725,021	40,299	5.56 %
Real estate (4)	246,878	13,111	5.31 %	260,964	14,650	5.61 %	273,625	17,163	6.27 %
Consumer	87,103	6,039	6.93 %	86,203	6,618	7.68 %	94,411	7,331	7.76 %
Total loans	950,951	49,525	5.21 %	1,029,903	57,437	5.58 %	1,093,057	64,793	5.93 %
Less: Allowance for loan losses	(27,259)			(29,597)			(25,081)		
Net loans	923,692	49,525	5.36 %	1,000,306	57,437	5.74 %	1,067,976	64,793	6.07 %
Total earning assets	1,604,979	76,266	4.75 %	1,751,314	90,877	5.19 %	1,824,771	103,710	5.68 %
Intangible assets	64,621			65,153			66,010		
Other assets	141,479			145,260			133,530		
Total assets	$1,811,079			$1,961,727			$2,024,311		
Deposits:									
Savings accounts	$134,752	$184	0.14 %	$120,301	$193	0.16 %	$126,226	$645	0.51 %
Interest-bearing demand accounts	242,496	1,645	0.68 %	234,503	2,614	1.11 %	207,117	3,127	1.51 %
Money market accounts	266,273	789	0.30 %	291,632	2,171	0.74 %	235,690	2,735	1.16 %
Brokered deposits	70,417	2,308	3.28 %	102,153	2,994	2.93 %	131,071	4,500	3.43 %
Retail certificates of deposit	419,226	9,004	2.15 %	451,746	11,150	2.47 %	506,132	15,116	2.99 %
Total interest-bearing deposits	1,133,164	13,930	1.23 %	1,200,335	19,122	1.59 %	1,206,236	26,123	2.17 %
Borrowed Funds:									
Short-term FHLB advances	5,525	5	0.08 %	8,712	10	0.11 %	6,867	15	0.19 %
Other short-term borrowings	41,589	98	0.23 %	50,185	252	0.49 %	53,056	467	0.87 %
Total short-term borrowings	47,114	103	0.22 %	58,897	262	0.44 %	59,923	482	0.81 %
Long-term FHLB advances	84,193	2,895	3.44 %	102,685	3,624	3.53 %	136,272	5,354	3.93 %
Wholesale repurchase agreements	65,000	2,247	3.41 %	113,219	4,439	3.87 %	153,795	6,323	4.05 %
Other long-term borrowings	22,583	1,979	8.64 %	22,548	1,986	8.69 %	22,513	1,980	8.67 %
Total long-term borrowings	171,776	7,121	4.11 %	238,452	10,049	4.18 %	312,580	13,657	4.37 %
Total borrowed funds	218,890	7,224	3.27 %	297,349	10,311	3.44 %	372,503	14,139	3.76 %
Total interest-bearing liabilities	1,352,054	21,154	1.56 %	1,497,684	29,433	1.96 %	1,578,739	40,262	2.55 %

Non-interest-bearing deposits	228,093			210,310			195,688		
Other liabilities	11,435			14,336			17,036		
Total liabilities	1,591,582			1,722,330			1,791,463		
Preferred equity	19,492			38,594			35,438		
Common equity	200,005			200,803			197,410		
Total stockholders' equity	219,497			239,397			232,848		
Total liabilities and stockholders' equity	$1,811,079			$1,961,727			$2,024,311		
Interest rate spread		$55,112	3.19 %		$61,444	3.23 %		$63,448	3.13 %
Net interest margin			3.43 %			3.51 %			3.48 %

(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.

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

(Dollars in thousands)	Changes from 2010 to 2011			Changes from 2009 to 2010		
Increase (decrease) in:	Rate	Volume	Total [(1)]	Rate	Volume	Total [(1)]
INTEREST INCOME:						
Short-term investments	$(13)	$(54)	$(67)	$—	$20	$20
Investment Securities: [(2)]						
Taxable	(4,270)	(1,126)	(5,396)	(4,579)	(214)	(4,793)
Nontaxable	(57)	(1,179)	(1,236)	(93)	(611)	(704)
Total investment income	(4,327)	(2,305)	(6,632)	(4,672)	(825)	(5,497)
Loans:						
Commercial	(2,472)	(3,322)	(5,794)	(1,832)	(2,298)	(4,130)
Real estate	(766)	(773)	(1,539)	(1,747)	(766)	(2,513)
Consumer	(648)	69	(579)	(80)	(633)	(713)
Total loan income	(3,886)	(4,026)	(7,912)	(3,659)	(3,697)	(7,356)
Total interest income	(8,226)	(6,385)	(14,611)	(8,331)	(4,502)	(12,833)
INTEREST EXPENSE:						
Deposits:						
Savings accounts	(28)	19	(9)	(423)	(29)	(452)
Interest-bearing demand accounts	(1,054)	85	(969)	(894)	381	(513)
Money market accounts	(1,206)	(176)	(1,382)	(1,125)	561	(564)
Brokered certificates of deposit	325	(1,011)	(686)	(601)	(905)	(1,506)
Retail certificates of deposit	(1,377)	(769)	(2,146)	(2,450)	(1,516)	(3,966)
Total deposit cost	(3,340)	(1,852)	(5,192)	(5,493)	(1,508)	(7,001)
Borrowed funds:						
Short-term borrowings	(118)	(41)	(159)	(199)	(21)	(220)
Long-term borrowings	(578)	(2,350)	(2,928)	(779)	(2,829)	(3,608)
Total borrowed funds cost	(696)	(2,391)	(3,087)	(978)	(2,850)	(3,828)
Total interest expense	(4,036)	(4,243)	(8,279)	(6,471)	(4,358)	(10,829)
Net interest income	$(4,190)	$(2,142)	$(6,332)	$(1,860)	$(144)	$(2,004)

(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.

In 2011, net interest income was adversely affected by the sustained low interest rate environment, coupled with a decline in average loan balances experienced as a result of significant payoffs and charge-offs during the year. 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 ("CDs"). The yield curve flattening experienced during 2011 put downward pressure on Peoples' asset yields, due to the corresponding decline in reinvestment rates. However, management has intensified its disciplined approach to loan and deposit pricing, which lowered funding costs and mitigated much of the impact of lower market interest rates on net interest income and margin. Peoples' deposit costs in 2011 benefited from nearly $60 million in high-cost CDs maturing during the year and being replaced with lower-cost funds. Most of these CDs were part of a special product offering in 2008 and had an average cost of 3.73%. An additional $22.0 million of these high-cost CDs with an average rate of 4.22% will mature during the first quarter of 2012.

In comparison, net interest income in 2010 was adversely affected by declining asset yields as excess funds were reinvested at lower market interest rates, especially during the second half of the year when the yield curve flattened. A contributing factor for the lower net interest income in 2010 was the decrease in loan balances experienced during the year. Given these conditions, management took steps throughout 2010 to reduce funding costs, where possible, as a means of offsetting the lower asset yields. These efforts included adjusting Peoples' funding mix away from high-cost deposits and

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wholesale borrowings and into lower-cost, core deposits. However, the ability to reduce funding costs was limited by the lack of significant high-cost liabilities maturing in 2010.

Peoples' net interest margin, although pressured by the changes in interest rates and corresponding slope of the yield curve, remained relatively consistent in both 2010 and 2009, due to Peoples' active management of its balance sheet and interest rate risk profile. Net interest margin also was negatively impacted by Peoples maintaining excess cash reserves at the Federal Reserve Bank of Cleveland. These cash balances were maintained due to a lack of investment opportunities that satisfied management's risk-reward criteria, coupled with Peoples' desire to repay maturing high-cost wholesale funding.

Average loan balances decreased in both 2010 and 2011, reflecting significant commercial loan payoffs and elevated charge-off levels over the last three years. Average loan balances also were impacted by residential real estate loans being refinanced and sold to the secondary market due to customer demand for long-term, fixed-rate loans. Average investment securities have decreased in each of the past two years. These declines were due largely to planned deleveraging of Peoples' balance sheet by using investment cash flows to repay wholesale funding. During 2011, Peoples held the size of its investment portfolio relatively stable due to the absence of planned loan growth. This action somewhat mitigated the negative impact of lower average loan balances in 2011 versus 2010.

Opportunities to reduce funding costs will remain limited by the amount of high-cost funding scheduled to mature. In addition, the Federal Reserve's current strategy of maintaining a flatter interest rate environment will put downward pressure on net interest income and margin. As a result, Peoples' balance sheet strategies will continue to emphasize growing loans profitably, remaining disciplined with loan and deposit pricing and maintaining good liquidity. Management also may take other actions in future quarters to enhance Peoples' net interest income and margin through changes in Peoples' balance sheet mix if opportunities exist based upon market conditions.

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

Provision for Loan Losses

The following table details Peoples’ provision for loan losses:

(Dollars in thousands)	2011	2010	2009
Provision for checking account overdrafts	$418	$551	$799
Provision for other loan losses	7,580	26,365	24,922
Total provision for loan losses	$7,998	$26,916	$25,721
As a percentage of average gross loans	0.84%	2.61%	2.35%

The provision for loan losses is based on management's formal quarterly evaluation of the loan portfolio and analysis of the adequacy of the allowance for loan losses described in the “Critical Accounting Policies” section of this discussion. This analysis 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 Impairment Losses

The following table details the net impairment losses recognized on available-for-sale securities:

(Dollars in thousands)	2011	2010	2009
Collateralized debt obligations	$—	$986	$3,707
Mortgage-backed securities	—	800	—
Individual bank-issued trust preferred securities	—	—	4,000
Total net impairment losses	$—	$1,786	$7,707

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The impairment losses shown in the table above were the result of management determining certain securities were other-than-temporarily impaired. These determinations were made in connection with management's quarterly analysis of the investment portfolio described in the “Critical Accounting Policies” section of this discussion, which included evaluating the credit quality of underlying issuers and estimating cash flows to be received from the securities.

The losses associated to collateralized debt obligations ("CDO") securities were the result of reduced cash flow within these structured investments since 2007. In 2009, management's analysis concluded two mezzanine tranche CDO securities held in Peoples' investment portfolio were total losses since it was probable Peoples would not recover the amortized cost of the securities. Similarly, two equity tranche CDO securities were deemed total losses in the first quarter of 2010 based on management's analysis of estimated cash flows to be received. As a result of these write-downs, Peoples has had no recorded investment in any CDO securities since the first quarter of 2010.

The losses attributable to individual bank-issued trust preferred securities involved two unrelated issuers who had deferred interest payments. Management deemed the securities a total loss since its analysis indicated it was probable Peoples would not recover the entire principal amounts. Subsequent to management's determinations, federal banking regulators closed the banking subsidiaries of both issuers, with the FDIC being appointed as receiver of the failed institutions.

Management performed its quarterly analysis of the remaining investment securities with an unrealized loss at December 31, 2011, and concluded no other individual securities were other-than-temporarily impaired.

Other Gains (Losses)

The following table details the other gains and losses recognized in each of the last three years ended December 31:

(Dollars in thousands)	2011	2010	2009
Net loss on OREO	$(1,395)	$(1,854)	$(118)
Gain (loss) on loans held-for-sale	469	(1,319)	—
Loss on debt extinguishment	—	(3,630)	—
Net gain (loss) on bank premises and equipment	10	(88)	15
Net other gains (losses)	$(916)	$(6,891)	$(103)

Nearly all of the net OREO losses in 2010 and 2011 were the result of write-downs on two unrelated commercial properties held as OREO since late 2009. In comparison, the net OREO loss in 2009 was attributable to sales of OREO. The loss recognized on early debt extinguishment in 2010 was the result of the prepayments completed in the third quarter.

Non-Interest Income

Peoples generates non-interest income, which excludes gains and losses on investments and other assets, from six primary sources: deposit account service charges, trust and investment activities, insurance sales revenues, electronic banking (“e-banking”), mortgage banking and bank owned life insurance (“BOLI”).

In 2011, Peoples experienced revenue growth from nearly every non-interest income source. This success reflects Peoples' continued emphasis on maintaining a diversified revenue stream through greater reliance on fee-based revenues. As a result, total non-interest income accounted for 37.9% of Peoples' total revenues in 2011, compared to 34.6% in 2010 and 34.1% in 2009.

Service charges and other fees on deposit accounts, which are based on the recovery of costs associated with services provided, comprised the largest portion of Peoples' non-interest income. Management periodically evaluates its cost recovery fees to ensure they are reasonable based on operational costs and similar to fees charged in Peoples' markets by competitors.

The following table details Peoples' deposit account service charges:

(Dollars in thousands)	2011	2010	2009
Overdraft and non-sufficient funds fees	$8,153	$8,357	$9,336
Account maintenance fees	1,315	866	769
Other fees and charges	297	358	285
Total deposit account service charges	$9,765	$9,581	$10,390

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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. As a result, the amount ultimately recognized by Peoples can fluctuate from period to period. 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. These regulations have had a minimal impact on Peoples as reflected in the lack of significant changes in overdraft and non-sufficient funds fees versus the prior year. Account maintenance fees during the 2011 reflect the impact of Peoples' new consumer checking account product offering and pricing structure implemented during the first quarter of 2011.

Peoples' insurance income, which consists predominantly of commission revenue from the sale of property and casualty insurance to commercial customers, continued to comprise a significant portion of Peoples' non-interest income in 2011. The following table details Peoples' insurance income:

(Dollars in thousands)	2011	2010	2009
Property and casualty insurance commissions	$7,419	$7,385	$7,633
Performance-based commissions	944	585	828
Life and health insurance commissions	624	580	661
Credit life and A&H insurance commissions	158	123	119
Other fees and charges	120	173	149
Total insurance income	$9,265	$8,846	$9,390

Peoples has been successful at maintaining a high retention rate for existing insurance customers. However, property and casualty insurance commissions over the past three years have been pressured by the effects of a contracting economy on commercial insurance needs, plus lower pricing margins due to competition within the insurance industry. The bulk of the performance-based commission income is typically recorded annually by Peoples during the first quarter and is 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. As a result, the amount of performance based commission income recognized by Peoples is difficult to predict and could fluctuate from year to year. Future growth in property and casualty insurance commission levels may be limited by the effects of a weak economy on commercial insurance needs.

Peoples' trust and investment income is comprised of revenue generated from its fiduciary activities and the sale of investment services. The following table details Peoples' trust and investment income for the years ended December 31 and market value of managed assets at year-end:

(Dollars in thousands)	2011	2010	2009
Fiduciary	$4,293	$4,396	$3,760
Brokerage	1,255	952	962
Total trust and investment income	$5,548	$5,348	$4,722
Trust assets under management	$821,659	$836,587	$750,993
Brokerage assets under management	262,196	256,579	216,479
Total managed assets	$1,083,855	$1,093,166	$967,472
Average during the year	$1,092,781	$977,577	$873,930

Peoples' fiduciary and brokerage revenues are primarily driven by the value of assets under management. Over the last several quarters, Peoples has continued to attract new managed funds, due in part to the addition of experienced financial advisors in previously underserved market areas. These efforts have helped to lessen the impact of the general decline experienced in the financial markets as whole.

Peoples' e-banking services include ATM and debit cards, direct deposit services and internet banking, and serve as alternative delivery channels to traditional sales offices for providing services to clients. In 2011, Peoples' customers used their debit cards to complete $372 million of transactions, versus $338 million in 2010 and $290 million in 2009, representing increases of 10% and 17%, respectively.

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Peoples' mortgage banking income is comprised mostly of net gains from the origination and sale of long-term, fixed-rate real estate loans to the secondary market. As a result, the amount of income recognized by Peoples is largely dependent on customer demand and long-term interest rates for residential real estate loans offered by the secondary market. The increased production in 2011 has been a result of refinancing activity in response to historically low mortgage interest rates available in the secondary market and continued customer preference for long-term, fixed rate loans. During 2011, Peoples sold $73 million of residential real estate loans to the secondary market, versus $64 million in 2010 and $95 million in 2009.

Income generated by Peoples' BOLI investment serves to enhance operating efficiency by partially offsetting rising employee benefit costs. Changes in the interest rate environment can have an impact on the associated investment funds and thus the amount of BOLI income recognized by Peoples. Management monitors the performance of Peoples' BOLI and may make adjustments to improve the income streams and overall performance. The current low interest rate environment has resulted in decreased BOLI income over the last three years. Management continues to explore opportunities either to enhance the return generated by Peoples' BOLI or to redeploy these funds into investments with greater long-term potential to fund future employee benefit costs, and offset the related expense.

Non-Interest Expense

Salaries and employee benefit costs represent Peoples' largest non-interest expense, accounting for over 50% of total non-interest expense, which is inherent in a service-based industry such as financial services. The following table details Peoples' salaries and employee benefit costs:

(Dollars in thousands)	2011	2010	2009
Base salaries and wages	$21,320	$20,269	$20,455
Sales-based and incentive compensation	4,646	3,365	3,130
Employee benefits	5,927	4,802	5,037
Stock-based compensation	310	92	149
Deferred personnel costs	(1,370)	(1,260)	(1,477)
Payroll taxes and other employment costs	2,793	1,954	2,100
Total salaries and employee benefit costs	$33,626	$29,222	$29,394
Full-time equivalent employees:			
Actual at end of period	513	534	537
Average during the period	535	531	543

Base salaries and wages for the year ended December 31, 2011, were higher than 2010, due largely to Peoples filling open senior management position, plus modest annual base salary adjustments. Peoples also incurred severance costs of approximately $160,000 related to staffing reductions in targeted areas. The reductions also account for the lower number of full-time equivalent employees at year-end 2011. Sales-based and incentive compensation was impacted by significantly higher expense accruals associated with corporate incentive plans tied in in part to Peoples' performance. Employee benefit costs were higher in 2011 due mostly to higher employee medical benefit plan expenses.

In 2011, Peoples incurred pension settlement charges totaling $815,000, which more than offset the impact of Peoples freezing the accrual of pension benefits effective March 1, 2011. The pension benefit freeze significantly lowered the threshold for recognizing pension settlement charges. 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. During the third quarter of 2011, the total lump-sum distributions made to participants, when added to the lump-sum distributions made in the first two quarters of 2011, caused the total settlements through nine months of 2011 to exceed the recognition threshold for settlement gains or losses. In the fourth quarter of 2011, Peoples incurred pension settlement charges relating to the purchase of annuity contracts for retired participants who had elected to receive their pension benefits in the form of annuity. Management anticipates Peoples incurring pension settlement charges in 2012 as the threshold will be lower corresponding with the decrease in discount rate used in the measurement of Peoples' pension liability. Additionally, these settlement charges may be recognized earlier in the year compared to 2011 given

the lower threshold.
Stock-based compensation is generally recognized over the vesting period, typically ranging from 6 months to 3 years, although for service based awards Peoples must immediately recognize the entire expense for awards to employees who are eligible for retirement at the grant date. For all awards, expense is only recognized for the portion of awards that is

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expected to vest. The majority of Peoples' stock-based compensation expense is attributable to annual equity-based incentive awards to employees, which are awarded in the first quarter and based upon Peoples achieving certain performance goals during the prior year. In the first quarter of 2011, Peoples granted restricted shares to officers and key employees with both time-based and performance-based vesting periods. Peoples did not grant any equity-based incentive awards to employees or non-employee directors in either 2009 or 2010, due to lower corporate performance results, resulting in decreased stock-based compensation expense being recognized for both years compared to prior years. Additional information regarding Peoples' stock-based compensation plans and awards can be found in Note 18 of the Notes to the Consolidated Financial Statements.

Deferred personnel costs represent the portion of current period salaries and employee benefit costs considered to be direct loan origination costs. These costs are capitalized and recognized over the life of the loan as a yield adjustment to interest income . As a result, the amount of deferred personal costs for each year corresponds directly with the level of new loan originations. Additional information regarding Peoples' loan activity can be found later in this discussion under the caption “Loans”.

During 2011, Peoples has incurred higher costs associated with the recruitment and retention of various senior management positions. A nearly equal increase occurred as a result of Peoples increasing employer-matching contributions related to its 401(k) savings plan. These costs were the key drivers of the increase in payroll taxes and other employment costs from the prior year.

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

(Dollars in thousands)	2011	2010	2009
Depreciation	$1,967	$1,943	$1,998
Repairs and maintenance costs	1,614	1,596	1,549
Net rent expense	891	894	837
Property taxes, utilities and other costs	1,413	1,348	1,372
Total net occupancy and equipment expense	$5,885	$5,781	$5,756

Depreciation expense was held relatively flat during 2011 due in large part to management limiting capital expenditures during 2010 in connection with various cost saving initiatives. Management continues to monitor capital expenditures and explore opportunities to enhance Peoples' operating efficiency.

Professional fees expense represents the cost of accounting, legal and other third-party professional services utilized by Peoples. In 2011, professional fees increased as a result of the costs related to Peoples' new Power checking product, which was introduced at the start of the year. Another significant driver of the higher professional fees in 2011 was increased consulting services related to various management projects and initiatives to improve overall operating efficiency. During 2009 and 2010, professional fees were impacted by an increased utilization of external legal services corresponding with the elevated levels of under performing loans and associated workout efforts.

Peoples' e-banking expense, which is comprised of bankcard and internet-based banking costs, increased in both 2010 and 2011 as a result of customers completing a larger percentage of their transactions using their debit cards and Peoples' internet banking service. These factors have also produced a greater increase in the corresponding e-banking revenues over the same periods. Overall, management believes e-banking expense levels are reasonable considering Peoples' e-banking services have generated higher net revenues and have helped to improve overall relationship profitability, due to the lower transaction costs incurred by Peoples.

While actions taken by the FDIC resulted in higher FDIC insurance costs for 2009 and 2010, new regulation required by the Dodd-Frank Act became effective during 2011 that reduced Peoples' FDIC insurance costs beginning with the amount recorded during the second quarter of 2011. Additional information regarding Peoples' FDIC insurance assessments may be found in Item 1 of this Form 10-K in the section captioned "Supervision and Regulations".

Marketing expense, which includes advertising, donation and other public relations costs, increased compared to the prior years. In 2011, Peoples' marketing expense was impacted by contributions totaling $300,000 to Peoples Bancorp Foundation Inc.. Peoples formed this private foundation in 2004 to make charitable contributions to organizations within Peoples' primary market area. In prior years, Peoples limited such contributions as part of its efforts to control operating costs. Future contributions to Peoples Bancorp Foundation Inc. will be evaluated on a quarterly basis, with the determination of the amount of any contribution based largely on the level of need within the communities Peoples serves. Marketing expense in 2011 also was impacted by Peoples increasing its advertising activity compared to prior years.

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Foreclosed real estate and other loan expenses represent costs associated with maintaining foreclosed assets, including real estate taxes and utilities, as well as various administrative costs incurred in connection with servicing and collecting outstanding loans. In 2011, foreclosed real estate and other loan expenses were lower compared to the prior year, due mostly to costs associated with commercial properties acquired through foreclosure in the fourth quarter of 2009. In both 2009 and 2010, Peoples incurred additional expense due to the higher level of impaired and nonperforming assets.

Peoples is subject to state franchise taxes, which are based largely on Peoples Bank's equity at year-end, in the states where it has a physical presence. Overall, state franchise taxes have remained consistent over the last three years, due to relatively stable equity levels at Peoples Bank. Peoples regularly evaluates the capital position of its direct and indirect subsidiaries from both a cost and leverage perspective. Ultimately, management seeks to optimize Peoples' consolidated capital position through allocation of capital, which is intended to enhance profitability and shareholder value.

Peoples' intangible asset amortization expense has decreased in each of the prior three years from the use of an accelerated method of amortization for its customer-related intangibles. As a result, amortization expense will continue to be lower in subsequent years based on the intangible assets included on Peoples' Consolidated Balance Sheets at December 31, 2011.

Income Tax Expense

A key driver of the amount of income tax expense or benefit recognized by Peoples each year is the amount of pre-tax income derived from tax-exempt sources. Additionally, Peoples receives tax benefits from its investments in tax credit funds, which reduce Peoples' effective tax rate. A reconciliation of Peoples' recorded income tax expense/benefit and effective tax rate to the statutory tax rate can be found in Note 14 of the Notes to the Consolidated Financial Statements.

FINANCIAL CONDITION

Cash and Cash Equivalents

Peoples considers cash and cash equivalents to consist of Federal Funds sold, cash and balances due from banks, interest-bearing balances in other institutions and other short-term investments that are readily liquid. The amount of cash and cash equivalents fluctuates on a daily basis due to customer activity and Peoples' liquidity needs. Beginning in 2010, Peoples has maintained excess cash reserves at the Federal Reserve Bank of Cleveland, which are included in "interest-bearing deposits in other banks" on the Consolidated Balance Sheets, rather than Federal Funds sold due to more favorable interest rates. At December 31, 2011, excess cash reserves at the Federal Reserve Bank were $4.4 million, compared to $44.6 million at December 31, 2010. This decline occurred largely as a result of Peoples using these funds in the Partial TARP Capital Redemption.

In 2011, Peoples' total cash and cash equivalents decreased $35.7 million, due mostly to cash used in financing and investing activities exceeded the $43.4 million of cash generated by operating activities. The majority of the $70.2 million of cash used in Peoples' financing activity related to the TARP Capital Redemption. Peoples also used $15.4 million of cash to reduce its long-term borrowings.

In comparison, total cash and cash equivalents increased $32.9 million in 2010, driven by net cash provided by Peoples' investing and operating activities of $141.5 million and $45.1 million, respectively, of which $153.7 million was used in financing activities. The net cash provided by investing activities was primarily the result of management not reinvesting $84.1 million of the cash flow generated from the investment portfolio, coupled with loan payments and payoffs exceeding new originations by $61.1 million. The net cash used in Peoples' financing activities was attributed to intentional reductions in borrowed funds and interest-bearing deposit balances.

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 at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Obligations of:					
U.S. Treasury and government agencies	$32	$39	$82	$176	$197
U.S. government sponsored agencies	13,037	12,262	4,473	8,442	74,470
States and political subdivisions	35,745	47,379	62,953	68,930	69,247
Residential mortgage-backed securities	527,003	507,534	558,825	511,201	356,605
Commercial mortgage-backed securities	37,289	30,700	24,188	25,951	—
Bank-issued trust preferred securities	12,211	12,984	13,826	17,888	19,185
Equity securities	3,254	3,088	2,593	2,761	4,566
U.S. government-backed student loan pools	—	—	59,442	44,985	—
Collateralized debt obligations	—	—	165	4,423	5,896
Preferred stocks	—	—	—	—	12,065
Total fair value	$628,571	$613,986	$726,547	$684,757	$542,231
Total amortized cost	$617,128	$617,122	$706,444	$696,855	$535,979
Net unrealized gain (loss)	$11,443	$(3,136)	$20,103	$(12,098)	$6,252

In 2011, Peoples maintained the size of its investment portfolio due to the lack of planned loan growth. During the first quarter of 2011 and fourth quarter of 2010, Peoples sold selected municipal securities, which accounts for the decreased investment in obligations of states and political subdivisions compared to prior periods. The size and composition of Peoples' investment portfolio changed significantly between year-end 2010 and 2009, 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 since December 31, 2009.

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)	2011	2010	2009	2008	2007
Residential	$58,660	$113,559	$153,621	$192,133	$46,990
Commercial	1,288	26,090	24,188	25,951	—
Total fair value	$59,948	$139,649	$177,809	$218,084	$46,990
Total amortized cost	$59,148	$136,997	$177,370	$231,153	$47,757
Net unrealized gain	$800	$2,652	$439	$(13,069)	$(767)

In the third quarter of 2011, Peoples sold residential mortgage-backed securities which were showing signs of increased stress, causing the decline in this portion of the portfolio. In 2010 and 2011, management reinvested the principal runoff from the non-agency securities into U.S. agency investments, which further contributed to the decline experienced over this period. At December 31, 2011, Peoples' non-agency portfolio consisted entirely of first lien residential and commercial mortgages, with nearly all of the underlying loans in these securities originated in 2003 or earlier and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

At December 31, 2011, Peoples' investment in bank-issued trust preferred securities consisted of holdings of seven unrelated issuers. All of these securities remain current on contractual interest payment. In addition, an aggregate of $10 million of these securities relate to issuers involved in the comprehensive capital assessment conducted by federal bank supervisors in the first half of 2009 - known as the Supervisory Capital Assessment Program or "government

stress test”.
In late 2008 and early 2009, Peoples purchased seven different floating-rate U.S. government-backed student loan pools, with an aggregate par amount of $58 million, at moderate discounts due to the market conditions that existed at that time. These securities were purchased as part of Peoples' overall interest risk positioning in anticipation of rising interest

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rates. In 2010, the sustained low interest rate environment negatively affected the yields on these securities. As a result, Peoples sold its entire holdings of U.S. government-backed student loan pools, which produced a net gain of $5.7 million. All but $12 million of these securities were sold as part of the third quarter 2010 deleveraging.

Since late 2010, Peoples has purchased investment securities which have been designated as “held-to-maturity” at the time of their purchase. For each security, management has made the determination Peoples would hold these securities until maturity and concluded Peoples had the ability to do so. Two of these securities were qualified school construction bonds, which were created under the American Recovery and Reinvestment Act of 2009 and provide the bond holders with federal income tax credits in lieu of interest. The federal income tax credit rate for these bonds is fixed for the life of the bonds. At the time Peoples purchased these bonds, significant uncertainty existed regarding the ownership rights of the associated tax credits should the bonds be sold or transferred. Additional securities may be designated as "held-to-maturity" in future years as deemed appropriate by management.

Additional information regarding Peoples' investment portfolio can be found in Note 3 of the Notes to the Consolidated Financial Statements.

Loans

The following table provides information regarding outstanding loan balances at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Gross portfolio loans:					
Commercial real estate	$410,352	$425,528	$466,148	$438,163	$464,527
Commercial and industrial	140,857	153,713	160,678	176,187	168,909
Real estate construction	30,577	27,595	41,906	92,032	87,023
Residential real estate	219,619	219,833	240,949	259,196	276,459
Home equity lines of credit	47,790	48,525	49,593	48,057	43,216
Consumer	87,531	83,323	91,164	88,729	78,335
Deposit account overdrafts	1,780	2,201	1,620	1,668	2,472
Total portfolio loans	$938,506	$960,718	$1,052,058	$1,104,032	$1,120,941
Average total loans	950,951	1,029,903	1,093,057	1,113,247	1,122,808
Average allowance for loan losses	(27,259)	(29,597)	(25,081)	(17,428)	(14,775)
Average loans, net of allowance	$923,692	$1,000,306	$1,067,976	$1,095,819	$1,108,033
Percent of loans to total loans:					
Commercial real estate	43.7%	44.2%	44.2%	39.6%	41.3%
Commercial and industrial	15.0%	16.0%	15.3%	16.0%	15.1%
Real estate construction	3.3%	2.9%	4.0%	8.3%	7.8%
Residential real estate	23.4%	22.9%	22.9%	23.5%	24.7%
Home equity lines of credit	5.1%	5.1%	4.7%	4.4%	3.9%
Consumer	9.3%	8.7%	8.7%	8.0%	7.0%
Deposit account overdrafts	0.2%	0.2%	0.2%	0.2%	0.2%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Loans being serviced for others:					
Residential real estate	$275,715	$250,691	$227,855	$181,506	$176,809

In 2011, Peoples added several new commercial bankers, which caused an increase in new loan production. As a result, loan balances stabilized somewhat in the second half of the year. However, total commercial loan balances were negatively impacted by elevated charge-offs in the first half of 2011 and the prior three years, coupled with sizable paydowns such as the payoff of a single $10 million commercial and industrial loan in the first quarter of 2011.

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The following table details the maturities of Peoples' commercial and construction loans at December 31, 2011:

(Dollars in thousands)	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total
Loan Type				
Commercial real estate:				
Fixed	$15,791	$50,190	$11,144	$77,125
Variable	217,313	108,468	7,446	333,227
Total	$233,104	$158,658	$18,590	$410,352
Commercial and industrial:				
Fixed	$5,979	$36,814	$11,361	$54,154
Variable	86,045	658	—	86,703
Total	$92,024	$37,472	$11,361	$140,857
Real estate construction:				
Fixed	$—	$9,858	$80	$9,938
Variable	16,729	3,801	109	20,639
Total	$16,729	$13,659	$189	$30,577

Peoples' real estate loan balances have declined steadily over the last several years due to customer demand for long-term, fixed-rate mortgages, which Peoples generally sells to the secondary market. In parts of 2010 and 2011, Peoples experienced significant refinancing activity in response to historically low long-term fixed rates available in the secondary market. This activity included existing residential real estate loans held in Peoples' loan portfolio being refinanced with the new loan being sold to the secondary market. Peoples predominately has retained servicing rights on sold loans. As a result, Peoples' serviced loan portfolio was $275.7 million and $250.6 million at December 31, 2011 and 2010, respectively.

In prior years, Peoples experienced steady growth in consumer loan balances, due mainly to the efforts in indirect lending. Peoples' indirect lending activity involves the origination of consumer loans primarily through automobile dealers and comprises a significant portion of its total consumer loans. In 2011, consumer loan balances were higher than a year ago due to growth during the second quarter mostly attributable to targeted promotions.

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 December 31, 2011:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total	
Real Estate Construction Loans:					
Health care facilities	6,448	6,091	12,539	30.9	%
Assisted living facilities and nursing homes	9,858	—	9,858	24.3	%
Apartment complexes	3,288	2,273	5,561	13.7	%
Mixed commercial use facilities - non-owner occupied	3,037	466	3,503	8.6	%
Restaurants	2,431	1,000	3,431	8.5	%
Other	5,515	176	5,691	14.0	%
Total real estate construction	30,577	10,006	40,583	100.0	%

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(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total
Commercial Real Estate Loans:				
Lodging and lodging related	$65,808	$170	$65,978	15.8 %
Apartment complexes	54,651	332	54,983	13.2 %
Office buildings and complexes:				
Owner occupied	6,328	160	6,488	1.6 %
Non-owner occupied	35,287	1,294	36,581	8.8 %
Total office buildings and complexes	41,615	1,454	43,069	10.4 %
Retail facilities:				
Owner occupied	10,971	—	10,971	2.6 %
Non-owner occupied	22,104	717	22,821	5.5 %
Total retail facilities	33,075	717	33,792	8.1 %
Assisted living facilities and nursing homes	31,876	—	31,876	7.6 %
Light industrial facilities:				
Owner occupied	19,172	22	19,194	4.6 %
Non-owner occupied	9,814	—	9,814	2.3 %
Total light industrial facilities	28,986	22	29,008	6.9 %
Mixed commercial use facilities:				
Owner occupied	10,422	230	10,652	2.5 %
Non-owner occupied	14,474	11	14,485	3.5 %
Total mixed commercial use facilities	24,896	241	25,137	6.0 %
Day care facilities:				
Owner occupied	5,469	65	5,534	1.3 %
Non-owner occupied	14,599	—	14,599	3.5 %
Total day care facilities	20,068	65	20,133	4.8 %
Restaurant facilities:				
Owner occupied	10,956	659	11,615	2.8 %
Non-owner occupied	3,214	—	3,214	0.8 %
Total restaurant facilities	14,170	659	14,829	3.6 %
Other	95,207	3,795	99,002	23.6 %
Total commercial real estate	$410,352	$7,455	$417,807	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 December 31, 2011 and 2010.

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 the formal quarterly analysis of the loan portfolio described in the “Critical Accounting Policies” section of this discussion. The following details the allocation of the allowance for loan losses:

(Dollars in thousands)	2011	2010	2009	2008	2007
Commercial real estate	$18,947	$21,806	$22,125		
Commercial and industrial	2,434	2,160	1,586		
Total commercial	21,381	23,966	23,711	19,757	14,147
Residential real estate	1,119	1,400	1,619	1,414	419
Home equity lines of credit	541	431	528	526	433
Consumer	449	721	1,074	789	435
Deposit account overdrafts	227	248	325	445	284
Total allowance for loan losses	$23,717	$26,766	$27,257	$22,931	$15,718
As a percentage of total loans	2.53 %	2.79 %	2.59 %	2.08 %	1.40 %

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Given the rate of loss being experienced on commercial real estate loans, in the fourth quarter of 2009, management refined its methodology for estimating inherent losses on Peoples' commercial loans by performing separate evaluations of, and allocations for, commercial real estate loans and other commercial loans. This refinement, which did not have a significant impact on the overall allowance for loan losses, included a separate analysis of lodging and lodging related loans - Peoples' largest industrial concentration.

The significant allocations to commercial loans reflect the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. At December 31, 2011, the allowance for loan losses was lower than the prior year, reflecting the upgrade of several criticized loans to a pass rating during 2011. Criticized loans are those classified as watch, substandard or doubtful. In contrast to the overall improving trend in the credit quality, certain segments of Peoples' loan portfolio, such as the hospitality sector, remain stressed due to the continuation of unfavorable economic conditions and weakness in commercial real estate values. As a result, management has increased the qualitative factors for its lodging and lodging related loans in 2011, which has offset the benefit of lower historical loss rates in other segments of the commercial loan portfolio. The allowance allocated to the residential real estate and consumer loan categories is based upon Peoples' allowance methodology for homogeneous pools of loans. The fluctuations in these allocations have been directionally consistent with the changes in loan quality, loss experience and loan balances in these categories.

The following table details the changes in the allowance for loan losses for the years ended December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Allowance for loan losses, January 1	$26,766	$27,257	$22,931	$15,718	$14,509
Gross charge-offs:					
Commercial real estate	11,249	25,568	18,802	16,138	892
Commercial and industrial	1,033	1,281	817	1,923	1,056
Residential real estate	1,593	1,129	1,544	1,524	864
Real estate construction	—	68	—	—	53
Home equity lines of credit	366	131	82	145	400
Consumer	939	1,074	1,381	941	587
Deposit account overdrafts	664	929	1,294	1,298	849
Total gross charge-offs	15,844	30,180	23,920	21,969	4,701
Recoveries:					
Commercial real estate	2,469	1,322	1,162	278	245
Commercial and industrial	729	220	91	239	662
Residential real estate	636	225	257	121	214
Real estate construction	—	—	—	156	54
Home equity lines of credit	51	34	55	27	144
Consumer	687	671	584	388	352
Deposit account overdrafts	225	301	376	333	280
Total recoveries	4,797	2,773	2,525	1,542	1,951
Net charge-offs (recoveries):					
Commercial real estate	8,780	24,246	17,640	15,860	647
Commercial and industrial	304	1,061	726	1,684	394
Residential real estate	957	904	1,287	1,403	650
Real estate construction	—	68	—	(156)	(1)
Home equity lines of credit	315	97	27	118	256
Consumer	252	403	797	553	235
Deposit account overdrafts	439	628	918	965	569
Total net charge-offs	$11,047	$27,407	$21,395	$20,427	$2,750
Provision for loan losses, December 31	7,998	26,916	25,721	27,640	3,959
Allowance for loan losses, December 31	23,717	26,766	27,257	22,931	15,718

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(Dollars in thousands)	2011	2010	2009	2008	2007
Net charge-offs to average loans:					
Commercial real estate	0.92%	2.35%	1.61%	1.42%	0.06%
Commercial and industrial	0.03%	0.10%	0.07%	0.15%	0.04%
Residential real estate	0.10%	0.09%	0.12%	0.13%	0.06%
Real estate construction	—%	0.01%	—%	(0.01)%	—%
Home equity lines of credit	0.03%	0.01%	—%	0.01%	0.02%
Consumer	0.03%	0.04%	0.07%	0.04%	0.02%
Deposit account overdrafts	0.05%	0.06%	0.09%	0.09%	0.05%
Total net charge-offs to average loans	1.16%	2.66%	1.96%	1.83%	0.25%

The following table details Peoples' nonperforming assets at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Loans 90+ days past due and accruing:					
Commercial real estate	$—	$—	$164	$—	$—
Commercial and industrial	—	—	—	—	378
Residential real estate	—	27	238	—	—
Consumer			9	—	—
Total	—	27	411	—	378
Nonaccrual loans:					
Commercial real estate	20,587	34,392	25,852	36,768	4,832
Commercial and industrial	2,262	1,714	2,884	1,734	656
Residential real estate	3,440	3,197	4,687	2,271	2,906
Real estate construction	—	—	—	—	—
Home equity	349	554	546	543	583
Consumer	—	—	3	4	3
Total	26,638	39,857	33,972	41,320	8,980
Troubled debt restructurings:					
Commercial real estate	2,959	—	—	—	—
Residential real estate	425	593	—	—	—
Total	3,384	593	—	—	—
Total nonperforming loans (NPLs)	30,022	40,477	34,383	41,320	9,358
Other real estate owned (OREO)					
Commercial	2,194	4,280	6,087	378	—
Residential	—	215	226	147	343
Total	2,194	4,495	6,313	525	343
Total nonperforming assets (NPAs)	$32,216	$44,972	$40,696	$41,845	$9,701
NPLs as a percent of total loans	3.19%	4.19%	3.27%	3.74%	0.83%
NPAs as a percent of total assets	1.80%	2.45%	2.03%	2.09%	0.51%
NPAs as a percent of gross loans and OREO	3.41%	4.64%	3.85%	3.79%	0.87%
Allowance for loan losses as a percent of NPLs	79.00%	66.10%	79.30%	55.50%	168.00%

From time-to-time, Peoples offers various forms of concessions to borrowers in connection with a loan modification. Such concessions may include short-term forbearance periods involving interest-only payments and/or term extensions, converting revolving credit lines to term loans or reducing the contractual monthly payment. As discussed in Note 1 of the Notes to the Consolidated Financial Statements, Peoples adopted new accounting guidance regarding trouble debt restructurings ("TDRs") during the third quarter of 2011 as required. This new guidance clarified when a loan modification should be considered a TDR. In general, a loan modification is considered to be a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. As a result of adopting the new accounting guidance, loans with an aggregate recorded value of $3.0 million were deemed to be TDRs. These loans are collateral-dependent and were previously considered impaired, thus, the determination of these loans being TDRs had no impact on the recorded values of these loans or the related valuation allowance.

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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.

At December 31, 2010, Peoples' nonaccrual commercial real estate loans included three loans to a single commercial borrower that were reclassified as held-for-sale in mid-2010. The value of these loans declined in subsequent quarters resulting in these loans being written down to their estimated fair value. At December 31, 2010, the loans had a total carrying value of $1.0 million. These loans were sold during the second quarter of 2011.

While the level of nonperforming loans has remained elevated over the last three years, the majority of nonperforming loans were carried at the estimated net realizable fair value of their underlying collateral as a result of charge-offs. As a result, Peoples has experienced a lower allowance for loan losses to nonperforming loans ratio compared to Peoples' historical levels.

Interest income on loans classified as nonaccrual and renegotiated at each year-end that would have been recorded under the original terms of the loans was $1.0 million for 2011 and $2.6 million for 2010 and $1.9 million for 2009. No portion of the amounts for either 2011 or 2010 was recorded while $41,000 of the 2009 amount was actually recorded consistent with the income recognition policy described in the "Critical Accounting Policies" section of this discussion.

Overall, management believes the allowance for loan losses was adequate at December 31, 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.

Deposits

Peoples' deposit balances were comprised of the following at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Interest-bearing deposits:					
Retail certificates of deposit	$411,247	$430,886	$480,512	$518,401	$499,684
Money market deposit accounts	268,410	289,657	263,257	213,498	153,299
Governmental/public funds	122,916	122,444	112,074	105,714	101,039
Savings accounts	138,383	119,572	147,745	105,932	91,558
Interest-bearing demand accounts	106,233	96,507	91,878	90,873	106,151
Total retail interest-bearing deposits	1,047,189	1,059,066	1,095,466	1,034,418	951,731
Brokered certificates of deposits	64,054	87,465	102,420	151,910	59,589
Total interest-bearing deposits	1,111,243	1,146,531	1,197,886	1,186,328	1,011,320
Non-interest-bearing deposits	239,837	215,069	198,000	180,040	175,057
Total deposits	$1,351,080	$1,361,600	$1,395,886	$1,366,368	$1,186,377

Over the last several years, Peoples' deposit strategy has been to grow low-cost core deposits, such as checking and savings accounts, and reduce its reliance on higher-cost, non-core deposits, such as certificates of deposit ("CDs") and brokered deposits. This strategy has included more selective pricing of long-term CDs, governmental/public fund deposits and similar non-core deposits, as well as not renewing maturing brokered deposits. These actions accounted for much of the changes in deposit balances during 2011. Although further reductions in brokered deposits could occur in future periods, these deposits remain a viable alternative funding source to other wholesale funding for satisfying potential liquidity needs.

Peoples' governmental/public funds represent savings and interest-bearing transaction accounts from state and local governmental entities. These funds are subject to periodic fluctuations based on the timing of tax collections and subsequent expenditures or disbursements. Peoples normally experiences an increase in balances annually during the first quarter corresponding with tax collections, with declines normally in the second half of each year corresponding with

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expenditures by the governmental entities. While these balances have increased since 2008, Peoples continues to emphasize growth of low-cost deposits that do not require Peoples to pledge assets as collateral, which is required in the case of government/public funds.

The maturities of CDs with total balances of $100,000 or more at December 31 were as follows:

(Dollars in thousands)	2011	2010	2009	2008	2007
3 months or less	$71,193	$36,719	$60,882	$66,757	$42,809
Over 3 to 6 months	9,554	18,767	25,637	50,545	33,411
Over 6 to 12 months	16,362	54,833	35,412	54,610	24,718
Over 12 months	97,600	91,682	93,002	63,345	43,386
Total	$194,709	$202,001	$214,933	$235,257	$144,324

Borrowed Funds

The following table details Peoples' short-term and long-term borrowings at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Short-term borrowings:					
FHLB advances	$8,500	$—	$25,000	$30,000	$187,500
Retail repurchase agreements	43,143	51,509	51,921	54,452	35,041
Other short-term borrowings	—	—	—	14,400	—
Total short-term borrowings	51,643	51,509	76,921	98,852	222,541
Long-term borrowings:					
FHLB advances	77,312	92,703	101,113	148,297	83,229
National market repurchase agreements	65,000	65,000	145,000	160,000	148,750
Total long-term borrowings	142,312	157,703	246,113	308,297	231,979
Subordinated notes held by subsidiary trust	22,600	22,565	22,530	22,495	22,460
Total borrowed funds	$216,555	$231,777	$345,564	$429,644	$476,980

The steady reduction in borrowed funds has occurred due to Peoples using funds generated from other sources, such as retail deposit growth, to repay maturing long-term borrowings and minimizing the need for overnight borrowings. Total borrowed funds also was impacted by management's planned deleveraging of the balance sheet, which included the early repayment of long-term wholesale repurchase agreements in the third quarter of 2010. 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.

Additional information regarding Peoples' borrowed funds can be found in Notes 8 and 9 of the Notes to the Consolidated Financial Statements.

Capital/Stockholders' Equity

During 2011, Peoples' total stockholders' equity and regulatory capital measures were impacted by the TARP Capital Redemption. This impact overshadowed the increase in common equity from Peoples' earnings exceeding dividends declared with respect to common shares. Additionally, total stockholders' equity benefited from the $5.9 million increased in accumulated other comprehensive income, as a $9.5 million improvement in market value of Peoples' available-for-sale investment portfolio was partially offset by an additional $3.6 million unrealized loss associated with Peoples' defined benefit pension plan.

At December 31, 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. Further information regarding Peoples and Peoples Bank's risk-based capital ratios can be found in Note 17 of the Notes to the Consolidated Financial Statements.

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The following table details Peoples' actual risk-based capital levels and corresponding ratios at December 31:

(Dollars in thousands)	2011	2010	2009	2008	2007
Capital Amounts:					
Tier 1 common	$142,521	$133,197	$131,747	$133,760	$132,473
Tier 1	165,121	194,407	192,822	156,254	154,933
Total (Tier 1 and Tier 2)	180,053	209,738	209,144	173,470	172,117
Net risk-weighted assets	$1,111,443	$1,149,587	$1,244,707	$1,315,657	$1,301,056
Capital Ratios:					
Tier 1 common	12.82%	11.59%	10.58%	10.17%	10.18%
Tier 1	14.86%	16.91%	15.49%	11.88%	11.91%
Total (Tier 1 and Tier 2)	16.20%	18.24%	16.80%	13.19%	13.23%
Leverage ratio	9.45%	10.63%	10.06%	8.18%	8.48%

In 2011, Peoples declared cash dividends of $0.30 per common share versus $0.40 per common share in 2010. This decrease reflected the new schedule for considering the declaration of dividends payable to common shareholders that was adopted by Peoples' Board of Directors in the second quarter of 2011. Peoples historically has paid between 30% and 50% of quarterly earnings as dividends to shareholders. However, future dividend payments will continue to be determined each quarter based upon Peoples' performance and capital needs. In addition, other restrictions and limitations may prohibit Peoples from paying dividends even when sufficient cash is available. Further discussion regarding restrictions on Peoples' ability to pay future dividends can be found in Note 17 of the Notes to the Consolidated Financial Statements, as well as the “Supervision and Regulation - Dividend Restrictions” sections under Item 1 of this Form 10-K.

In addition to traditional capital measurements, management uses tangible capital measures to evaluate the adequacy of Peoples' stockholders' equity. Such ratios represent non-GAAP financial information since their calculation removes the impact of intangible assets acquired through acquisitions on the Consolidated Balance Sheets. Management believes this information is useful to investors since it facilitates the comparison of Peoples' operating performance, financial condition and trends to peers, especially those without a similar level of intangible assets to that of Peoples. The following table reconciles the calculation of these non-GAAP financial measures to amounts reported in Peoples' Consolidated Financial Statements:

(Dollars in thousands)	2011	2010	2009	2008	2007
Tangible Equity:					
Total stockholders' equity, as reported	$206,657	$230,681	$243,968	$186,626	$202,836
Less: goodwill and other intangible assets	64,475	64,870	65,599	66,406	68,029
Tangible equity	$142,182	$165,811	$178,369	$120,220	$134,807
Tangible Common Equity:					
Tangible equity	$142,182	$165,811	$178,369	$120,220	$134,807
Less: preferred stockholders' equity	—	38,645	38,543	—	—
Tangible common equity	$142,182	$127,166	$139,826	$120,220	$134,807
Tangible Assets:					
Total assets, as reported	$1,794,161	$1,837,985	$2,001,827	$2,002,338	$1,885,553
Less: goodwill and other intangible assets	64,475	64,870	65,599	66,406	68,029
Tangible assets	$1,729,686	$1,773,115	$1,936,228	$1,935,932	$1,817,524

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(Dollars in thousands)	2011	2010	2009	2008	2007
Tangible Book Value per Share:					
Tangible common equity	$142,182	$127,166	$139,826	$120,220	$134,807
Common shares outstanding	10,507,124	10,457,327	10,374,637	10,333,884	10,296,748
Tangible book value per share	$13.53	$12.16	$13.48	$11.63	$13.09
Tangible Equity to Tangible Assets Ratio:					
Tangible equity	$142,182	$165,811	$178,369	$120,220	$134,807
Tangible assets	$1,729,686	$1,773,115	$1,936,228	$1,935,932	$1,817,524
Tangible equity to tangible assets	8.22 %	9.35 %	9.21 %	6.21 %	7.42 %
Tangible Common Equity to Tangible Assets Ratio:					
Tangible common equity	$142,182	$127,166	$139,826	$120,220	$134,807
Tangible assets	$1,729,686	$1,773,115	$1,936,228	$1,935,932	$1,817,524
Tangible common equity to tangible assets	8.22 %	7.17 %	7.22 %	6.21 %	7.42 %

Future Outlook

In 2011, Peoples' associates worked to overcome many challenges and executed strategies that produced success in key areas, including stronger bottom-line earnings. Despite these accomplishments, management is not satisfied with Peoples' 2011 results. Instead, management is focused on building upon recent trends in order to improve Peoples' performance in every area.

During the last five years, there has been a nationwide reduction of more than one thousand banks with less than $2 billion in assets. The operating environment for banks continues to be increasingly challenging. Peoples' strategic goals include a return to a steady, dependable performer. As such, management is committed to generating results in the top quartile of industry performance and providing returns for Peoples' shareholders superior to those of its peers regardless of operating conditions. These goals will require Peoples to maintain a continual focus on four key areas: revenue growth, expense management, asset quality and capital strength.

In 2011, Peoples maintained a strong, diversified revenue stream, although total revenue decreased from the prior year. Peoples' fee-based services currently generate nearly 40% of Peoples' total revenue. As a result, Peoples is less dependent on net interest income for revenue growth compared to most banks comparable in size to Peoples. For 2012, management believes modest revenue growth will occur driven by double-digit growth from Peoples' wealth management and insurance businesses. Management believes sufficient growth opportunities in these businesses exist within Peoples' primary market area. Total revenue also will benefit from a full year's impact of Peoples' deposit products introduced in the first quarter of 2011.

Peoples' greatest challenge to revenue growth in 2012 will be in the area of net interest income. The Federal Reserve has extended its commitment to keep interest rates at very low levels well into 2014. To the extent it does, Peoples' asset yields would face continued downward pressure. With limited opportunities to lower Peoples' funding costs, loan growth will be the key driver of Peoples' net interest income and margin in 2012. Management also will remain disciplined with its pricing of loans and deposits. These efforts should produce a relatively stable net interest margin, although some slight compression could occur in the second half of 2012 due to the downward pressure on asset yields.

Peoples' Consolidated Balance Sheet is positioned for a rising interest rate environment, and management would expect net interest income and margin to benefit should interest rates increase during 2012. Given the uncertainty surrounding the timing and magnitude of future interest rate changes, as well as the impact of competition for loans and deposits, Peoples' net interest margin and income remain inherently difficult to predict and manage.

Quality loan growth through increased lending activity remains one of Peoples' strategic priorities. However, loan growth could be challenging in 2012. Consumers and businesses remain reluctant to borrow money as the appeal of historically low interest rates is being tempered by concerns regarding the direction of the economy. Further, businesses are being cautious with expansion plans while consumer spending is being restrained by the depressed national housing

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market and high unemployment. During 2012, Peoples intends to grow loans and create more diversity in its portfolio by capitalizing on the lending needs within its primary markets.

Given the current level of concentration 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 is focused on adjusting its loan mix by making consumer loans a larger portion of the portfolio. As such, management will be working to expand Peoples' consumer lending activities by making investments in this area over the next several quarters. Management intends to balance loan growth with prudent risk management and sound underwriting standards.

Peoples' investment securities portfolio could remain a significant portion of the earning asset base in 2012. To the extent planned loan growth occurs, management may reduce the size of the investment portfolio. Most of the reduction would occur as a result of normal monthly cash flows generated by the portfolio, given the significant investment in mortgage-backed securities, which would be used to fund new loan production. Management also could adjust the size or composition of the portfolio due to other factors, such as changes in liquidity needs and interest rate conditions.

Growing retail deposit balances and reducing Peoples' reliance on higher cost wholesale funding sources will remain a point of emphasis in 2012. Competition for deposits could make it difficult for Peoples to build on its recent success. Still, Peoples' sales associates are focused on developing long-term relationships and uncovering other financial needs of these new customers, while at the same time expanding relationships with existing customers.

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 areas with growth potential. 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. Further, such transactions must be accretive in their second year in order to satisfy Peoples' goal of improving shareholder return.

In 2011, Peoples made various strategic investments to enhance revenue generation and position for long-term growth. These investments included adding sales associates in several markets and resulted in higher operating expenses. During the fourth quarter of 2011, management placed greater emphasis on reducing costs through more disciplined expense management. The goal of Peoples' expense management plan is to grow revenue faster than expenses in future years. Along these lines, management expects Peoples' total non-interest expense will be lower in 2012 compared to 2011 excluding the impact of any acquisitions that might be undertaken.

A major component of Peoples' expense management involves a reduction in staffing levels. This process was started in the fourth quarter of 2011 and involved a re-evaluation of key processes, which led to the outsourcing of some support functions. In the first quarter of 2012, additional staffing reductions will occur primarily within Peoples' branch network. During the quarter, Peoples will consolidate three underperforming banking offices in low growth areas into nearby offices. Management does not expect further branch rationalization after the first quarter.

Overall, management believes approximately $2.5 million in annual costs will be eliminated in 2012 without an adverse impact on customer service. Some of these costs will be reinvested in other areas with greater growth potential. However, in the event planned revenue growth does not occur in 2012, management intends to realize proportional expense reductions by delaying some of the planned investments.

Another area of major focus for management in 2012 will be sustaining the recent improving asset quality trends. Peoples will remain proactive and diligent in its efforts to workout problem loans. Management also will seek to capitalize on opportunities to reduce nonperforming assets. However, certain segments of our portfolio remain under stress, most notably Peoples' non-owner occupied commercial real estate and hospitality segments. Consequently, management intends to take a prudent approach with Peoples' allowance for loan losses. This includes being conservative with any additional releases in future quarters.

During the past three volatile years, Peoples has benefited from maintaining a strong capital level. The TARP Capital Investment provided extra strength during this challenging period. Today, Peoples' capital levels after the TARP Capital Redemption are stronger than before the TARP Capital Investment. Management believes this stronger capital position provides Peoples with capacity to grow. Additionally, the TARP Capital Redemption removed several restrictions on Peoples' including the ability to increase dividends or repurchase common shares. Management considers both of these capital management tools to be effective ways to enhance the return to Peoples' shareholders. Management continues to maintain a target range of 30% to 50% for Peoples' dividend payout ratio. Thus, as Peoples' earnings continue to build, management anticipates Peoples would seek to increase its common dividend.

While some indicators point toward economic recovery, the financial services industry will continue to face challenges in 2012. Management is committed to overcoming these challenges and building upon the earnings momentum of the second half of 2011. Success will be achieved through disciplined execution of strategies and partnership with Peoples' clients and communities.

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 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 objective of Peoples' IRR policy is to assist the ALCO in its evaluation of the impact of changing interest rate conditions on earnings and economic value of equity, as well as assist with the implementation of strategies intended to reduce Peoples' IRR. The management of IRR involves either maintaining or changing the level of risk exposure by changing the repricing and maturity characteristics of the cash flows for specific assets or liabilities. Additional oversight of Peoples' IRR is provided by the Asset Liability Management and Investment Committee of Peoples Bank's Board of Directors. This committee also reviews and approves Peoples' IRR management policy at least annually.

The ALCO uses various methods to assess and monitor the current level of Peoples' IRR and the impact of potential strategies or other changes. However, the ALCO predominantly relies on simulation modeling in its overall management of IRR since it is a dynamic measure. Simulation modeling also estimates the impact of potential changes in interest rates and balance sheet structures on future earnings and projected fair value of equity.

The modeling process starts with a base case simulation using the current balance sheet and current interest rates held constant for the next twelve months. Alternate scenarios are prepared which simulate the impact of increasing and decreasing market interest rates, assuming parallel yield curve shifts. Comparisons produced from the simulation data, showing the changes in net interest income from the base interest rate scenario, illustrate the risks associated with the current balance sheet structure. Additional simulations, when deemed appropriate or necessary, are prepared using different interest rate scenarios from those used with the base case simulation and/or possible changes in balance sheet composition. The additional simulations include non-parallel shifts in interest rates whereby the direction and/or magnitude of change of short-term interest rates is different than the changes applied to longer-term interest rates. Comparisons showing the earnings and equity value variance from the base case are provided to the ALCO for review and discussion.

The ALCO has established limits on changes in the twelve-month net interest income forecast and the economic value of equity from the base case. The ALCO may establish risk tolerances for other parallel and non-parallel rate movements, as deemed necessary.

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The following table details the current policy limits used to manage the level of Peoples' IRR:

Immediate and Sustained Shift in Interest Rates	Net Interest Income	Economic Value of Equity
+ / - 100 basis points	-5%	-10%
+ / - 200 basis points	-10%	-15%
+ / - 300 basis points	-15%	-20%

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

Increase in Interest Rate (in Basis Points)	Estimated Increase in Net Interest Income				Estimated (Decrease) Increase in Economic Value of Equity			
	December 31, 2011		December 31, 2010		December 31, 2011		December 31, 2010	
300	$7,061	13.9 %	$8,973	17.2 %	$(8,855)	(4.1)%	$(9,005)	(3.9)%
200	6,250	12.3 %	6,860	13.2 %	2,036	0.9 %	(3,297)	(1.4)%
100	4,548	9.0 %	4,048	7.8 %	7,728	3.6 %	1,599	0.7 %

This table uses a standard, parallel shock analysis for assessing the IRR to net interest income and the economic value of equity. A parallel shock means all points on the yield curve (one year, two year, three year, etc.) are directionally shocked the same amount of basis points - 100 basis points is equal to 1%. While management regularly assesses the impact of both increasing and decreasing interest rates, the table above only reflects the impact of upward shocks due to the fact a downward parallel shock of 100 basis points or more is not possible given that some short-term rates are currently less than 1%.

Although a parallel shock table can give insight into the current direction and magnitude of IRR inherent in the balance sheet, interest rates do not always move in a complete parallel manner during interest rate cycles. These nonparallel movements in interest rates, commonly called yield curve steepening or flattening movements, tend to occur during the beginning and end of an interest rate cycle, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates. As a result, management conducts more advanced interest rate shock scenarios to gain a better understanding of Peoples' exposure to nonparallel rate shifts.

At December 31, 2011, Peoples' Consolidated Balance Sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. Given the inherent uncertainty surrounding the timing and magnitude of future interest rate changes, management's near-term balance sheet strategies will continue to emphasize maintaining good asset liquidity and lowering overall funding costs through a combination of less aggressive pricing of non-core funding and growing low cost retail deposits.

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 main source of liquidity for Peoples is deposit growth. Liquidity is also provided by cash generated from earning assets such as maturities, calls, principal and interest payments from loans and investment securities. Peoples also uses various wholesale funding sources to supplement funding from customer deposits. These external sources 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. However, an over-utilization of external funding sources can expose Peoples to greater liquidity risk as these external sources may not be accessible during times of market stress. Additionally, Peoples may be exposed to the risk associated with providing excess collateral to external funding providers, commonly referred to as counterparty risk. As a result, 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.

In addition to external sources of funding, Peoples considers certain types of deposits to be less stable or "volatile funding". These deposits include special money market products, large CDs and public funds. Peoples has established volatility factors for these various deposit products, and the liquidity management policy establishes a limit on the total

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level of volatile funding. Additionally, Peoples measures the maturities of external sources of funding for periods of 1 month, 3 months, 6 months and 12 months and has established policy limits for the amounts maturing in each of these periods. The purpose of these limits is to minimize exposure to what is commonly termed as rollover risk.
An additional strategy used by Peoples in the management of liquidity risk is maintaining a targeted level of liquid assets. These are assets that can be converted into cash in a relatively short period of time. Management defines liquid assets as cash, including cash on deposit at the Federal Reserve Bank and the market value of U.S. government and agency securities that are not pledged. Excluded from this definition are pledged securities, non-government and agency securities, municipal securities and loans. Management has established a minimum level of liquid assets in the liquidity management policy, which is expressed as a percentage of loans and unfunded loan commitments. Peoples also has established a policy limit around the level of liquefiable assets, also expressed as a percentage of loans and unfunded loan commitments. Liquefiable assets are defined as liquid assets plus the market value of unpledged securities not included in the liquid asset measurement.
An essential element in the management of liquidity risk is a forecast of the sources and uses of anticipated cash flows. On a monthly basis, Peoples forecasts sources and uses of cash for the next twelve months. To assist in the management of liquidity, management has established a liquidity coverage ratio, which is defined as the total sources of cash divided by the total uses of cash. A ratio of greater than 1.0 times indicates that forecasted sources of cash are adequate to fund forecasted uses of cash. The liquidity management policy establishes a minimum limit of 1.0 times. Peoples also forecasts secondary or contingent sources of cash, and this includes external sources of funding and liquid assets. These sources of cash would be required if and when the forecasted liquidity coverage ratio dropped below the policy limit of 1.0 times. An additional liquidity measurement used by management includes the total forecasted sources of cash and the contingent sources of cash divided by the forecasted uses of cash. Management has established a minimum ratio of 5.0 times for this liquidity management policy limit.
Disruptions in the sources and uses of cash can occur which can drastically alter the actual cash flows and negatively impact Peoples' ability to access internal and external sources of cash. Such disruptions might occur due to increased withdraws of deposits, increased funding required for funding loan commitments, a decrease in the ability to access external funding sources and other forces that would increase the need for funding and limit Peoples' ability to access needed funds. As a result, Peoples maintains a liquidity contingency funding plan ("LCFP") that considers various degrees of disruptions and develops action plans around these scenarios.
Peoples' LCFP identifies scenarios where funding disruptions might occur and creates scenarios of varying degrees of severity. The disruptions considered include an increase in funding of unfunded loan commitments, unanticipated withdraws of deposits, decreases in the renewal of maturing certificates of deposit and reductions in cash earnings. Additionally, the LCFP creates stress scenarios where access to external funding sources, or contingency funding, is suddenly limited which includes a significant increase in the margin requirements where securities or loans are pledged, limited access to funding from other banks and limited access to funding from the FHLB and the Federal Reserve Bank. Peoples' LCFP scenarios include a mild stress scenario, a moderate stress scenario and a severe stress scenario. Each of these is defined as to the severity and action plans are developed around each.
Liquidity management also requires the monitoring of risk indicators that may alert the ALCO to a developing liquidity situation or crisis. Early detection of stress scenarios allow Peoples to take actions to help mitigate the impact to the bank's business operations. The LCFP contains various indicators, termed key risk indicators (or "KRI's") that are monitored on monthly basis, at a minimum. The KRI's include both internal and external indicators and include loan delinquency levels, classified and watch list loan levels, non-performing loans to loans and to total assets, the loan to deposit ratio, the level of net non-core funding dependence, the level of contingency funding sources, the liquidity coverage ratio, changes in regulatory capital levels, forecasted operating loss and negative media concerning Peoples, irrational competitor pricing that persists and an increase in rates for external funding sources. The LCFP establishes levels that define each of these KRI's under normal, mild, moderate and severe scenarios.
The LCFP is reviewed and updated on at least an annual basis by the ALCO and the Asset Liability Management and Investment Committee of Peoples Bank's Board of Directors. Additionally, testing of the LCFP is required on an annual basis. Various stress scenarios and the related actions are simulated according to the LCFP. The results are reviewed and discussed and changes or revisions are made to the LCFP accordingly. Additionally, every two years,

the LCFP is subjected to a third-party review for effectiveness and regulatory compliance.
Overall, 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.

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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.

The following is a summary of Peoples' significant off-balance sheet activities and contractual obligations. Detailed information regarding these activities and obligations can be found in the Notes to the Consolidated Financial Statements as follows:

Activity or Obligation	Note
Off-balance sheet credit-related financial instruments	16
Operating lease obligations	5
Long-term debt obligations	9
Junior subordinated notes held by subsidiary trusts	10

Traditional off-balance sheet credit-related financial instruments are primarily commitments to extend credit and standby letters of credit. These activities are necessary to meet the financing needs of customers and could require Peoples to make cash payments to third parties in the event certain specified future events occur. The contractual amounts represent the extent of Peoples' exposure in these off-balance sheet activities. However, since certain off-balance sheet commitments, particularly standby letters of credit, are expected to expire or only partially be used, the total amount of commitments does not necessarily represent future cash requirements.

Peoples continues to lease certain facilities and equipment under noncancellable operating leases with terms providing for fixed monthly payments over periods generally ranging from two to ten years. Several of Peoples' leased facilities are inside retail shopping centers or office buildings and, as a result, are not available for purchase. Management believes these leased facilities increase Peoples' visibility within its markets and afford sales associates additional access to current and potential clients.

The following table details the aggregate amount of future payments Peoples is required to make under certain contractual obligations as of December 31, 2011:

		Payments due by period			
(Dollars in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt (1)	$142,312	$7,408	$3,946	$2,722	$128,236
Junior subordinated notes held by subsidiary trust (1)	22,600	—	—	—	22,600
Operating leases	4,919	915	1,499	910	1,595
Time deposits	475,301	230,841	148,861	82,396	13,203
Total	$645,132	$239,164	$154,306	$86,028	$165,634

(1) Amounts reflect solely the minimum required principal payments.

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

Effects of Inflation on Financial Statements

Substantially all of Peoples' assets relate to banking and are monetary in nature. As a result, inflation does not impact Peoples to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in a loss in purchasing power and conversely a net monetary liability position results in an increase in purchasing power. The opposite would be true during a period of decreasing prices. In the banking industry, monetary assets typically exceed monetary liabilities. The current monetary policy targeting low levels of inflation has resulted in relatively stable price levels. Therefore, inflation has had little impact on Peoples' net assets.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to the section captioned "Interest Rate Sensitivity and Liquidity" under Item 7 of this Form 10-K, which section is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and accompanying notes, and the report of independent registered public accounting firm, are set forth immediately following Item 9B of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING FINANCIAL DISCLOSURE

No response required.

ITEM 9A. 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 December 31, 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 Form 10-K 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 Form 10-K 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 period covered by this Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting

The "Report of Management's Assessment of Internal Control Over Financial Reporting" required by Item 308(a) of SEC Regulation S-K is included on page 59 of this Form 10-K.

Attestation Report of Independent Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm on Effectiveness of Internal Control Over Financial Reporting" required by Item 308(b) of SEC Regulation S-K is included on page 60 of this Form 10-K.

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 December 31, 2011, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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Report of Management's Assessment of Internal Control Over Financial Reporting

Peoples' management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Peoples' internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation, integrity, and fair presentation of Peoples' Consolidated Financial Statements for external purposes in accordance with United States generally accepted accounting principles.

With the supervision and participation of its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, management evaluated the effectiveness of Peoples' internal control over financial reporting as of December 31, 2011, using the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission.

No matter how well designed, internal control over financial reporting may not prevent or detect all misstatements. Projection of the evaluation of effectiveness to future periods is subject to risks, including but not limited to (a) controls may become inadequate due to changes in conditions; (b) a deterioration in the degree of compliance with policies or procedures; and (c) the possibility of control circumvention or override, any of which may lead to misstatements due to undetected error or fraud. Effective internal control over financial reporting can provide only a reasonable assurance with respect to financial statement preparation and reporting.

Management assessed the effectiveness of Peoples' internal control over financial reporting as of December 31, 2011, and, based on this assessment, has concluded Peoples' internal control over financial reporting is effective as of that date.

Peoples' independent registered public accounting firm, Ernst & Young LLP has audited the Consolidated Financial Statements included in this Annual Report and has issued an attestation report on Peoples' internal control over financial reporting.

By: /s/	CHARLES W. SULERZYSKI	By: /s/	EDWARD G. SLOANE
	Charles W. Sulerzyski		Edward G. Sloane
	President and Chief Executive Officer		Executive Vice President,
			Chief Financial Officer and Treasurer

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Report of Independent Registered Public Accounting Firm on Effectiveness of Internal Control Over Financial Reporting

The Audit Committee of the Board of Directors and Shareholders
Peoples Bancorp, Inc.

We have audited Peoples Bancorp Inc. and subsidiaries internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Peoples Bancorp Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Peoples Bancorp Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of income, statements of stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011, of Peoples Bancorp Inc. and subsidiaries and our report dated February 28, 2012 expressed an unqualified opinion thereon.

Charleston, West Virginia
February 28, 2012

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Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements
The Audit Committee of the Board of Directors and the Shareholders
Peoples Bancorp Inc.

We have audited the accompanying consolidated balance sheets of Peoples Bancorp Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Peoples Bancorp Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peoples Bancorp Inc. and subsidiaries at December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Peoples Bancorp Inc. and subsidiaries' internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion thereon.

Charleston, West Virginia
February 28, 2012

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollars in thousands)	2011	2010
Assets		
Cash and cash equivalents:		
Cash and due from banks	$32,346	$28,324
Interest-bearing deposits in other banks	6,604	46,320
Total cash and cash equivalents	38,950	74,644
Available-for-sale investment securities, at fair value (amortized cost of $617,128 at December 31, 2011 and $617,122 at December 31, 2010)	628,571	613,986
Held-to-maturity investment securities, at amortized cost (fair value of $16,705 at December 31, 2011 and $2,954 at December 31, 2010)	16,301	2,965
Other investment securities, at cost	24,356	24,356
Total investment securities	669,228	641,307
Loans, net of deferred fees and costs	938,506	960,718
Allowance for loan losses	(23,717)	(26,766)
Net loans	914,789	933,952
Loans held for sale	3,271	4,755
Bank premises and equipment, net	23,905	24,934
Bank owned life insurance	49,384	53,532
Goodwill	62,520	62,520
Other intangible assets	1,955	2,350
Other assets	30,159	39,991
Total assets	$1,794,161	$1,837,985
Liabilities		
Deposits:		
Non-interest-bearing	$239,837	$215,069
Interest-bearing	1,111,243	1,146,531
Total deposits	1,351,080	1,361,600
Short-term borrowings	51,643	51,509
Long-term borrowings	142,312	157,703
Junior subordinated notes held by subsidiary trust	22,600	22,565
Accrued expenses and other liabilities	19,869	13,927
Total liabilities	1,587,504	1,607,304
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at December 31, 2011, and 39,000 issued at December 31, 2010	—	38,645
Common stock, no par value, 24,000,000 shares authorized, 11,122,247 shares issued at December 31, 2011 and 11,070,022 shares issued at December 31, 2010, including shares in treasury	166,969	166,298
Retained earnings	53,580	45,547
Accumulated other comprehensive income (loss), net of deferred income taxes	1,412	(4,453)
Treasury stock, at cost, 615,123 shares at December 31, 2011 and 612,695 shares at December 31, 2010	(15,304)	(15,356)
Total stockholders' equity	206,657	230,681
Total liabilities and stockholders' equity	$1,794,161	$1,837,985

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	2011	2010	2009
Interest Income:			
Interest and fees on loans	$49,410	$57,332	$64,701
Interest and dividends on taxable investment securities	24,149	29,558	34,522
Interest on tax-exempt investment securities	1,550	2,354	2,811
Other interest income	24	91	71
Total interest income	75,133	89,335	102,105
Interest Expense:			
Interest on deposits	13,930	19,122	26,123
Interest on short-term borrowings	103	262	482
Interest on long-term borrowings	5,142	8,063	11,677
Interest on junior subordinated notes held by subsidiary trust	1,979	1,986	1,980
Total interest expense	21,154	29,433	40,262
Net interest income	53,979	59,902	61,843
Provision for loan losses	7,998	26,916	25,721
Net interest income after provision for loan losses	45,981	32,986	36,122
Gross impairment losses on investment securities	—	(1,620)	(7,406)
Less: Non-credit losses included in other comprehensive income	—	166	301
Net impairment losses on investment securities	—	(1,786)	(7,707)
Other Income:			
Deposit account service charges	9,765	9,581	10,390
Insurance income	9,265	8,846	9,390
Trust and investment income	5,548	5,348	4,722
Electronic banking income	5,142	4,686	3,954
Mortgage banking income	1,687	1,566	1,719
Bank owned life insurance	351	608	1,051
Net gain on investment securities	473	6,852	1,446
Net loss on asset disposals and other transactions	(916)	(6,891)	(103)
Other non-interest income	1,186	999	&#1