

PEOPLES BANCORP INC
Form 10-Q
April 22, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from ____ to ____

Commission File Number: 0-16772

PEOPLES BANCORP INC.
(Exact name of Registrant as specified in its charter)

Ohio
(State or other jurisdiction of incorporation or organization)

31-0987416
(I.R.S. Employer Identification No.)

138 Putnam Street, P. O. Box 738, Marietta, Ohio
(Address of principal executive offices)

45750
(Zip Code)

Registrant's telephone number, including area code: (740) 373-3155

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every

Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable
date: 10,513,681 common shares, without par value, at April 20, 2010.

TABLE OF CONTENTS

<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>ITEM 1. FINANCIAL STATEMENTS</u>	<u>3</u>
<u>CONSOLIDATED BALANCE SHEETS</u>	<u>3</u>
(Unaudited)	
<u>CONSOLIDATED STATEMENTS OF INCOME</u>	<u>4</u>
(Unaudited)	
<u>CONSOLIDATED STATEMENT OF</u>	<u>5</u>
<u>STOCKHOLDERS’ EQUITY (Unaudited)</u>	
<u>CONDENSED CONSOLIDATED</u>	<u>6</u>
<u>STATEMENTS OF CASH FLOWS (Unaudited)</u>	
<u>NOTES TO THE UNAUDITED</u>	<u>7</u>
<u>CONSOLIDATED FINANCIAL STATEMENTS</u>	
<u>ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF</u>	<u>18</u>
<u>RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u>	
<u>SELECTED FINANCIAL DATA</u>	<u>18</u>
<u>EXECUTIVE SUMMARY</u>	<u>21</u>
<u>RESULTS OF OPERATIONS</u>	<u>22</u>
<u>FINANCIAL CONDITION</u>	<u>28</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES</u>	<u>38</u>
<u>ABOUT MARKET RISK</u>	
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>38</u>
<u>PART II – OTHER INFORMATION</u>	<u>39</u>
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>39</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>39</u>
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND</u>	<u>39</u>
<u>USE OF PROCEEDS</u>	
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	<u>39</u>
<u>ITEM 4. (REMOVED AND RESERVED)</u>	<u>39</u>
<u>ITEM 5. OTHER INFORMATION</u>	<u>40</u>
<u>ITEM 6. EXHIBITS</u>	<u>40</u>
<u>SIGNATURES</u>	<u>41</u>
<u>EXHIBIT INDEX</u>	<u>42</u>

Table of Contents

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

PART I – FINANCIAL INFORMATION

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

(Dollars in thousands)	March 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$28,114	\$29,969
Interest-bearing deposits in other banks	23,927	11,804
Total cash and cash equivalents	52,041	41,773
Available-for-sale investment securities, at fair value (amortized cost of		
\$700,700 at March 31, 2010 and \$706,444 at December 31, 2009)	715,786	726,547
Held-to-maturity investment securities, at amortized cost (fair value of		
\$2,944 at March 31, 2010 and \$963 at December 31, 2009)	2,963	963
Other investment securities, at cost	24,356	24,356
Total investment securities	743,105	751,866
Loans, net of deferred fees and costs	1,051,288	1,052,058
Allowance for loan losses	(26,553)	(27,257)
Net loans	1,024,735	1,024,801
Loans held for sale	1,901	1,874
Bank premises and equipment, net	24,464	24,844
Bank owned life insurance	53,108	52,924
Goodwill	62,520	62,520
Other intangible assets	2,837	3,079
Other assets	38,560	38,146
Total assets	\$2,003,271	\$2,001,827
Liabilities		
Deposits:		
Non-interest-bearing	\$201,337	\$198,000
Interest-bearing	1,233,713	1,197,886
Total deposits	1,435,050	1,395,886
Short-term borrowings	49,714	76,921

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Long-term borrowings	240,206	246,113
Junior subordinated notes held by subsidiary trust	22,539	22,530
Accrued expenses and other liabilities	14,920	16,409
Total liabilities	1,762,429	1,757,859

Stockholders' Equity

Preferred stock, no par value, 50,000 shares authorized, 39,000 shares issued at March 31, 2010, and 39,000 issued at December 31, 2009	38,568	38,543
Common stock, no par value, 24,000,000 shares authorized, 11,048,796 shares issued at March 31, 2010 and 11,031,892 shares issued at December 31, 2009, including shares in treasury	166,071	166,227
Retained earnings	45,980	46,229
Accumulated comprehensive income, net of deferred income taxes	6,225	9,487
Treasury stock, at cost, 640,700 shares at March 31, 2010 and 657,255 shares at December 31, 2009	(16,002)	(16,518)
Total stockholders' equity	240,842	243,968
Total liabilities and stockholders' equity	\$2,003,271	\$2,001,827

See Notes to the Unaudited Consolidated Financial Statements

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

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2010	2009
Interest Income:		
Interest and fees on loans	\$14,827	\$16,709
Interest and dividends on taxable investment securities	7,984	8,864
Interest on tax-exempt investment securities	642	745
Other interest income	4	16
Total interest income	23,457	26,334
Interest Expense:		
Interest on deposits	5,144	6,984
Interest on short-term borrowings	81	169
Interest on long-term borrowings	2,293	3,156
Interest on junior subordinated notes held by subsidiary trust	498	498
Total interest expense	8,016	10,807
Net interest income	15,441	15,527
Provision for loan losses	6,501	4,063
Net interest income after provision for loan losses	8,940	11,464
Gross impairment losses on investment securities		
	(820)	–
Less: Non-credit losses included in other comprehensive income	166	–
Net impairment losses on investment securities	(986)	–
Other Income:		
Insurance income	2,411	2,745
Deposit account service charges	2,298	2,399
Trust and investment income	1,556	1,058
Electronic banking income	1,088	923
Mortgage banking income	235	601
Bank owned life insurance	185	299
Gain on investment securities	16	326
Gain (loss) on asset disposals	17	(119)
Other non-interest income	241	212
Total other income	8,047	8,444
Other Expenses:		
Salaries and employee benefit costs	7,377	7,524
Net occupancy and equipment	1,518	1,472

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Professional fees	692	741
Foreclosed real estate and other loan expenses	646	295
FDIC insurance	617	487
Electronic banking expense	605	672
Data processing and software	570	537
Franchise tax	373	423
Amortization of other intangible assets	245	330
Other non-interest expense	1,932	2,021
Total other expenses	14,575	14,502
Income before income taxes	1,426	5,406
Income tax expense	111	1,211
Net income	\$1,315	\$4,195
Preferred dividends	513	341
Net income available to common shareholders	\$802	\$3,854
Earnings per common share - basic	\$0.08	\$0.37
Earnings per common share - diluted	\$0.08	\$0.37
Weighted-average number of common shares outstanding - basic	10,391,542	10,344,862
Weighted-average number of common shares outstanding - diluted	10,400,243	10,355,280
Cash dividends declared on common shares	\$1,051	\$2,401
Cash dividends declared per common share	\$0.10	\$0.23

See Notes to the Unaudited Consolidated Financial Statements

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands, except per share data)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2009	\$38,543	\$166,227	\$46,229	\$9,487	\$(16,518)	\$243,968
Net income			1,315			1,315
Other comprehensive loss, net of tax				(3,262)		(3,262)
Exercise of common stock options		(288)			562	274
Accrued dividends on preferred shares			(488)			(488)
Amortization of discount on preferred shares	25		(25)			—
Cash dividends declared of \$0.10 per common share			(1,051)			(1,051)
Tax benefit from exercise of stock options		(7)				(7)
Purchase of treasury stock					(46)	(46)
Common shares issued under dividend reinvestment plan		113				113
Stock-based compensation expense		26				26
Balance, March 31, 2010	\$38,568	\$166,071	\$45,980	\$6,225	\$(16,002)	\$240,842

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Three Months Ended	
	2010	March 31, 2009
Net cash provided by operating activities	\$11,128	\$5,315
Investing activities		
Available-for-sale securities:		
Purchases	(43,388)	(48,815)
Proceeds from sales	21	20,352
Proceeds from maturities, calls and prepayments	46,105	37,174
Purchase of held-to-maturity securities	(2,000)	–
Net (increase) decrease in loans	(6,478)	401
Net expenditures for premises and equipment	(253)	(611)
Proceeds from sales of other real estate owned	310	141
Net cash (used in) provided by investing activities	(5,683)	8,642
Financing activities		
Net increase in non-interest-bearing deposits	3,337	10,714
Net increase in interest-bearing deposits	35,801	44,489
Net decrease in short-term borrowings	(27,207)	(48,825)
Proceeds from long-term borrowings	5,000	5,000
Payments on long-term borrowings	(10,907)	(365)
Issuance of preferred shares and common stock warrant	–	39,000
Cash dividends paid on common shares	(943)	(2,160)
Preferred stock dividends paid	(488)	–
Purchase of treasury stock	(46)	(62)
Proceeds from issuance of common shares	284	2
Excess tax expense for stock-based compensation	(8)	(5)
Net cash provided by financing activities	4,823	47,788
Net increase in cash and cash equivalents	10,268	61,745
Cash and cash equivalents at beginning of period	41,773	35,598

Cash and cash equivalents at end of period	\$52,041	\$97,343
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See Notes to the Unaudited Consolidated Financial Statements

6

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States (“US GAAP”) for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (“2009 Form 10-K”).

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples’ 2009 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after March 31, 2010, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2009, contained herein has been derived from the audited Consolidated Balance Sheets included in Peoples’ 2009 Form 10-K.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year, due in part to seasonal variations and unusual or infrequently occurring items. In addition, Peoples’ insurance income includes contingent performance based insurance commissions that are recognized by Peoples when received, which typically occurs during the first quarter of each year. For the three months ended March 31, 2010 and 2009, the amount of contingent performance based insurance commissions recognized totaled \$585,000 and \$768,000, respectively.

Note 2. Fair Value of Financial Instruments

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

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

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

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

Table of Contents

Assets measured at fair value on a recurring basis comprised the following at March 31, 2010:

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Using Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2010				
Obligations of:				
U.S. Treasury and government agencies	\$ 79	\$ —	\$ 79	\$ —
U.S. government sponsored agencies	4,360	—	4,360	—
States and political subdivisions	61,970	—	61,970	—
Residential mortgage-backed securities	538,866	—	538,866	—
Commercial mortgage-backed securities	33,675	—	33,675	—
U.S. government-backed student loan pools	59,758	—	59,758	—
Bank-issued trust preferred securities	14,244	—	13,244	1,000
Collateralized debt obligations	—	—	—	—
Equity securities	2,834	2,661	173	—
Total available-for-sale securities	\$ 715,786	\$ 2,661	\$ 712,125	\$ 1,000
December 31, 2009				
Obligations of:				
U.S. Treasury and government agencies	\$ 81	\$ —	\$ 81	\$ —
U.S. government sponsored agencies	4,473	—	4,473	—
States and political subdivisions	62,954	—	62,954	—
Residential mortgage-backed securities	558,826	—	558,826	—
Commercial mortgage-backed securities	24,188	—	24,188	—

securities				
U.S.				
government-backed student loan pools	59,440	–	59,440	–
Bank-issued trust preferred securities	13,826	–	12,826	1,000
Collateralized debt obligations	165	–	–	165
Equity securities	2,594	2,420	174	–
Total	\$	\$	\$	\$
available-for-sale securities	726,547	2,420	722,962	1,165

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that consider observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2). At December 31, 2009, Peoples measured two equity tranche collateralized debt obligation (“CDO”) securities at fair value using Level 3 inputs since there was not an active market. As more fully described in Note 3, these securities were deemed to be total losses at March 31, 2010. Peoples used multiple input factors to determine the fair value of the CDO securities. Those input factors included discounted cash flow analysis, structure of the security in relation to current level of deferrals and/or defaults, changes in credit ratings, financial condition of the debtors within the underlying securities, broker quotes for securities with similar structure and credit risk, interest rate movements and pricing of new issuances. The following is a reconciliation of activity for assets measured at fair value based on significant unobservable (non-market) information:

	Bank-Issued Trust Preferred Securities	Collateralized Debt Obligations
(Dollars in thousands)		
Balance, December 31, 2009	\$1,000	\$165
Other-than-temporary impairment loss included in earnings		(986)
Unrealized loss included in comprehensive income	–	821
Balance, March 31, 2010	\$1,000	\$ –

Table of Contents

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

Impaired Loans: Impaired loans are measured and reported at fair value when management believes collection of contractual interest and principal payments is doubtful. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 Inputs). At March 31, 2010, impaired loans with an aggregate outstanding principal balance of \$18.5 million were measured and reported at a fair value of \$14.9 million. During the three months ended March 31, 2010, Peoples recognized losses on impaired loans of \$3.6 million through the allowance for loan losses

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

	March 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$52,041	\$52,041	\$41,773	\$41,773
Investment securities	743,105	743,086	751,866	751,866
Loans	1,026,636	891,041	1,026,675	892,182
Financial liabilities:				
Deposits	\$1,435,050	\$1,447,730	\$1,395,886	\$1,406,371
Short-term borrowings	49,714	49,714	76,921	76,921
Long-term borrowings	240,206	244,982	246,113	253,943
Junior subordinated notes held by subsidiary trust	22,539	23,923	22,530	25,968

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

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

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

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

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

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

Table of Contents

Note 3. Investment Securities

Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Non-Credit Losses included in Other Comprehensive Income	Fair Value
March 31, 2010					
Obligations of:					
U.S. Treasury and government agencies	\$ 78	\$ 1	\$ –	\$ –	\$ 79
U.S. government sponsored agencies	4,296	64	–	–	4,360
States and political subdivisions	60,105	1,949	(84)	–	61,970
Residential mortgage-backed securities	532,650	16,845	(10,629)	–	538,866
Commercial mortgage-backed securities	33,105	644	(74)	–	33,675
U.S. government-backed student loan pools	53,177	6,634	(53)	–	59,758
Bank-issued trust preferred securities	16,076	47	(1,878)	–	14,245
Collateralized debt obligations	–	–	–	–	–
Equity securities	1,213	1,671	(51)	–	2,833
Total available-for-sale securities	\$ 700,700	\$ 27,855	\$ (12,769)	\$ –	\$ 715,786
December 31, 2009					
Obligations of:					
U.S. Treasury and government agencies	\$ 81	\$ 1	\$ –	\$ –	\$ 82
U.S. government sponsored agencies	4,384	89	–	–	4,473
States and political subdivisions	60,943	2,064	(54)	–	62,953

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Residential mortgage-backed securities	546,131	17,576	(4,882) –		558,825
Commercial mortgage-backed securities	23,656	675	(143) –		24,188
U.S. government-backed student loan pools	52,972	6,547	(77) –		59,442
Bank-issued trust preferred securities	16,073	47	(2,294) –		13,826
Collateralized debt obligations	986 –		(655)	(166)	165
Equity securities	1,218	1,426	(51) –		2,593
Total available-for-sale securities	\$ 706,444	\$ 28,425	\$ (8,156)	\$ (166)	\$ 726,547

Peoples' investment in CDO securities at December 31, 2009, consisted of two separate equity tranche securities comprised of trust preferred and subordinated debt securities issued by banks, bank holding companies, insurance companies and real estate investment trusts. Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated banking holding companies at both March 31, 2010 and December 31, 2009.

At March 31, 2010, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies that exceeded 10% of stockholders' equity. Peoples had pledged investment securities with a carrying value of \$482.1 million and \$492.8 million at March 31, 2010 and December 31, 2009, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged investment securities with carrying values of \$126.9 million and \$121.3 million at March 31, 2010 and December 31, 2009, respectively, to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

For the three months ended March 31, 2010 and 2009, Peoples realized gross gains from sales of available-for-sale securities of \$16,000 and \$326,000, respectively. No losses were realized during either period. The cost of investment securities sold, and any resulting gain or loss, was based on the specific identification method and recognized as of the trade date.

Table of Contents

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

(Dollars in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2010						
Obligations of:						
U.S. Treasury and government agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government sponsored agencies						
States and political subdivisions	3,254	84	-	-	3,254	84
Residential mortgage-backed securities	110,430	8,527	52,889	2,102	163,319	10,629
Commercial mortgage-backed securities	11,633	74	-	-	11,633	74
U.S. government-backed student loan pools	-	-	2,947	53	2,947	53
Bank-issued trust preferred securities	-	-	11,993	1,878	11,993	1,878
Collateralized debt obligations	-	-	-	-	-	-
Equity securities	-	-	125	51	125	51
Total available-for-sale securities	\$ 125,317	\$ 8,685	\$ 67,954	\$ 4,084	\$ 193,271	\$ 12,769
December 31, 2009						
Obligations of:						
U.S. Treasury and government agencies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government sponsored agencies	-	-	-	-	-	-
States and political subdivisions	3,284	54	-	-	3,284	54
Residential mortgage-backed securities	37,720	2,400	60,120	2,482	97,840	4,882
Commercial mortgage-backed securities	1,966	143	-	-	1,966	143
U.S. government-backed student loan pools	-	-	2,923	77	2,923	77
	-	-	11,574	2,294	11,574	2,294

Bank-issued trust preferred securities						
Collateralized debt obligations	–	–	165	655	165	655
Equity securities	–	–	125	51	125	51
Total available-for-sale securities	\$ 42,970	\$ 2,597	\$ 74,907	\$ 5,559	\$ 117,877	\$ 8,156

The unrealized losses at both March 31, 2010 and December 31, 2009, were attributable to changes in market interest rates and spreads since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis.

At March 31, 2010, management concluded Peoples' investment in CDO securities was other-than-temporarily impaired. These securities were deemed total losses as actual defaults of the underlying issuers rose in the first quarter. Given these defaults, management's updated analysis indicated it was probable Peoples would not recover the amortized cost of the securities. As a result, Peoples recognized a non-cash impairment loss of \$1.0 million (\$0.6 million after-tax) in earnings for the three months ended March 31, 2010.

The evaluation of the CDO securities included a comparison of management's estimate of future cash flows to the cash flows projected previously. In estimating future cash flows, management considers the structure and term of the pool and the financial condition of the underlying issuers. Specifically, the evaluation incorporates factors such as over-collateralization and interest coverage tests, interest rates and appropriate risk premiums, the timing and amount of interest and principal payments and the allocation of payments to the various tranches. Current estimates of cash flows are based on the recent trustee reports, announcements of deferrals or defaults and assumptions regarding expected future default rates, prepayment and recovery rates and other relevant information. Additionally, management considers the impact on future cash flows should institutions identified as possessing a higher probability of default, based upon an evaluation of performance metrics, were to default in the near term. Key assumptions used include: (1) current defaults would have no recovery and (2) current deferrals considered as defaults with no expected recovery.

Management performed its analysis of the remaining securities with an unrealized loss at March 31, 2010, and concluded no other individual securities were other-than-temporarily impaired.

The table below presents the amortized costs, fair value and weighted-average yield of securities by contractual maturity at March 31, 2010. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

Table of Contents

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
U.S. Treasury and government agencies	\$ –	\$ 21	\$ 57	\$ –	\$ 78
U.S. government sponsored agencies	–	1,296	3,000	–	4,296
States and political subdivisions	1,301	14,304	17,110	27,390	60,105
Residential mortgage-backed securities	–	2,399	102,335	427,916	532,650
Commercial mortgage-backed securities	–	–	–	33,105	33,105
U.S. government-backed student loan pools	–	–	15,925	37,252	53,177
Bank-issued trust preferred securities	–	–	–	16,076	16,076
Collateralized debt obligations	–	–	–	–	–
Equity securities	–	–	–	1,213	1,213
Total available-for-sale securities	1,301	\$ 18,020	\$ 138,427	\$ 542,952	\$ 700,700
Fair value					
Obligations of:					
U.S. Treasury and government agencies	\$ –	\$ 21	\$ 58	\$ –	\$ 79
U.S. government sponsored agencies	–	1,326	3,034	–	4,360
States and political subdivisions	1,322	14,795	17,903	27,950	61,970
Residential mortgage-backed securities	–	2,492	104,732	431,642	538,866
Commercial mortgage-backed securities	–	–	–	33,675	33,675
U.S. government-backed student loan pools	–	–	17,036	42,722	59,758
Bank-issued trust preferred securities	–	–	–	14,244	14,244
Collateralized debt obligations	–	–	–	–	–

Equity securities	–	–	–	2,834	2,834
Total	\$	\$	\$	\$	\$
available-for-sale securities	1,322	18,634	142,763	553,067	715,786
Total average yield	7.27%	5.97%	4.83%	4.77%	4.82%

Held-to-Maturity

At March 31, 2010, Peoples' held-to-maturity investments consisted of two qualified school construction bonds that are classified as held-to-maturity because of Peoples' intent and ability to hold the securities to maturity given uncertainty regarding ownership rights of associated tax credits. These securities are carried at an aggregate amortized cost of \$2,963,000, and have gross unrealized losses totaling \$19,000; weighted average cash coupon and tax credit rates of 1.83% and 6.09%, respectively, and remaining contractual maturity over 10 years.

Other Securities

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

Table of Contents

Note 4. Stockholders' Equity

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

	Preferred Stock	Common Stock	Treasury Stock
Shares at December 31, 2009	39,000	11,031,892	657,255
Changes related to stock-based compensation awards:			
Release of restricted common shares		5,547	
Exercise of common stock options			(19,862)
Changes related to deferred compensation plan:			
Purchase of treasury stock			3,307
Common shares issued under dividend reinvestment plan		11,357	
Shares at March 31, 2010	39,000	11,048,796	640,700

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

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

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

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

If the Series A Preferred Shares were redeemed, Peoples has the right to repurchase the Warrant at its appraised value. If Peoples chooses not to repurchase the Warrant, the U.S. Treasury must liquidate the related Warrant at the current market price.

Table of Contents

Note 5. Comprehensive Income (Loss)

The following details the change in the components of Peoples' accumulated other comprehensive (loss) for the three months ended March 31, 2010:

(Dollars in thousands)	Unrealized Gain (Loss) on Securities	Net Pension and Postretirement Costs	Accumulated Comprehensive Income (Loss)
Balance, December 31, 2009	\$13,068	\$(3,581)	\$9,487
Current period change, net of tax	(3,262)	-	(3,262)
Balance, March 31, 2010	\$9,806	\$(3,581)	\$6,225

The components of other comprehensive (loss) income for the three months ended March 31 were as follows:

(Dollars in thousands)	Three Months Ended March 31,	
	2010	2009
Net income	\$1,315	\$4,195
Other comprehensive (loss) income:		
Available-for-sale investment securities:		
Gross unrealized holding (loss) gain arising in the period	(5,988)	4,902
Related tax benefit (expense)	2,096	(1,715)
Less: reclassification adjustment for net (loss) gain included in earnings	(970)	326
Related tax benefit (expense)	340	(114)
Net effect on other comprehensive (loss) income	(3,262)	2,975
Defined benefit plans:		
Amortization of unrecognized loss and service cost on pension plan	-	33
Related tax expense	-	(12)
Net effect on other comprehensive (loss) income	-	21
Total other comprehensive (loss) income, net of tax	(3,262)	2,996
Total comprehensive (loss) income	\$(1,947)	\$7,191

Note 6. Employee Benefit Plans

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

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

Pension Benefits:

(Dollars in thousands)	Three Months Ended March 31,	
	2010	2009
Service cost	\$ 188	\$ 200
Interest cost	196	197
Expected return on plan assets	(287)	(298)
Amortization of prior service cost	1	1
Amortization of net loss	37	41
Net periodic benefit cost	\$ 135	\$ 141

Table of Contents

Postretirement Benefits:

	Three Months Ended March 31,	
(Dollars in thousands)	2010	2009
Interest cost	\$ 3	\$ 4
Amortization of prior service cost	(1)	(1)
Amortization of net loss	(2)	(1)
Net periodic benefit cost	\$ –	\$ 2

Note 7. Stock-Based Compensation

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

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

Stock Options

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

The following summarizes the changes to Peoples’ stock options for the period ended March 31, 2010:

Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual	Aggregate Intrinsic Value
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			Life	
Outstanding at January 1	270,757	\$23.90		
Granted	—	—		
Exercised	23,205	13.57		
Expired	5,832	25.59		
Outstanding at March 31	241,720	\$24.85	3.6 years	\$45,000
Exercisable at March 31	241,720	\$24.85	3.6 years	\$45,000

For the three months ended March 31, 2010, the total intrinsic value of stock options exercised was \$47,000. The following summarizes information concerning Peoples' stock options outstanding at March 31, 2010:

Table of Contents

Range of Exercise Prices	Option Shares Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Option Shares Exercisable	Weighted-Average Exercise Price
\$13.48to\$13.58	15,196	0.1 years	\$13.55	15,196	\$13.55
\$15.55to\$21.71	11,609	2.3 years	20.32	11,609	20.32
\$22.32	48,603	3.0 years	22.32	48,603	22.32
\$23.59to\$25.94	44,824	2.2 years	23.95	44,824	23.95
\$26.01to\$27.74	45,767	4.3 years	27.06	45,767	27.06
\$28.25	38,601	5.7 years	28.25	38,601	28.25
\$28.57to\$30.00	37,120	4.9 years	29.01	37,120	29.01
Total	241,720	3.6 years	\$24.85	241,720	\$24.85

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted will vest three years from the grant date and expire ten years from the date of grant. The following summarizes the changes to Peoples' SARs for the period ended March 31, 2010:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	53,756	\$ 25.80		
Granted	–	–		
Exercised	–	–		
Forfeited	2,000	24.88		
Outstanding at March 31	51,756	\$ 25.84	7.3 years	\$ –
Exercisable at March 31	20,558	\$ 29.10	6.5 years	\$ –

The following summarizes information concerning Peoples' SARs outstanding at March 31, 2010:

Exercise Prices	Number of Shares Outstanding	Weighted-Average		Number of Shares Exercisable
		Remaining Contractual Life	Weighted-Average Exercise Price	
\$23.26	5,000	7.3 years	\$23.26	–
\$23.77	25,765	7.7 years	23.77	567
\$23.80to\$27.99	1,000	7.7 years	23.80	–
\$29.25	19,991	6.7 years	29.25	19,991
Total	51,756	7.3 years	\$25.84	20,558

Restricted Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on common shares awarded to non-employee directors expire after six months, while the restrictions on common shares awarded to employees expire after three years.

Table of Contents

The following summarizes the changes to Peoples' restricted common shares for period ended March 31, 2010:

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding at January 1	13,991	\$24.48
Awarded	2,000	14.82
Released	5,547	29.25
Forfeited	—	—
Outstanding at March 31	10,444	\$20.09

For the three months ended March 31, 2010, the total intrinsic value of restricted stock released was \$72,000.

Stock-Based Compensation

Peoples recognized stock-based compensation expense, which is included as a component of Peoples' salaries and employee benefits costs, based on the estimated fair value of the awards on the grant date. The following summarizes the amount of stock-based compensation expense and related tax benefit recognized for the period ended March 31:

	Three Months Ended March 31,	
(Dollars in thousands)	2010	2009
Total stock-based compensation	\$26	\$43
Recognized tax benefit	(9)	(15)
Net expense recognized	\$17	\$28

Total unrecognized stock-based compensation expense related to unvested awards was \$60,000 at March 31, 2010, which will be recognized over a weighted-average period of 0.6 years.

Note 8. Earnings Per Share

Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issuable upon exercise of outstanding stock options, SARs and non-vested restricted common shares using the treasury stock method. As disclosed in Note 4, Peoples had a warrant to purchase 313,505

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common shares outstanding at March 31, 2010. This warrant was excluded from the calculation of diluted earnings per common share since it was anti-dilutive. In addition, stock options and SARs covering 291,323 shares and 362,660 shares were excluded from the calculations for the three months ended March 31, 2010 and 2009, respectively, since they were anti-dilutive. The calculation of basic and diluted earnings per common share was as follows:

	Three Months Ended March 31,	
(Dollars in thousands, except per share data)	2010	2009
Net income	\$1,315	\$4,195
Preferred dividends	513	341
Net income available to common shareholders	802	3,854
Weighted-average common shares outstanding	10,391,542	10,344,862
Effect of potentially dilutive common shares	8,701	10,418
Total weighted-average diluted common shares outstanding	10,400,243	10,355,280
Earnings per common share:		
Basic	\$0.08	\$0.37
Diluted	\$0.08	\$0.37

Table of Contents

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

SELECTED FINANCIAL DATA

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

	At or For the Three Months Ended March 31,	
	2010	2009
SIGNIFICANT RATIOS		
Return on average stockholders' equity	2.19%	7.91%
Return on average common stockholders' equity	1.58%	8.27%
Return on average assets	0.26%	0.84%
Net interest margin	3.52%	3.52%
Efficiency ratio (a)	60.07%	58.59%
Average stockholders' equity to average assets	12.11%	10.63%
Average loans to average deposits	75.49%	79.84%
Dividend payout ratio	131.05%	62.30%
ASSET QUALITY RATIOS		
Nonperforming loans as a percent of total loans (b)(c)	2.84%	3.50%
Nonperforming assets as a percent of total assets (b)(c)	1.79%	1.89%
Allowance for loan losses to loans net of unearned interest (c)	2.53%	2.19%
Allowance for loan losses to nonperforming loans (b)(c)	89.0%	62.40%
Provision for loan losses to average loans	0.61%	0.37%
Net charge-offs as a percentage of average loans (annualized)	2.76%	1.07%
CAPITAL INFORMATION (c)		
Tier 1 capital ratio	15.51%	14.81%
	16.83%	16.10%

Total risk-based capital ratio		
Leverage ratio	9.97%	9.97%
Tangible equity to tangible assets (d)	9.06%	8.24%
Tangible common equity to tangible assets (d)	7.07%	6.31%
Tangible assets (d)	\$1,937,914	1,989,672
Tangible equity (d)	175,485	164,035
Tangible common equity (d)	\$136,917	125,565

PER COMMON SHARE DATA		
Earnings per share – Basic	\$0.08	\$0.37
Earnings per share – Diluted	0.08	0.37
Cash dividends declared per common share	0.10	0.23
Book value per share (c)	19.43	18.55
Tangible book value per share (c) (d)	\$13.15	\$12.14
Weighted-average common shares outstanding – Basic	10,391,542	10,344,862
Weighted-average common shares outstanding – Diluted	10,400,243	10,355,280
Common shares outstanding at end of period	10,408,096	10,343,974

- (a) Non-interest expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities and asset disposals).
- (b) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans. Nonperforming assets include nonperforming loans and other real estate owned.
- (c) Data presented as of the end of the period indicated.
- (d) These amounts represent non-GAAP measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of these measures can be found later in this discussion under the caption "Capital/Stockholders' Equity".

Table of Contents

Forward-Looking Statements

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

- (1) continued deterioration in the credit quality of Peoples’ loan portfolio could occur due to a number of factors, such as adverse changes in economic conditions that impair the ability of borrowers to repay their loans, the underlying value of the collateral could prove less valuable than otherwise assumed and assumed cash flows may be worse than expected, which may adversely impact the provision for loan losses;
- (2) competitive pressures among financial institutions or from non-financial institutions, which may increase significantly;
 - (3) changes in the interest rate environment, which may adversely impact interest margins;
- (4) changes in prepayment speeds, loan originations, sale volumes and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (5) general economic conditions and weakening in the real estate market, either nationally or in the states in which Peoples and its subsidiaries do business, which may be less favorable than expected;
- (6) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;
- (7) legislative or regulatory changes or actions, which may adversely affect the business of Peoples and its subsidiaries;
- (8) changes in accounting standards, policies, estimates or procedures may adversely affect Peoples’ reported financial condition or results of operations;
- (9) adverse changes in the conditions and trends in the financial markets, which may adversely affect the fair value of securities within Peoples’ investment portfolio;
 - (10) a delayed or incomplete resolution of regulatory issues that could arise;
 - (11) Peoples’ ability to receive dividends from its subsidiaries;
 - (12) Peoples’ ability to maintain required capital levels and adequate sources of funding and liquidity;
- (13) the impact of larger or similar financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples;
- (14) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity;
- (15) the costs and effects of regulatory and legal developments, including the outcome of regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations; and
- (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 the headings “ITEM 1A. RISK FACTORS” of Peoples’ Annual Report on Form 10-K for the year ended December 31, 2009 (the “2009 Form 10-K”).

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

section.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and notes thereto, contained in Peoples' 2009 Form 10-K, as well as the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

Business Overview

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

Peoples offers diversified financial products and services through 47 financial service locations and 39 ATMs in southeastern Ohio, northwestern West Virginia and northeastern Kentucky through its financial service units – Peoples Bank, National Association (“Peoples Bank”), Peoples Financial Advisors (a division of Peoples Bank) and Peoples Insurance Agency, LLC, a subsidiary of Peoples Bank. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency.

Table of Contents

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

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples' Unaudited Consolidated Financial Statements and Management's Discussion and Analysis at March 31, 2010, which were unchanged from the policies disclosed in Peoples' 2009 Form 10-K.

Summary of Recent Transactions and Events

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

- o In the first quarter of 2010, Peoples recognized a non-cash pre-tax other-than-temporary impairment ("OTTI") loss of \$1.0 million (\$0.6 million or \$0.06 per common share after-tax) on its 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 reflects management's estimation of credit losses incurred during the first quarter based upon actual defaults, its evaluation of the credit quality of the issuers and corresponding analysis of cash flows to be received from the securities. After recognition of the first quarter 2010 OTTI loss, Peoples no longer has any exposure to CDO securities within its investment portfolio. Further, these CDO securities were the only securities in Peoples' investment portfolio identified by management as possessing a substantial risk of loss.
- o Since early 2008, Peoples' loan quality has been negatively impacted by worsening conditions within the commercial real estate market and economy as a whole, which has caused declines in commercial real estate values and deterioration in the financial condition of various commercial borrowers. These conditions led to Peoples downgrading the loan quality ratings on various commercial real estate loans through its normal loan review process. In addition, several impaired loans have become under-collateralized due to reductions in the estimated net realizable fair value of the underlying collateral. As a result, Peoples' provision for loan losses, net charge-offs and nonperforming loans in 2008, 2009 and the first quarter of 2010 were significantly higher than historical levels.
- o Peoples' net loan charge-offs and provision for loan losses in recent quarters also have been impacted by ongoing workout efforts on existing impaired commercial real estate loans. These efforts have included negotiating reduced payoff amounts in connection with the sale of the underlying collateral – commonly referred to as "short sales". Management believes these actions are prudent since they have afforded opportunities to reduce nonperforming assets and lessen loss exposures within the loan portfolio.
- o During 2009, the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") took steps to rebuild the Deposit Insurance Fund, which has been reduced substantially by the higher rate of bank failures in 2008 and 2009 compared to recent years. These actions affected all FDIC-insured depository institutions and included increasing base assessment rates beginning April 1, 2009, collecting a one-time special assessment on September 30, 2009, and requiring the prepayment of assessments for fourth quarter 2009 and full years 2010 through 2012 on

December 29, 2009. As a result of the FDIC's actions, Peoples has incurred higher FDIC insurance expense over the last several quarters, including additional expense of \$930,000 in the second quarter of 2009 for the special assessment. Additionally, Peoples prepaid \$9.0 million of FDIC assessments on December 29, 2009, which was recorded initially as a prepaid expense included in "Other Assets" on the Consolidated Balance Sheets, and subsequently amortized as FDIC insurance expense based upon actual insurance assessments. The prepayment of FDIC assessments did not have a material adverse effect on Peoples' liquidity, financial condition or results of operations.

Table of Contents

- o Peoples' Board of Directors declared quarterly cash dividends of \$0.10 per common share for each of the final two quarters of 2009 and first quarter of 2010. These dividends represented a reduction from the \$0.23 per common share paid in each of the first two quarters of 2009. Management believes the lower dividend rate balances the need for Peoples to provide a return on shareholder investment and to maintain a dividend payout consistent with recent earnings levels and long-term capital needs.
- o As described in "ITEM 1. BUSINESS-Recent Corporate Developments" of Peoples' 2009 Form 10-K, on January 30, 2009, Peoples received \$39 million of new equity capital from the U.S. Treasury's TARP Capital Purchase Program. The investment was in the form of newly-issued non-voting Fixed Rate Cumulative Perpetual Preferred Shares, Series A (the "Series A Preferred Shares") and a related 10-year warrant sold by Peoples to the U.S. Treasury (the "TARP Capital Investment").
- o Between August 2007 and December 2008, the Federal Reserve reduced the target Federal Funds Rate 500 basis points and the Discount Rate 575 basis points, which caused a corresponding downward shift in short-term interest rates. During this period, longer-term rates did not decrease to the same extent as short-term rates, resulting in a steepening of the yield curve. In 2009, the Federal Reserve allowed the target Federal Funds Rate and Discount Rate to remain at historically low levels of 0% to 0.25% and 0.50%, respectively, while the slope of the yield curve steepened slightly. These interest rate conditions have provided Peoples with opportunities to maintain and improve net interest income and margin by taking advantage of lower-cost funding available in the market place and reducing certain deposit costs.
- o In February 2010, the Federal Reserve approved several modifications to the terms of its Discount Window lending programs in light of continued improvement in financial market conditions. Most notably, the Federal Reserve increased the Discount Rate 25 basis points, which widened the spread between the Discount Rate and the high end of the target Federal Funds Rate range.
- o Also during 2008 and continuing in 2009, Peoples sold selected lower yielding, longer-term investment securities, primarily obligations of U.S. government-sponsored enterprises, U.S. agency mortgage-backed securities and tax-exempt municipal bonds, as well as several small-lot mortgage-backed securities. The proceeds from these sales were reinvested into similar securities with less price risk volatility. These actions were intended to reposition the investment portfolio to reduce interest rate exposures and resulted in Peoples recognizing aggregate pre-tax gains of \$0.3 million in the first quarter of 2009. Similar activity did not occur during the first quarter of 2010, resulting in only a minimal pre-tax gain being recognized for the first quarter of 2010.

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

EXECUTIVE SUMMARY

First quarter 2010 net income available to common shareholders was \$0.8 million, representing diluted earnings per common share of \$0.08, comparable to results for the fourth quarter of 2009 (or "linked quarter"). In comparison, net income available to common shareholders totaled \$3.9 million or \$0.37 per diluted common share in first quarter 2009. Impacting earnings in 2010 were an increased provision for loan losses and a \$1.0 million OTTI loss on Peoples' then remaining investment in CDO securities.

Provision for loan losses remained elevated in the first quarter of 2010, totaling \$6.5 million compared to \$6.8 million for the linked quarter and \$4.1 million in the first quarter of 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. First quarter 2010 provision for loan losses was impacted by continued declines in commercial real estate values on existing impaired loans, plus a \$1.5 million write-down on an existing \$5.4 million nonaccrual commercial real estate loan due to a negotiated short sale of the underlying collateral. The short sale is expected to be completed in the second quarter of 2010.

Net interest income and margin were stable at \$15.4 million and 3.52% in first quarter 2010, comparable to the linked quarter and prior year first quarter. Interest income contracted in first quarter 2010, down 4% from fourth quarter 2009 and 11% from first quarter 2009, as asset yields declined due to lower reinvestment rates in the current interest rate environment. First quarter 2010 interest expense decreased 12% and 26% from the fourth and first quarters of 2009, respectively, from concentrated efforts to reduce funding costs and repay wholesale funding.

Table of Contents

Non-interest income, which excludes gains and losses on securities and asset disposals, was \$8.0 million in the first quarter of 2010, compared to \$7.8 million and \$8.2 million in fourth and first quarters 2009. First quarter 2010 non-interest income benefited from improvement in trust and investment income related to continued recovery of market values of managed assets, as well as \$255,000 from non-recurring estate settlement fees, while mortgage banking income declined from lower refinancing activity. The linked quarter increase in non-interest income was driven mostly by recognition of annual performance based insurance commissions normally received in the first quarter.

In the first quarter of 2010, non-interest expense was flat from the linked and prior year quarters, totaling \$14.6 million. Peoples incurred higher costs associated with its foreclosed commercial real estate in the first quarter 2010, plus a modest year-over-year increase in FDIC insurance expense. However, the impact of these increases was offset by reductions in various operating expenses from ongoing cost control initiatives.

At March 31, 2010, total assets were up \$1.4 million from December 31, 2009 to \$2.00 billion. Cash and cash equivalents increased \$10.3 million, due to excess cash reserves held at the Federal Reserve Bank of Cleveland ("FRB"), mostly offset by a \$8.8 million decline in the investment portfolio from paydowns and lower market values. Gross portfolio loan balances were flat compared to year-end 2009, as reductions in consumer and residential real estate loan balances, coupled with first quarter 2010 charge-offs, moderated growth in commercial loans.

Total liabilities increased \$4.6 million during the first quarter, to \$1.76 billion at March 31, 2010. Total deposit balances increased \$39.2 million from year-end 2009, mainly attributable to \$32.9 million additional money market deposits from competitive rates being offered on these products, plus a \$5.6 million increase in CD balances. Much of this deposit growth was used to reduce borrowed funds by \$33.1 million or 10% from year-end 2009 to \$312.5 million at March 31, 2010.

At March 31, 2010, total stockholders' equity was \$240.8 million, a \$3.2 million decrease from \$244.0 million at December 31, 2009. Lower fair values of available-for-sale investment securities, net of deferred taxes, accounted for the entire decrease in stockholders' equity from year-end 2009.

RESULTS OF OPERATIONS

Net Interest Income

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

Table of Contents

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

(Dollars in thousands)	March 31, 2010			For the Three Months Ended December 31, 2009			March 31, 2009		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Short-Term Investments:									
Deposits with other banks	\$ 7,317	\$ 4	0.23%	\$ 15,316	\$ 9	0.24%	\$ 25,678	\$ 16	0.25%
Federal funds sold	—	—	—%	—	—	—%	—	—	—%
Total short-term investments	7,317	4	0.23%	15,316	9	0.24%	25,678	16	0.25%
Investment Securities (1):									
Taxable	705,375	8,015	4.55%	683,547	8,201	4.80%	640,547	8,864	5.54%
Nontaxable (2)	62,429	988	6.33%	64,739	1,021	6.31%	70,928	1,147	6.47%
Total investment securities	767,804	9,003	4.69%	748,286	9,222	4.93%	711,475	10,011	5.63%
Loans (3):									
Commercial	703,886	9,366	5.40%	703,301	9,869	5.57%	734,493	10,275	5.67%
Real estate (4)	266,318	3,771	5.66%	269,009	3,989	5.93%	281,406	4,682	6.66%
Consumer	89,816	1,713	7.73%	94,100	1,844	7.77%	91,396	1,774	7.87%
Total loans	1,060,020	14,850	5.66%	1,066,410	15,702	5.85%	1,107,295	16,731	6.12%
Less: Allowance for loan losses	(29,332)			(27,337)			(23,980)		
Net loans	1,030,688	14,850	5.82%	1,039,073	15,702	6.01%	1,083,315	16,731	6.24%
Total earning assets	1,805,809	23,857	5.32%	1,802,675	24,933	5.51%	1,820,468	26,758	5.92%
Intangible assets	65,484			65,674			66,261		
Other assets	142,240			130,467			136,756		
Total assets	\$ 2,013,533			\$ 1,998,816			\$ 2,023,485		
Deposits:									
Savings accounts	\$ 116,572	\$ 47	0.16%	\$ 127,131	\$ 178	0.56%	\$ 118,552	\$ 124	0.42%
Interest-bearing demand accounts	229,628	661	1.17%	215,484	774	1.43%	195,707	735	1.52%
Money market accounts	273,567	656	0.97%	261,738	766	1.16%	222,649	649	1.18%
Brokered certificates of deposit	42,003	401	3.87%	49,596	499	3.99%	27,298	274	4.07%
Retail certificates of deposit	539,327	3,378	2.54%	546,860	3,855	2.80%	633,500	5,202	3.33%
Total interest-bearing deposits	1,201,097	5,143	1.74%	1,200,809	6,072	2.01%	1,197,706	6,984	2.36%
Short-Term Borrowings:									

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FHLB advances	34,333	9 0.11%	11,158	3 0.11%	14,776	10 0.27%
Retail repurchase agreements	51,810	71 0.56%	53,705	92 0.68%	54,521	159 1.17%
Total short-term borrowings	86,143	80 0.37%	64,863	95 0.57%	69,297	169 0.98%
Long-Term Borrowings:						
FHLB advances	103,574	907 3.55%	108,193	989 3.63%	152,396	1,527 4.06%
Wholesale repurchase agreements	139,222	1,386 3.98%	145,000	1,488 4.01%	160,000	1,629 4.07%
Junior subordinated notes	22,535	498 8.84%	22,526	495 8.60%	22,500	498 8.85%
Total long-term borrowings	265,331	2,791 4.23%	275,719	2,972 4.24%	334,896	3,654 4.39%
Total borrowed funds	351,474	2,871 3.28%	340,582	3,067 3.54%	404,193	3,823 3.80%
Total interest-bearing liabilities	1,552,571	8,014 2.09%	1,541,391	9,139 2.35%	1,601,899	10,807 2.73%
Non-interest-bearing deposits	203,158		197,102		189,121	
Other liabilities	13,972		16,683		17,405	
Total liabilities	1,769,701		1,755,176		1,808,425	
Preferred equity	38,556		38,531		26,068	
Common equity	205,276		205,109		188,992	
Total stockholders' equity	243,832		243,640		215,060	
Total liabilities and stockholders' equity	\$ 2,013,533		\$ 1,998,816		\$ 2,023,485	
Interest rate spread	\$ 15,843	3.23%	\$ 15,794	3.16%	\$ 15,951	3.19%
Interest income/earning assets		5.32%		5.51%		5.92%
Interest expense/earning assets		1.80%		2.01%		2.40%
Net interest margin		3.52%		3.50%		3.52%

(1) Average balances are based on carrying value.

Table of Contents

- (2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal tax rate.
- (3) Nonaccrual and impaired loans are included in the average loan balances. Related interest income earned on nonaccrual loans prior to the loan being placed on nonaccrual is included in loan interest income. Loan fees included in interest income were immaterial for all periods presented.
- (4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

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

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Net interest income, as reported	\$15,441	\$15,417	\$15,527
Taxable equivalent adjustments	402	377	424
Fully tax-equivalent net interest income	\$15,843	\$15,794	\$15,951

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

(Dollars in thousands)	Three Months Ended March 31, 2010 Compared to					
	December 31, 2009 (1)			March 31, 2009 (1)		
Increase (decrease) in:	Rate	Volume	Total	Rate	Volume	Total
INTEREST INCOME:						
Short-term investments	\$ –	\$ (5)	\$ (5)	\$ (1)	\$ (11)	\$ (12)
Investment Securities: (2)						
Taxable	(1,412)	1,226	(186)	(5,128)	4,279	(849)
Nontaxable	24	(57)	(33)	(24)	(135)	(159)
Total investment income	(1,388)	1,169	(219)	(5,152)	4,144	(1,008)
Loans:						
Commercial	(553)	50	(503)	(485)	(424)	(909)

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Real estate	(179)	(39)	(218)	(671)	(240)	(911)
Consumer	(15)	(116)	(131)	(31)	(30)	(61)
Total loan income	(747)	(105)	(852)	(1,187)	(694)	(1,881)
Total interest income	(2,135)	1,059	(1,076)	(6,340)	3,439	(2,901)
INTEREST EXPENSE:						
Deposits:						
Savings accounts	(117)	(14)	(131)	(75)	(2)	(77)
Interest-bearing demand accounts	(375)	262	(113)	(631)	557	(74)
Money market accounts	(302)	192	(110)	(523)	530	7
Brokered certificates of deposit	(16)	(82)	(98)	(89)	216	127
Retail certificates of deposit	(415)	(62)	(477)	(1,121)	(703)	(1,824)
Total deposit cost	(1,225)	296	(929)	(2,439)	598	(1,841)
Borrowed funds:						
Short-term borrowings	(17)	2	(15)	(113)	24	(89)
Long-term borrowings	(42)	(139)	(181)	(213)	(650)	(863)
Total borrowed funds cost	(59)	(137)	(196)	(326)	(626)	(952)
Total interest expense	(1,284)	159	(1,125)	(2,765)	(28)	(2,793)
Net interest income	\$ (851)	\$ 900	\$ 49	\$ (3,575)	\$ 3,467	\$ (108)

(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.

Table of Contents

In the first quarter of 2010, net interest income and margin remained stable, as reduced interest expense from management's efforts to reduce funding costs was matched by decreased interest income caused by lower reinvestment rates on loans and investments from historically low market interest rates.

Total average earning assets were basically flat in the first quarter of 2010 compared to both the linked quarter and first quarter of 2009. Average loan balances continue to be impacted by reductions in residential real estate loans from loans being refinanced and sold to the secondary market, while commercial loan charge-offs also contributed to the year-over-year decline. The impact of lower average loan balances was offset by modestly higher average investment securities, which benefited from improvement in market value in the second half of 2009.

In the first quarter of 2010, continued growth in low-cost and non-interest-bearing core deposits provided additional opportunities to reduce higher cost funding sources, such as long-term borrowings. Management also selectively priced some higher-cost deposits, like public funds, less aggressively. This action reduced the overall cost of deposits, while producing only a modest decline in certain types of deposit balances.

During the remainder of 2010, Peoples' balance sheet strategies may include modest deleveraging given the lack of attractive long-term investments and prospects of minimal loan growth due to economic conditions. As a result, Peoples' ability to improve net interest income and margin during the year will remain limited, unless the Federal Reserve takes steps to raise short-term interest rates.

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

Provision for Loan Losses

The following table details Peoples' provision for loan losses:

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Provision for checking account overdrafts	\$20	\$234	\$63
Provision for other loan losses	6,481	6,522	4,000
Total provision for loan losses	\$6,501	\$6,756	\$4,063
As a percentage of average gross loans	0.61%	0.64%	0.37%

The provision for loan losses reflects amounts needed to maintain the adequacy of the allowance for loan losses based on management's formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions.

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

Non-Interest Income

Insurance income comprised the largest portion of first quarter 2010 non-interest income, due to annual performance based insurance commissions. The following table details Peoples' insurance income:

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Property and casualty insurance commissions	\$1,684	\$1,779	\$1,737
Performance based commissions	585	–	768
Life and health insurance commissions	121	154	181
Credit life and A&H insurance commissions	14	20	23
Other fees and charges	7	59	36
Total insurance income	\$2,411	\$2,012	\$2,745

Table of Contents

Performance based commissions were the primary driver of increased insurance income over the linked quarter. This revenue is normally received annually 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 insurance industry. The amount of property and casualty insurance commissions recognized by Peoples fluctuates quarterly due to normal seasonality of annual policy renewals. While Peoples continues to be successful at retaining existing insurance customers, property and casualty insurance commission levels have been reduced by the effects of a contracting economy on commercial insurance needs and lower pricing margins from competition within the insurance industry.

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

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Overdraft fees	\$1,594	\$2,052	\$1,694
Non-sufficient funds fees	314	395	316
Other fees and charges	390	225	389
Total deposit account service charges	\$2,298	\$2,672	\$2,399

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 each quarter. Peoples experiences some seasonal changes in overdraft and non-sufficient funds fees, primarily in the first and fourth quarters. Typically, the volume of overdraft and non-sufficient funds fees are lower 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.

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

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Fiduciary	\$1,318	\$1,022	\$846
Brokerage	238	216	212
Total trust and investment income	\$1,556	\$1,238	\$1,058

March 31,	December 31,	September 30,	June 30,	March 31,
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(Dollars in thousands)	2010	2009	2009	2009	2009
Trust assets under management	\$768,189	\$750,993	\$738,535	\$692,823	\$664,784
Brokerage assets under management	229,324	216,479	210,743	\$183,968	169,268
Total managed assets	\$997,513	\$967,472	\$949,278	\$876,791	\$834,052

Peoples' fiduciary and brokerage revenues both are based in large part on the value of assets under management. The value of managed assets has steadily increased over the last several quarters from the continued recovery experienced within the global financial markets. Correspondingly, trust and investment income has experienced sustained growth over the linked quarter and year-over-year periods. Also influencing the higher first quarter 2010 fiduciary income was the recognition of \$255,000 in estate management fees, which are non-recurring in nature but a core component of Peoples' fiduciary activities.

Mortgage banking income has decreased significantly compared to the fourth and first quarters of 2009, down 30% and 61%, respectively. Reductions in mortgage refinancing activity, due to higher long-term mortgage interest rates, has curtailed the inflow of gains on sales of loans into the secondary market. During first quarter 2010, Peoples sold approximately \$9 million of loans to the secondary market, down sharply from \$38.7 million in first quarter of 2009 and \$13.5 million in fourth quarter 2009.

Electronic banking income is comprised mostly of revenue generated from customers using debit cards. During the first quarter of 2010, Peoples' customers used their debit cards to complete \$77 million of transactions, consistent with the linked quarter, and up 13% compared to \$68 million in the first quarter of 2009. At March 31, 2010, Peoples had 43,278 deposit relationships with debit cards, or 61% of all eligible deposit accounts, compared to 40,663 relationships, or 57% of eligible accounts, at year-end 2009 and 41,341 relationships, or 59% of eligible accounts at March 31, 2009.

Table of Contents

Non-Interest Expense

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for approximately 50% of total non-interest expense. The following table details Peoples' salaries and employee benefit costs:

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Base salaries and wages	\$5,056	\$5,089	\$5,061
Employee benefits	1,336	1,339	1,240
Sales-based and incentive compensation	712	765	922
Stock-based compensation	26	36	43
Deferred personnel costs	(282)	(325)	(339)
Payroll taxes and other employment costs	529	452	597
Total salaries and employee benefit costs	\$7,377	\$7,356	\$7,524
Full-time equivalent employees:			
Actual at end of period	530	537	547
Average during the period	532	539	546

In 2010, Peoples limited salary increases for all employees, which resulted in base salaries and wages remaining flat versus prior period amounts. This cost savings will continue through 2010, and should mitigate increases in total salaries and employee benefit costs. Sales-based and incentive compensation were in line with fourth quarter 2009, as Peoples' annual incentive award plan is partially based upon corporate results. Employee benefits showed little change from the linked quarter, as higher employee medical benefit costs were offset by a reduced 401(k) match beginning in the first quarter of 2010. Compared to the first quarter of 2009, employee medical benefit costs were up 23% in 2010's first quarter, exceeding the impact of the lower 401(k) match.

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

	Three Months Ended		
	March 31,	December 31,	March 31,

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(Dollars in thousands)	2010	2009	2009
Depreciation	\$492	\$483	\$516
Repairs and maintenance costs	456	355	390
Net rent expense	222	226	200
Property taxes, utilities and other costs	348	326	366
Total net occupancy and equipment expense	\$1,518	\$1,390	\$1,472

Higher repairs and maintenance costs during the first quarter of 2010 were due primarily to additional snow removal costs. Other occupancy and equipment expenses generally were held flat, due to management's focus on improving operating efficiencies.

First quarter 2010 professional fees expense decreased 19% and 7% from fourth and first quarter 2009, respectively. Much of this decrease was attributable to expenses associated with the TARP Capital Investment and Special Meeting of Shareholders recorded in the first quarter of 2009, coupled with external legal and valuation expenses on problem loans in fourth quarter 2009.

Foreclosed real estate and other loan expenses consist mostly of costs associated with maintaining foreclosed assets, including real estate taxes and utilities, as well as various administrative costs incurred in connection with serving and collecting outstanding loans. The significant increase in the first quarter of 2010 was due mostly to \$292,000 of one-time expense associated with recently foreclosed assets, coupled with the accrual of property taxes totaling \$73,000 on two large commercial properties being held as other real estate owned at March 31, 2010.

Income Tax Expense

For the three months ended March 31, 2010, Peoples recorded income tax expense of \$111,000, versus \$1.2 million a year ago. First quarter 2010 income tax expense reflected the entire \$345,000 tax benefit associated with the OTTI loss recognized during the quarter. The lower pre-tax income accounted for the remaining reduction in first quarter income tax expense.

Table of Contents

Management anticipates Peoples' effective tax rate will approximate 19% for each of the remaining three quarters of 2010. This effective tax rate differs from Peoples' statutory corporate tax rate as a result of income from tax-exempt sources and tax benefits derived from investments in tax credit funds, with the respective impact of each item generally consistent with that experienced in 2009.

FINANCIAL CONDITION

Cash and Cash Equivalents

At March 31, 2010, Peoples' cash and cash equivalents included excess cash reserves at the FRB totaling \$23.6 million, compared to \$11.4 million at year-end 2009. These excess funds, which are included in interest-bearing deposits in other banks on the Consolidated Balance Sheets, were maintained rather than federal funds sold due to more favorable current short-term interest rates.

During the first quarter of 2010, Peoples' operating and financing activities provided net cash of \$11.1 million and \$4.8 million, respectively, of which \$5.6 million was used in investing activities, producing a \$10.3 million increase in total cash and cash equivalents. Net cash provided by financing activities consisted of \$39.1 million of net deposit growth, of which \$33.1 million was used to reduce borrowed funds. New loan originations exceeded normal principal payments and loan payoffs by \$6.5 million, accounting for the bulk of net cash used by investing activities.

In comparison, cash and cash equivalents increased \$61.7 million through the first three months of 2009, due mostly to net cash of \$47.8 million provided by financing activities. Net deposit growth and the TARP Capital Investment generated \$94.2 million of funds during the first quarter of 2009, which were used to reduce short-term borrowings by \$48.8 million. Cash flow from investing activities totaled \$8.6 million, comprised of proceeds from maturities, calls and principal payments on investment securities that exceeded purchases of new investment securities during the quarter, while operating activities generated net cash of \$5.3 million through the first three months of 2009.

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

Investment Securities

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

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Fair value:					
Obligations of:					
U.S. Treasury and government agencies	\$79	\$82	\$84	\$86	\$171
U.S. government sponsored agencies	4,360	4,473	7,981	8,143	8,339
	61,970	62,953	67,318	65,953	70,092

States and political subdivisions					
Residential mortgage-backed securities	538,866	558,825	549,012	506,939	499,210
Commercial mortgage-backed securities	33,675	24,188	26,674	35,303	30,037
U.S. government-backed student loan pools	59,758	59,442	58,544	55,657	53,887
Bank-issued trust preferred securities	14,244	13,826	12,882	16,229	15,206
Collateralized debt obligations	–	165	329	1,863	2,810
Equity securities	2,834	2,593	3,074	3,599	2,064
Total fair value	\$715,786	\$726,547	\$725,898	\$693,772	\$681,816
Total amortized cost	\$700,700	\$706,444	\$704,388	\$689,540	\$689,337
Net unrealized gain (loss)	\$15,086	\$20,103	\$21,510	\$4,232	\$(7,521)

Peoples' investment in residential and commercial mortgage-backed securities largely consist 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:

Table of Contents

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Residential	\$140,736	\$153,621	\$164,461	\$178,545	\$196,452
Commercial	33,675	24,188	26,274	35,303	30,037
Total fair value	\$174,411	\$177,809	\$190,735	\$213,848	\$226,489
Total amortized cost	\$173,933	\$177,370	\$193,481	\$220,535	\$237,007
Net unrealized gain (loss)	\$478	\$439	\$(2,746)	\$(6,687)	\$(10,518)

The non-agency portfolio consists entirely of first lien residential and commercial mortgages and all securities are rated AAA or equivalent by Moody's, Standard & Poor's and/or Fitch. Approximately 96% of the portfolio consists of 2003 or earlier originations and 99% of the portfolio consists of underlying fixed-rate mortgages.

At March 31, 2010, Peoples' investment in individual bank-issued trust preferred securities consisted of holdings of nine 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”. These issuers either were deemed to have sufficient capital levels or have corrected any capital deficiency identified by federal bank supervisors. As such, management believes the risk of loss from these securities to be low given the capital strength of the issuers.

Loans

The following table provides information regarding outstanding loan balances:

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Gross portfolio loans:					
Commercial real estate	\$501,917	\$503,034	\$478,518	\$504,826	\$498,395
Commercial and industrial	165,934	159,915	160,677	173,136	174,660
Real estate construction	34,894	32,427	67,143	54,446	62,887
Residential real estate	212,569	215,735	216,571	216,280	224,843
Home equity lines of credit	49,444	49,183	48,991	48,301	47,454

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Consumer	85,231	90,144	94,374	95,161	90,741
Deposit account overdrafts	1,299	1,620	1,765	2,016	1,930
Total portfolio loans	\$1,051,288	\$1,052,058	\$1,068,039	\$1,094,166	\$1,100,910
Percent of loans to total loans:					
Commercial real estate	47.7%	47.8%	44.8%	46.1%	45.3%
Commercial and industrial	15.8%	15.2%	15.0%	15.8%	15.9%
Real estate construction	3.3%	3.1%	6.3%	5.0%	5.7%
Residential real estate	20.2%	20.5%	20.3%	19.8%	20.4%
Home equity lines of credit	4.7%	4.7%	4.6%	4.4%	4.3%
Consumer	8.2%	8.5%	8.8%	8.7%	8.2%
Deposit account overdrafts	0.1%	0.2%	0.2%	0.2%	0.2%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Residential real estate loans being serviced for others					
	\$230,183	\$227,792	\$220,605	\$213,271	\$199,613

Since March 31, 2009, several large commercial construction loans have been converted to term commercial mortgage loans, causing most of the increase in commercial real estate loans and corresponding decrease in real estate construction loans. The overall increase in commercial real estate loan balances was mostly offset by charge-offs on existing impaired loans, which were written down to estimated net realizable value of the underlying collateral.

Residential real estate loan balances continue to be impacted by customer demand for long-term, fixed-rate mortgages, which Peoples generally sells to the secondary market with the servicing rights retained. Compared to March 31, 2009, the reduction in residential real estate loan balances was intensified by the secondary market offering historically low long-term fixed rates during most of 2009, which resulted in significantly higher refinancing activity. This refinancing activity also accounted for the 15% increase in Peoples' serviced loan portfolio since March 31, 2009.

Table of Contents

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:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total
Commercial real estate:				
Lodging and lodging related	\$56,384	\$684	\$57,068	11.2%
Office buildings and complexes:				
Owner occupied	6,336	281	6,617	1.3%
Non-owner occupied	45,723	485	46,208	9.0%
Total office buildings and complexes	52,059	766	52,825	10.3%
Apartment complexes	62,994	1,638	64,632	12.6%
Retail facilities:				
Owner occupied	12,841	68	12,909	2.5%
Non-owner occupied	34,351	331	34,682	6.8%
Total retail facilities	47,192	399	47,591	9.3%
Residential property:				
Owner occupied	5,895	668	6,563	1.3%
Non-owner occupied	33,220	155	33,375	6.5%
Total residential property	39,115	823	39,938	7.8%
Light industrial facilities:				

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Owner occupied	29,619	277	29,896	5.8%
Non-owner occupied	9,877	–	9,877	1.9%
Total light industrial facilities	39,496	277	39,773	7.8%
Assisted living facilities and nursing homes	39,005	–	39,005	7.6%
Land and land development	31,375	3,430	34,805	6.8%
Health care facilities	21,479	26	21,505	4.2%
Other	112,818	1,666	114,484	22.4%
Total commercial real estate	\$501,917	\$9,709	\$511,626	100.0%
Real estate construction:				
Lodging and lodging related	\$16,555	\$600	\$17,155	41.5%
Land and land development	5,552	525	6,077	14.7%
Apartment complexes	1,490	132	1,622	3.9%
Other	11,297	5,202	16,499	39.9%
Total real estate construction	\$34,894	\$6,459	\$41,353	100.0%

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary market areas, with loans outside Peoples' primary market areas comprising approximately 10% of total outstanding loan balances, at both March 31, 2010 and December 31, 2009. The majority of those out-of-market loans are still based in Ohio, West Virginia and Kentucky, with total outstanding balances of \$77.1 million and \$77.9 million at March 31, 2010 and December 31, 2009, respectively. In all other states, the aggregate outstanding balance in each state was less than \$6.0 million.

Table of Contents

Allowance for Loan Losses

The amount of the allowance for loan losses for the various loan types represents management's estimate of expected losses from existing loans. These estimates are based upon the formal quarterly analysis of the loan portfolio. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses. The following details the allocation of the allowance for loan losses:

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Commercial real estate	\$19,388	\$22,125			
Commercial and industrial	3,992	1,586			
Total commercial	\$23,380	\$23,711	\$23,218	\$20,087	\$20,913
Residential real estate	1,436	1,619	1,210	1,281	1,428
Home equity lines of credit	540	528	501	492	526
Consumer	960	1,074	995	973	863
Deposit account overdrafts	237	325	325	318	346
Total allowance for loan losses	\$26,553	\$27,257	\$26,249	\$23,151	\$24,076
As a percentage of total loans	2.53%	2.59%	2.46%	2.12%	2.19%

The significant allocations to commercial loans reflects the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. The higher allocations in recent quarters primarily reflect the elevated level of charge-offs in both years, which resulted in higher loss factors for graded loans, along with continued deterioration in credit quality of various commercial loans based on the financial condition of the borrowers. Another significant contributing factor was the impact of distressed commercial real estate values and general economic conditions on specific reserves for impaired loans.

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

The following table presents changes in Peoples' allowance for loan losses:

Table of Contents

	Three Months Ended		
	March 31, 2010	December 31, 2009	March 31, 2009
(Dollars in thousands)			
Allowance for loan losses:			
Allowance for loan losses, beginning of period	\$27,257	\$26,249	\$22,931
Gross charge-offs:			
Commercial real estate	6,423	4,942	2,553
Commercial and industrial	919	257	—
Residential real estate	201	315	234
Real estate construction	—	—	—
Home equity lines of credit	12	15	4
Consumer	349	313	206
Deposit account overdrafts	230	317	301
Total gross charge-offs	8,134	6,159	3,298
Recoveries:			
Commercial real estate	505	42	32
Commercial and industrial	25	44	39
Residential real estate	18	65	52
Real estate construction	—	—	—
Home equity lines of credit	24	44	5
Consumer	235	134	112
Deposit account overdrafts	122	82	140
Total recoveries	929	411	380
Net charge-offs (recoveries):			
Commercial real estate	5,918	4,900	2,521
Commercial and industrial	894	213	(39)
	183	250	182

Residential real estate			
Real estate construction	–	–	–
Home equity lines of credit	(12)	(29)	(1)
Consumer	114	179	94
Deposit account overdrafts	108	235	161
Total net charge-offs	7,205	5,748	2,918
Provision for loan losses	6,501	6,756	4,063
Allowance for loan losses, end of period	\$26,553	\$27,257	\$24,076
Ratio of net charge-offs to average loans:			
Commercial real estate	2.26%	1.82%	0.90%
Commercial and industrial	0.34%	0.08%	–%
Residential real estate	0.07%	0.09%	0.07%
Real estate construction	–%	–%	–%
Home equity lines of credit	–%	–%	–%
Consumer	0.04%	0.07%	0.04%
Deposit account overdrafts	0.04%	0.09%	0.06%
Total	2.76%	2.15%	1.07%

First quarter 2010 charge-offs were impacted by losses totaling approximately \$5.9 million on existing impaired commercial loan relationships attributable to ongoing workout efforts on existing impaired loans and continued declines in commercial real estate values. Of the \$5.9 million, approximately \$2.0 million represented write-offs of amounts specifically reserved for in prior quarters through the allowance for loan losses, as the loans progressed through the workout process. The remaining \$3.9 million was attributed to impaired commercial real estate loans becoming under collateralized based upon the estimated net realizable value of the collateral, of which \$1.5 million related to a single \$5.4 million nonaccrual commercial real estate loan. The \$1.5 million loss occurred as a result of Peoples negotiating a reduced payoff amount in connection with a sale of the underlying collateral, which is expected to occur during the second quarter of 2010.

Table of Contents

Peoples' asset quality showed signs of continued stabilization in the first quarter of 2010, as reflected by a modest decrease in nonperforming assets attributable to management's focused attention on reducing problem loans. The following table details Peoples' nonperforming assets:

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Loans 90+ days past due and accruing:					
Commercial real estate	\$ -	\$ 164	\$ -	\$ -	\$ -
Commercial and industrial	-	-	679	-	-
Residential real estate	-	238	311	242	41
Consumer	-	9	3	-	-
Total	-	411	993	242	41
Nonaccrual loans:					
Commercial real estate	22,706	25,852	33,326	35,015	34,565
Commercial and industrial	3,019	2,884	3,107	1,816	1,683
Residential real estate	3,567	4,687	4,125	3,071	1,774
Home equity	536	546	574	493	502
Consumer	4	3	4	65	11
Total	29,832	33,972	41,136	40,460	38,535
Total nonperforming loans (NPLs)	29,832	34,383	42,129	40,702	38,576
Other real estate owned					
Commercial	5,857	6,087	1,062	118	118
Residential	176	226	176	45	147
Total	6,033	6,313	1,238	163	265
Total nonperforming assets (NPAs)	\$ 35,865	\$ 40,696	\$ 43,367	\$ 40,865	\$ 38,841
NPLs as a percent of total loans	2.84%	3.27%	3.94%	3.72%	3.50%
NPAs as a percent of total assets	1.79%	2.03%	2.16%	2.00%	1.89%
NPAs as a percent of total loans plus other real estate owned					
Allowance for loan losses as a percent of NPLs	89.0%	79.3%	62.3%	56.9%	62.4%

Peoples' nonaccrual commercial real estate loans primarily consist of non-owner occupied commercial properties and real estate development projects. Much of the decrease in nonperforming loans since year-end 2009 was the result of charge-downs. Several of the nonperforming loans have been charged down to the estimated net realizable fair value of the underlying collateral, resulting in a lower allowance for loan losses to nonperforming loans ratio in recent quarters compared to Peoples' historical levels.

As discussed above, Peoples has negotiated a reduced payoff amount for an existing nonaccrual commercial real estate loan, with a remaining loan balance of \$3.9 million at March 31, 2010, in connection with a short sale of the underlying collateral. The short sale is expected to occur during the second quarter of 2010, which will remove this loan from Peoples' nonperforming loans.

Certain nonaccrual loans are not considered impaired and not evaluated individually by Peoples. These loans consist primarily of smaller balance homogenous consumer and residential real estate loans that are collectively evaluated for impairment. The following tables summarize loans classified as impaired:

(Dollars in thousands)	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Loans with an allocated allowance for loan losses	\$14,590	\$18,188	\$15,688	\$6,714	\$10,518
Loans with no allocated allowance for loan losses	13,557	15,052	23,988	32,579	28,166
Total impaired loans	\$28,147	\$33,240	\$39,676	\$39,293	\$38,684
Allowance for loan losses allocated to impaired loans	\$3,532	\$5,738	\$5,761	\$2,600	\$4,365
Nonaccrual loans not considered impaired	\$1,924	\$1,738	\$2,561	\$1,458	\$1,333

Table of Contents

(Dollars in thousands)	Three Months Ended March 31,	
	2010	2009
Average investment in impaired loans	\$30,694	\$39,167
Interest income recognized on impaired loans	\$2	\$17

Peoples has not allocated a portion of the allowance for loan losses to certain impaired loans because those loans either have been written-down previously to the amount expected to be collected or possess characteristics indicative of Peoples' ability to collect the remaining outstanding principal from the sale of collateral and/or enforcement of guarantees by the principals.

Overall, management believes the allowance for loan losses was adequate at March 31, 2010, based on all significant information currently available. Still, there can be no assurance that 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

The following table details Peoples' deposit balances:

(Dollars in thousands)	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Interest-bearing deposits:					
Retail certificates of deposit	\$546,760	\$537,549	\$561,619	\$596,713	\$637,125
Money market deposit accounts	296,196	263,257	245,621	228,963	227,840
Governmental deposit accounts	143,068	147,745	137,655	129,491	137,446
Savings accounts	117,526	112,074	113,104	116,108	113,648
Interest-bearing demand accounts	88,425	91,878	87,153	90,881	89,813
Total retail interest-bearing deposits	1,191,975	1,152,503	1,145,152	1,162,156	1,205,872
Brokered certificates of deposits	41,738	45,383	61,412	45,862	24,965
Total interest-bearing deposits	1,233,713	1,197,886	1,206,564	1,208,018	1,230,837

Non-interest-bearing deposits	201,337	198,000	187,011	199,572	190,754
Total deposits	\$1,435,050	\$1,395,886	\$1,393,575	\$1,407,590	\$1,421,591

Money market balances continue to grow due mostly to Peoples maintaining a competitive rate on its money market product. As a result, many customers have reinvested funds from matured short-term certificates of deposit (“CDs”) into money market accounts. A significant portion of the first quarter 2010 money market growth came from a single commercial customer depositing \$20 million into a money market account, of which half was transferred from a matured CD and the other half from another financial institution.

Both savings and non-interest bearing balances grew in the first quarter of 2010, mostly reflecting seasonal increases typically experienced during the first quarter of each year. Additionally, customer preference for insured deposits over short-term investment alternatives remains a contributing factor in the overall increase in deposit balances.

Since 2008, Peoples’ retail CD balances have included deposits obtained from customers outside its primary market areas, primarily school districts, government entities and credit unions located in the Midwest. Given the growth in low-cost and non-interest-bearing core deposits, management decided to reduce the amount of these higher-cost balances. As a result, these deposits comprised \$74.7 million of total retail CD balances versus \$116.9 million a year ago. Further reductions are anticipated during the remainder of 2010. However, management continues to consider these deposits to be an alternative to brokered deposits and other wholesale funding for augmenting other retail deposit balances to fund loan growth and diversify Peoples’ funding sources.

Table of Contents

Borrowed Funds

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

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Short-term borrowings:					
Retail repurchase agreements	\$49,714	\$51,921	\$48,344	\$48,464	\$50,027
FHLB advances	–	25,000	–	–	–
Total short-term borrowings	49,714	76,921	48,344	48,464	50,027
Long-term borrowings:					
FHLB advances	105,206	101,113	132,085	142,533	152,932
National market repurchase agreements	135,000	145,000	145,000	160,000	160,000
Total long-term borrowings	240,206	246,113	277,085	302,533	312,932
Subordinated notes held					
by subsidiary trust	22,539	22,530	22,522	22,513	22,504
Total borrowed funds	\$312,459	\$345,564	\$347,951	\$373,510	\$385,463

Over the last several quarters, Peoples has repaid maturing long-term borrowings using short-term assets, using funds generated from retail deposit growth and the TARP Capital Investment. 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.

Capital/Stockholders' Equity

At March 31, 2010, 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. The following table details Peoples' actual risk-based capital levels and corresponding ratios:

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Capital Amounts:					
Tier 1	\$193,211	\$192,822	\$193,013	\$198,041	\$197,258
Tier 1 common	\$132,103	\$131,747	\$131,973	\$137,035	\$136,285
Total (Tier 1 and Tier 2)	\$209,647	\$209,144	\$209,986	\$215,826	\$214,373

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Net risk-weighted assets	\$1,245,770	\$1,244,707	\$1,281,318	\$1,330,979	\$1,331,758
Capital Ratios:					
Tier 1	15.51%	15.49%	15.06%	14.88%	14.81%
Tier 1 common	10.60%	10.58%	10.30%	10.30%	10.23%
Total (Tier 1 and Tier 2)	16.83%	16.80%	16.39%	16.22%	16.10%
Leverage ratio	9.97%	10.06%	9.82%	9.95%	9.97%

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

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Tangible Equity:					
Total stockholders' equity, as reported	\$240,842	\$243,968	\$244,363	\$238,449	\$230,307
Less: goodwill and other intangible assets	65,357	65,599	65,805	66,093	66,272
Tangible equity	\$175,485	\$178,369	\$178,558	\$172,356	\$164,035
Tangible Common Equity:					
Tangible equity	\$175,485	\$178,369	\$178,558	\$172,356	\$164,035
Less: preferred stockholders' equity	38,568	38,543	38,518	38,494	38,470
Tangible common equity	\$136,917	\$139,826	\$140,040	\$133,862	\$125,565

Table of Contents

	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
(Dollars in thousands)					
Tangible Assets:					
Total assets, as reported	\$2,003,271	\$2,001,827	\$2,004,754	\$2,039,251	\$2,055,944
Less: goodwill and other intangible assets	65,357	65,599	65,805	66,093	66,272
Tangible assets	\$1,937,914	\$1,936,228	\$1,938,949	\$1,973,158	\$1,989,672
Tangible Book Value per Share:					
Tangible common equity	\$136,917	\$139,826	\$140,040	\$133,862	\$125,565
Common shares outstanding	10,408,096	10,374,637	10,371,357	10,358,852	10,343,974
Tangible book value per share	\$13.15	\$13.48	\$13.50	\$12.92	\$12.14
Tangible Equity to Tangible Assets Ratio:					
Tangible equity	\$175,485	\$178,369	\$178,558	\$172,356	\$164,035
Total tangible assets	\$1,937,914	\$1,936,228	\$1,938,949	\$1,973,158	\$1,989,672
Tangible equity to tangible assets	9.06%	9.21%	9.21%	8.74%	8.24%
Tangible Common Equity to Tangible Assets Ratio:					

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Tangible common equity	\$136,917	\$139,826	\$140,040	\$133,862	\$125,565
Tangible assets	\$1,937,914	\$1,936,228	\$1,938,949	\$1,973,158	\$1,989,672
Tangible common equity to tangible assets	7.07%	7.22%	7.22%	6.78%	6.31%

The fluctuations in tangible equity and tangible common equity over the last several quarters primarily reflect the impact of changes in fair value of Peoples’ available-for-sale investment portfolio on accumulated other comprehensive income, a component of total stockholders’ equity. The reduction in tangible assets during the second half of 2009 resulted from Peoples’ use of short-term assets to repay maturing long-term borrowings.

Interest Rate Sensitivity and Liquidity

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

Interest Rate Risk

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

Peoples has assigned overall management of IRR to its Asset-Liability Committee (the “ALCO”), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. There have been no material changes to the policies or methods used by the ALCO to assess IRR from those disclosed in Peoples’ 2009 Form 10-K. During the first quarter of 2010, the ALCO improved its simulation modeling process by incorporating more detailed information regarding the interest rate risk characteristics of Peoples’ earning assets and interest-bearing liabilities. This refinement enhances the accuracy of modeling results and overall impact of interest rates changes to both earnings and fair value of equity.

Table of Contents

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):

	Estimated Increase		Estimated Decrease	
Increase in Interest Rate (in Basis Points)	Increase in Net Interest Income	March 31, 2010	in Economic Value of Equity	March 31, 2010
300	\$6,917	11.7%	\$(24,728)	(10.2)%
200	6,016	10.2%	(15,842)	(6.5)%
100	3,533	6.0%	(6,383)	(2.6)%

At March 31, 2010, Peoples' balance sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. 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 ALCO's liquidity management policy sets limits on the net liquidity position and the concentration of non-core funding sources, both wholesale funding and brokered deposits.

Typically, the main source of liquidity for Peoples is deposit growth. Liquidity is also provided by cash generated from earning assets such as maturities, calls, principal payments and interest income from loans and investment securities. Peoples also uses various wholesale funding sources to supplement funding from customer deposits. These external sources also provide Peoples with the ability to obtain large quantities of funds in a relatively short time period in the event of sudden unanticipated cash needs. Peoples also has a contingency funding plan that serves as an action plan for management in the event of a short-term or long-term funding crisis caused by a single or series of unexpected events.

At March 31, 2010, Peoples had available borrowing capacity through its wholesale funding sources and unpledged investment securities totaling approximately \$305 million that can be used to satisfy liquidity needs, compared to \$185 million at year-end 2009. This liquidity position excludes the \$24 million excess cash reserves at the Federal Reserve Bank of Cleveland and the impact of Peoples' ability to obtain additional funding by either offering higher rates on retail deposits or issuing additional brokered deposits. Management believes the current balance of cash and cash equivalents and anticipated cash flows from the investment portfolio, along with the availability of other funding sources, will allow Peoples to meet anticipated cash obligations, as well as special needs and off-balance sheet commitments.

Off-Balance Sheet Activities and Contractual Obligations

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

(Dollars in thousands)	March 31, 2010	December 31, 2009	September 30, 2009	June 30, 2009	March 31, 2009
Home equity lines of credit	\$40,213	\$40,169	\$41,098	\$42,046	\$42,282
Unadvanced construction loans	12,921	12,921	17,529	25,412	33,049
Other loan commitments	109,822	113,072	100,457	98,532	101,565
Loan commitments	162,956	166,162	159,084	165,990	176,896
Standby letters of credit	\$43,628	\$44,048	\$44,661	\$46,762	\$46,758

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

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples’ management, with the participation of Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples’ disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) (the “Exchange Act”) as of March 31, 2010. Based upon that evaluation, Peoples’ President and Chief Executive Officer and Peoples’ Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

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

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples’ internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples’ fiscal quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, Peoples’ internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There have been no material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2009 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial condition and/or operating results.

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

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended March 31, 2010:

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)
January 1 – 31, 2010	–	–	–	–
February 1 – 28, 2010	2,391(2)	\$13.38(2)	–	–
March 1 – 31, 2010	916(2)	\$15.29(2)	–	–
Total	3,307	\$13.91	–	–

(1) Peoples' Board of Directors has not authorized any stock repurchase plans or programs for 2010, due in part to the restrictions on stock repurchases imposed by the terms of the TARP Capital Investment.

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits required to be filed with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see “Exhibit Index” beginning at page 42.

40

Table of Contents

SIGNATURES

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

PEOPLES
BANCORP INC.

Date: April
21, 2010

By: MARK F.
/s/ BRADLEY
Mark F. Bradley
President and Chief
Executive Officer

Date: April
21, 2010

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

Table of Contents

EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

Exhibit Number	Description	Exhibit Location
3.1(a)	Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993)	Incorporated herein by reference to Exhibit 3(a) to the Registration Statement on Form 8-B of Peoples Bancorp Inc. ("Peoples") filed July 20, 1993 (File No. 0-16772)
3.1(b)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994)	Incorporated herein by reference to Exhibit 3(a)(2) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-16772) ("Peoples' 1997 Form 10-K")
3.1(c)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996)	Incorporated herein by reference to Exhibit 3(a)(3) to Peoples' 1997 Form 10-K
3.1(d)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003)	Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) ("Peoples' March 31, 2003 Form 10-Q")
3.1(e)	Certificate of Amendment by Shareholders or Members to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on January 22, 2009)	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on January 23, 2009 (File No. 0-16772)
3.1(f)	Certificate of Amendment by Directors or Incorporators to Articles filed with the Secretary of State of the State of Ohio on January 28, 2009, evidencing adoption of amendments by the Board	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on February 2, 2009 (File No.

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	of Directors of Peoples Bancorp Inc. to Article FOURTH of Amended Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Peoples Bancorp Inc.	0-16772) (“Peoples’ February 2, 2009 Form 8-K”)
3.1(g)	Amended Articles of Incorporation of Peoples Bancorp Inc. (reflecting amendments through January 28, 2009) [For SEC reporting compliance purposes only – not filed with Ohio Secretary of State]	Incorporated herein by reference to Exhibit 3.1(g) to Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (File No. 0-16772)
3.2(a)	Code of Regulations of Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 3(b) to Peoples’ Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)
3.2(b)	Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003	Incorporated herein by reference to Exhibit 3(c) to Peoples’ March 31, 2003 Form 10-Q
3.2(c)	Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004	Incorporated herein by reference to Exhibit 3(a) to Peoples’ Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)

Table of Contents

EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

3.2(d)	Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)
3.2(e)	Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 13, 2006) [For SEC reporting compliance purposes only]	Incorporated herein by reference to Exhibit 3(b) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (File No. 0-16772)
4.1	Warrant to purchase 313,505 Shares of Common Stock (common shares) of Peoples Bancorp Inc., issued to the United States Department of the Treasury on January 30, 2009	Incorporated herein by reference to Exhibit 4.1 to Peoples' February 2, 2009 Form 8-K
4.2	Letter Agreement, dated January 30, 2009, including Securities Purchase Agreement – Standard Terms attached thereto as Exhibit A, between Peoples Bancorp Inc. and the United States Department of the Treasury [NOTE: Exhibit A to the Securities Purchase Agreement is not included therewith; filed as Exhibit 3.1 to Peoples' February 2, 2009 Form 8-K and incorporated by reference at Exhibit 3.1(f) to this Quarterly Report on Form 10-Q]	Incorporated herein by reference to Exhibit 10.1 to Peoples' February 2, 2009 Form 8-K
10.1	Change in Control Agreement between Peoples Bancorp Inc. and Richard W. Stafford (adopted February 8, 2010)	Incorporated herein by reference to Exhibit 10.31 of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File No. 0-16772).
10.2	Letter Agreement, dated March 1, 2010, between Peoples Bancorp Inc. and Daniel K. McGill	Incorporated herein by reference to Exhibit 10.32 of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File No. 0-16772)
10.3	Summary of Incentive Plan for Executive Officers and other employees of Peoples Bancorp Inc. [Effective for the fiscal year ended December 31, 2010]	Incorporated herein by reference to Exhibit 10.2(b) of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File

No. 0-16772)

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|------|--|----------------|
| 12 | Statements regarding Computation of Consolidated Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends Appearing in Quarterly Report on Form 10-Q | Filed herewith |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer] | Filed herewith |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer] | Filed herewith |
| 32 | Section 1350 Certifications | Filed herewith |

Table of Contents