

PEOPLES BANCORP INC
Form 10-K
February 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 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, PO Box 738, Marietta, Ohio
(Address of principal executive offices)

45750-0738
(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

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

Title of each class
Common shares, without par value

Name of each exchange on which registered
The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 during

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer 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 Act). Yes No

As of June 30, 2010, the aggregate market value of the registrant's Common Shares (the only common equity of the registrant) held by non-affiliates was \$142,532,000 based upon the closing price as reported on The NASDAQ Global Select Market®. For this purpose, executive officers and directors of the registrant are considered affiliates.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practical date: 10,543,216 common shares, without par value, at February 28, 2011.

Document Incorporated by Reference:

Portions of Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held April 28, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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As used in this Annual Report on Form 10-K (“Form 10-K”), “Peoples” refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to the registrant, Peoples Bancorp Inc. Unless otherwise indicated, all note references contained in this Form 10-K refer to the Notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

PART I

ITEM 1. BUSINESS

Corporate Overview

Peoples Bancorp Inc. is an Ohio corporation and a financial holding company organized in 1980. Peoples operates principally through its wholly-owned subsidiary, Peoples Bank, National Association (“Peoples Bank”). At December 31, 2010, Peoples’ other wholly-owned subsidiaries included Peoples Investment Company and PEBO Capital Trust I. Peoples Bank owned Peoples Insurance Agency, LLC (“Peoples Insurance”) and PBNA, L.L.C., an asset management company. Peoples Investment Company owned Peoples Capital Corporation.

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

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

Business Overview

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

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

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

arrangements with third parties.

Since 1996, Peoples has undertaken a controlled and steady expansion strategy involving a combination of internal and external growth. This strategy has included the opening of de novo banking and loan production offices, acquisitions of existing banking offices, both individually and as part of entire institutions, and acquisitions of two insurance agencies. As a result, Peoples has experienced growth in total assets and its capital position, as well as expansion of its customer base and primary market area. This strategy has also provided opportunities for Peoples to integrate non-traditional products and services, such as insurance and investments, with the traditional banking products offered to its clients. During this period, Peoples also has taken steps to improve operating efficiency by redirecting resources to offices and markets with greater growth potential. These actions have included the consolidation of existing banking offices with acquired offices in close proximity to each other and sale of certain banking offices.

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Recent Corporate Developments

As more fully described in Note 11 of the Notes to the Consolidated Financial Statements, Peoples received \$39 million of new equity capital from the United States Department of the Treasury (the “U.S. Treasury”) on January 30, 2009. This new equity capital was obtained under the TARP Capital Purchase Program and was in the form of 39,000 shares of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value and having a liquidation preference of \$1,000 per share (the “Series A Preferred Shares”) and a 10-year warrant to purchase 313,505 Peoples' common shares (the “Warrant”). On February 2, 2011, Peoples completed a partial repurchase of the Series A Preferred Shares issued to the U.S. Treasury. Additional information regarding the TARP Capital Purchase Program and the restrictions imposed on Peoples can be found under the “TARP Capital Purchase Program” heading in the “Supervision and Regulation” section included later in this item.

Primary Market Area and Customers

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

Lending Activities

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

Peoples' loans consist of credits to borrowers spread over a broad range of industrial classifications. At December 31, 2010, Peoples had no concentration of loans to borrowers engaged in the same or similar industries that exceeded 10% of total loans nor had any loans outstanding to non-U.S. entities.

Legal Lending Limit

Federal regulations impose a limit on the aggregate amount a financial institution may lend to one borrower, including certain related or affiliated borrowers. This legal lending limit is generally 15% of the institution's total capital, as defined by risk-based capital regulations, plus any allowance for loan losses not already included in total capital. At December 31, 2010, Peoples' legal lending limit was approximately \$28.3 million. During 2010, Peoples did not extend credit to any one borrower in excess of its legal lending limit.

Commercial Lending

Commercial, financial and agricultural loans (“commercial loans”), including loans secured by commercial real estate, represent the largest portion of Peoples' total loan portfolio, comprising approximately 63.1% of total loans at December 31, 2010. Commercial lending inherently involves a significant degree of risk of loss since commercial loan relationships generally involve larger loan balances than other loan classes. Additionally, repayment of

commercial loans normally depends on adequate cash flows of a business, which can be negatively impacted by adverse changes in the general economy or in a specific industry.

Commercial Lending Practices. Loan terms include amortization schedules and interest rates commensurate with the purpose of each loan, the source of repayment and the risk

involved. The majority of Peoples' commercial loans carry variable interest rates equal to an underlying index rate plus a margin. Peoples occasionally originates commercial

loans with fixed interest rates for periods generally ranging from 3 to 5 years. The primary analytical technique used in determining whether to grant a commercial loan is the

review of a schedule of cash flows to evaluate whether the borrower's anticipated future cash flows will be adequate to service both interest and principal due. Additionally,

collateral is reviewed to determine its value in relation to the loan.

The Peoples Bank Board of Directors Loan Committee is required to approve loans secured by real estate of \$4 million or more, loans secured by all other assets of \$2 million or more and unsecured loans of \$1 million or more. Approval of the Peoples Bank Board of Directors Loan Committee is required for all new loans, regardless of amount, to borrowers whose aggregate debt to Peoples Bank, including the principal amount of the proposed loan, is \$5 million or more.

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The Peoples Bank Board of Directors is required to approve all new loans of \$10 million or more and any loan, regardless of amount, to borrowers whose aggregate debt to Peoples Bank, including the principal amount of the proposed loan, is \$15 million or more.

Peoples evaluates all commercial loan relationships whenever a new loan causes the aggregate debt to Peoples to exceed \$250,000. On an annual basis, Peoples evaluates all loan relationships whose aggregate debt to Peoples is greater than \$500,000 for possible credit deterioration. This loan review process provides Peoples with opportunities to identify potential problem loans and take proactive actions to assure repayment of the loan or minimize Peoples' risk of loss, such as reviewing the relationship more frequently based upon the loan quality rating and aggregate debt outstanding. Upon detection of the reduced ability of a borrower to meet cash flow obligations, the loan is reviewed for possible downgrading or placement on nonaccrual status.

Real Estate Loans

While commercial loans comprise the largest portion of Peoples' loan portfolio, generating residential real estate loans remains a major focus of Peoples' lending efforts, whether the loans are ultimately sold into the secondary market or retained in Peoples' loan portfolio. At December 31, 2010, portfolio residential real estate loans comprised 20.8% of total loans. Peoples also had \$3.8 million of residential real estate loans held for sale and was servicing \$250.6 million of loans, consisting primarily of one-to-four family residential mortgages, previously sold in the secondary market.

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

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

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

Home Equity Lines of Credit

Peoples originates home equity lines of credit that provide consumers with greater flexibility in financing personal expenditures. At December 31, 2010, home equity lines of credit comprised 5.0% of Peoples' total loans. Peoples currently offers home equity lines of credit with a prime-based variable rate for the entire 10-year term of the loan. In prior years, Peoples also offered a home equity line of credit whose terms included a fixed rate for the first five years and converting to a variable interest rate for the remaining five years. At December 31, 2010, total outstanding principal balances and available credit amounts of these convertible rate home equity lines of credit were \$18.0 million and \$12.6 million, respectively, and weighted-average remaining maturity of 5.3 years.

Home Equity Lending Practices. Home equity lines of credit are generally made as second mortgages by Peoples. The maximum amount of a home equity line of credit is generally

limited to 80% of the appraised value of the property less the balance of the first mortgage. Peoples will lend up to 90% of the appraised value of the property at higher interest rates that are commensurate with the additional risk being assumed in these situations. The home equity lines of credit are written with ten-year terms and are subject to review upon request for renewal.

Construction Loans

Peoples originates various construction loans to provide temporary financing during the construction phase for commercial and residential properties. At December 31, 2010, construction loans comprised 2.3% of Peoples' loan portfolio. Construction financing is generally considered to involve the highest risk since Peoples is dependent largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. If the estimated construction cost proves to be inaccurate, Peoples may be required to advance funds beyond the amount originally committed to enable completion of the project. In certain cases, such as real estate development projects, repayment of construction loans occurs as a result of subsequent sales of the developed real estate.

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

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

Consumer Lending

Peoples' consumer lending activities primarily involve loans secured by automobiles, boats, recreational vehicles and other personal property. At December 31, 2010, consumer loans comprised 8.5% of Peoples' loan portfolio.

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

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

Overdraft Privilege

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

Investment Activities

Investment securities comprise a significant portion of Peoples' total assets. The majority of Peoples' investment activities are conducted through Peoples Bank, although Peoples and its non-banking subsidiaries engage in

investment activities from time-to-time. Investment activity by Peoples Bank is subject to certain regulatory guidelines and limitations on the types of securities eligible for purchase. As a result, the investment securities owned by Peoples Bank include obligations of the U.S. Treasury, agencies and corporations of the U.S. government, including mortgage-backed securities, bank eligible obligations of any state or political subdivision in the U.S. and bank eligible corporate obligations, including private-label mortgage-backed securities. The investments owned by Peoples are comprised of common stocks issued by various unrelated banking holding companies and tax-exempt municipal obligations. The investments owned by Peoples' non-banking subsidiaries currently consist of tax credit funds and corporate obligations.

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

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Funding Sources

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

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

Deposits

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

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

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

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

Borrowed Funds

Peoples obtains funds through a variety of short-term and long-term borrowings, which typically include advances from the Federal Home Loan Bank of Cincinnati ("FHLB"), Federal Funds purchased, advances from the Federal Reserve Discount Window and repurchase agreements. Occasionally, Peoples obtains funds from unrelated financial institutions in the form of loans or revolving lines of credit. Short-term borrowings are used generally to manage Peoples' daily liquidity needs since they typically may be repaid, in whole or part, at any time without a penalty. Long-term borrowings provide cost-effective options for funding asset growth and satisfying capital needs, due to the variety of pricing and maturity options available.

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

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

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Competition

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

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

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

Employees

At December 31, 2010, Peoples had 534 full-time equivalent employees.

Intellectual Property and Proprietary Rights

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

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

Supervision and Regulation

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

could have, a material impact on Peoples' business. This discussion is qualified in its entirety by reference to such regulations and statutes.

Dodd-Frank Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which implements far-reaching changes across the financial regulatory landscape, including provisions that, among other things, will:

- centralize responsibility for consumer financial protection by creating a new agency, the Consumer Financial Protection Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws;
- restrict the preemption of state law by federal law and disallow subsidiaries and affiliates of national banks from availing themselves of such preemption;

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- apply the same leverage and risk-based capital requirements that apply to insured depository institutions to most bank holding companies, which, among other things, will require Peoples to deduct, over three years beginning January 1, 2013, all trust preferred securities from Peoples' Tier 1 capital;
- require the Office of the Comptroller of the Currency ("OCC") to seek to make its capital requirements for national banks countercyclical so that capital requirements increase in times of economic expansion and decrease in times of economic contraction;
- require financial holding companies, such as Peoples, to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state;
- change the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminate the ceiling on the size of the Deposit Insurance Fund and increase the floor of the size for the Deposit Insurance Fund;
- impose comprehensive regulation of the over-the-counter derivatives market, which would include certain provisions that would effectively prohibit insured depository institutions from conducting certain derivatives businesses within the institution itself;
- require large, publicly-traded bank holding companies to create a risk committee responsible for the oversight of enterprise risk management;
- implement corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions;
- make permanent the \$250,000 limit for federal deposit insurance, increase the cash limit of Securities Investor Protection Corporation protection from \$100,000 to \$250,000 and provide unlimited federal deposit insurance until December 31, 2012, for non-interest-bearing demand transaction accounts at all insured depository institutions;
- repeal the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;
- amend the Electronic Fund Transfer Act ("EFTA") to, among other things, give the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer; and
- increase the authority of the Federal Reserve Board to examine financial holding companies and their non-bank subsidiaries.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Peoples, its customers or the financial services industry more generally. In some cases, regulatory or other governmental agencies already have taken action to comply with the Dodd-Frank Act's mandates, with such action discussed further in the appropriate sections below where material to Peoples' business activities.

Financial Holding Company

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

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

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Subsidiary Bank

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

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

Non-Banking Subsidiaries

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

Other Regulatory Agencies

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

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

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

As of the date of this Form 10-K, the FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a four-tier risk matrix based upon a bank’s capital level and supervisory, or CAMELS, rating. The assessment rate determined by considering such information is then applied to the amount of the bank’s deposits to determine the bank’s insurance premiums. An increase in the assessment rate could have a material adverse effect on the earnings of the affected insured depository institutions. On February 7, 2011, the FDIC issued final regulations, which will become effective April 1, 2011, as required by the Dodd-Frank Act, to change the deposit insurance

assessment base from total domestic deposits to average total assets minus average tangible equity, as well as changing the assessment system for large institutions and the assessment rate schedule.

The FDIC may terminate insurance coverage upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the institution's regulatory agency.

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

Bank Holding Company Act

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

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

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

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

Capital Adequacy and Prompt Corrective Action

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

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

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

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“Tier 1 capital” consists of (1) common shareholders’ equity; (2) qualifying perpetual preferred stock and trust preferred securities (up to 25% of total Tier 1 capital); and (3) minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other deductions including intangible assets and net unrealized gains and losses on available-for-sale securities.

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- “Tier 2 capital” consists primarily of allowance for loan losses and net unrealized gains on certain available-for-sale equity securities, subject to limitations established by the guidelines, as well as any qualifying perpetual preferred stock and trust preferred securities amounts excluded from Tier 1 capital. Tier 2 capital may also include, among other things, certain amounts of hybrid capital instruments, mandatory convertible debt and subordinated debt.

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

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

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

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

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

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

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

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

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

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| Capital Ratio | As of Current January 1, Amount 1, 2013 | As of January 1, 2019 |
|--|---|-----------------------------|
| CETI to risk-weighted assets | none | 3.5% 7.0% |
| Tier 1 capital to risk-weighted assets | 4.0% | 4.5% 8.5% |
| Total capital to risk-weighted assets | 8.0% | 8.0% 10.5% |

The U.S. banking agencies have indicated informally that they expect to propose regulations implementing Basel III in mid-2011 with final adoption of implementing regulations in mid-2012. Notwithstanding its release of the Basel III framework as a final framework, the Basel Committee is considering further amendments to Basel III, including the imposition of additional capital surcharges on globally systemically important financial institutions. In addition to Basel III, Dodd-Frank requires or permits the Federal banking agencies to adopt regulations affecting banking institutions' capital requirements in a number of respects, including potentially more stringent capital requirements for systemically important financial institutions. Accordingly, the regulations ultimately applicable to Peoples may be substantially different from the Basel III final framework as published in December 2010.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. As of December 31, 2010, the OCC's most recent performance evaluation of Peoples Bank resulted in an overall rating of "Outstanding".

TARP Capital Purchase Program

As discussed in more detail in Note 11 of the Notes to the Consolidated Financial Statements, Peoples elected to participate in the TARP Capital Purchase Program and received \$39 million of new equity capital from the U.S. Treasury on January 30, 2009. As part of its participation in the TARP Capital Purchase Program, Peoples agreed to various requirements and restrictions imposed on all participants in the TARP Capital Purchase Program. Among the terms of participation was a provision that the U. S. Treasury could change the terms of participation at any time.

On February 17, 2009, President Obama signed into law the ARRA enacted by the U.S. Congress. The ARRA, among other things, imposed certain new executive compensation and corporate expenditure limits on all current and future recipients of funds under the TARP Capital Purchase Program, including Peoples, as long as any obligation arising from the financial assistance provided to the recipient under the TARP Capital Purchase Program remains outstanding, excluding any period during which the U.S. Treasury holds only warrants to purchase common stock of a TARP participant (the "Covered Period"). On June 10, 2009, the U.S. Treasury issued an interim final rule describing how participating institutions are to comply with the executive compensation and corporate governance standards imposed by the EESA, as amended by the ARRA. On December 7, 2009, the U.S. Treasury published technical amendments to the interim final rule (collectively, the interim final rule published on June 15, 2009 and the amendments published on December 7, 2009 are referred to as the "Interim Final Rule").

The current terms of participation in the TARP Capital Purchase Program include the following:

- Peoples was required to file with the SEC on Form S-3 to register for resale the Series A Preferred Shares or, in the event the Series A Preferred Shares are deposited with a depository at the request of the U.S. Treasury, depository shares evidencing fractional interests in the Series A Preferred Shares; the Warrant; and any common shares issued from time to time upon exercise of the Warrant, which became effective on April 7, 2009.
- As long as the Series A Preferred Shares remain outstanding, unless all accrued and unpaid dividends for all past dividend periods on the Series A Preferred Shares are fully paid, Peoples will not be permitted to declare or pay dividends on any Common Shares, other than dividends payable solely in common shares, any junior preferred shares or, generally, any preferred shares ranking pari passu with the Series A Preferred Shares (other than in the case of pari passu preferred shares, dividends on a pro rata basis with the Series A Preferred Shares), nor will Peoples be permitted to repurchase or redeem any Common Shares or preferred shares other than the Series A Preferred Shares.
- Unless the Series A Preferred Shares have been transferred to unaffiliated third parties or redeemed in whole, until January 20, 2012, the U.S. Treasury's approval is required for any increase in Common Share dividends or any share repurchases other than repurchases of the Series A Preferred Shares, repurchases of junior preferred shares, or repurchases of Common Shares in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice and purchases under certain other limited circumstances specified in the Securities Purchase Agreement with the U.S. Treasury.

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- Peoples must comply with the U.S. Treasury’s standards for executive compensation and corporate governance during the Covered Period. The current standards include the following:
 - compensation plans and arrangements for Senior Executive Officers (as defined in the Interim Final Rule) must not encourage unnecessary and excessive risks that threaten the value of the financial institution;
 - any bonus, retention award or incentive compensation paid (or under a legally binding obligation to be paid) to a Senior Executive Officer or any of Peoples’ next 20 most highly-compensated employees based on materially inaccurate financial statements or other materially inaccurate performance metric criteria must be subject to recovery, or “clawback”, by Peoples;
 - Peoples is prohibited from paying or accruing any bonus, retention award or incentive compensation with respect to its five most highly-compensated employees, except for grants of long-term restricted stock that do not fully vest during the Covered Period and do not have a value which exceeds one-third of an employee’s total annual compensation;
 - severance payments to a Senior Executive Officer and the next five most highly-compensated employees, generally referred to as “golden parachute” payments, are prohibited, except for payments for services performed or benefits accrued;
 - compensation plans that encourage manipulation of reported earnings to enhance the compensation of any employees are prohibited;
 - Peoples is prohibited from providing (formally or informally) “gross-ups” to a Senior Executive Officer or any of Peoples’ next 20 most highly-compensated employees;
 - the U.S. Treasury may retroactively review bonuses, retention awards and other compensation previously paid to a Senior Executive Officer or any of Peoples’ next 20 most highly-compensated employees to determine whether such payments were inconsistent with the purposes of TARP or otherwise contrary to the public interest;
 - Peoples’ compensation committee consisting of independent directors must engage in risk analysis of compensation plans for Senior Executive Officers;
 - Peoples’ Board of Directors must establish a company-wide policy regarding excessive or luxury expenditures, which was adopted on August 27, 2009, and post this policy on Peoples’ website;
 - Peoples’ proxy statements for annual shareholder meetings must permit a non-binding “say on pay” shareholder vote on the compensation of executives, as disclosed pursuant to the executive compensation disclosure rules of the SEC;
 - executive compensation in excess of \$500,000 for each Senior Executive Officer must not be deducted for federal income tax purposes;
 - Peoples must disclose to the U.S. Treasury and Peoples’ primary regulator the amount, nature and justification for offering to any of Peoples’ five most highly-compensated employees any perquisites whose total value exceeds \$25,000;
 - Peoples must disclose to the U.S. Treasury and Peoples’ primary regulator whether Peoples’ Board of Directors or the Compensation Committee engaged a compensation consultant and the services performed by that compensation consultant and any of its affiliates;

- Peoples must disclose to the U.S. Treasury the identity of Peoples’ Senior Executive Officers and next 20 most highly-compensated employees, identified by name and title and ranked in descending order of annual compensation;
- Peoples must limit any Employee Compensation Plan (as defined in the Interim Final Rule) that unnecessarily exposes Peoples to risk; and
- Peoples must comply with the executive compensation reporting and recordkeeping requirements established by the U.S. Treasury.

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The ARRA permits such TARP recipients, subject to consultation with the appropriate federal banking agency, to repay to the U.S. Treasury any financial assistance received under the TARP Capital Purchase Program without penalty, delay or the need to raise additional replacement capital.

Detailed information regarding the Series A Preferred Shares and the Warrant can be found in Note 11 of the Notes to the Consolidated Financial Statements.

Dividend Restrictions

Current federal banking regulations impose restrictions on Peoples Bank's ability to pay dividends to Peoples. These restrictions include a limit on the amount of dividends that may be paid in a given year without prior approval of the OCC and a prohibition on paying dividends that would cause Peoples Bank's total capital to be less than the required minimum levels under the risk-based capital requirements imposed by the OCC. Peoples Bank's regulators may prohibit the payment of dividends at any time if the regulators determine the dividends represent unsafe and/or unsound banking practices or reduce Peoples Bank's total capital below adequate levels. For further discussion regarding regulatory restrictions on dividends, see Note 17 of the Notes to the Consolidated Financial Statements.

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

Peoples also has entered into certain agreements that place restrictions on dividends. Specifically, Peoples will be prohibited from paying dividends on its Common Shares if it suspends interest payments related to the trust preferred securities issued by its trust subsidiary. Additional information regarding Peoples' trust subsidiary can be found in Note 10 of the Notes to the Consolidated Financial Statements. The dividend rights of holders of Peoples' Common Shares are also qualified and subject to the dividend rights of holders of Series A Preferred Shares described above under the caption "Supervision and Regulation – TARP Capital Purchase Program".

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

Customer Privacy and Other Consumer Protections

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

USA Patriot Act

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

Monetary Policy

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

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

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Website Access to Peoples' SEC Filings

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

ITEM 1A. RISK FACTORS

The following are certain risks that management believes are specific to Peoples' business. This should not be viewed as an all-inclusive list of risks or presenting the risk factors listed in any particular order.

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

Beginning in the latter half of 2007 and continuing throughout 2010, negative developments in the capital markets resulted in uncertainty in the financial markets and an economic downturn. Business activity across a wide range of industries and regions decreased substantially causing the U.S. economy to be in a recession from December 2007 through June 2009. Since 2007, the general housing market also has been weak, resulting in decreased home prices and increased delinquencies and foreclosures. These conditions caused significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital or to merge with larger and stronger institutions. Some financial institutions have failed.

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

Overall, the business environment and general economic conditions in 2010 were adverse for many households and businesses in the U.S. and worldwide. While some economic indicators have shown improvement since late 2009, many businesses, states and municipalities are still in serious difficulty, due to reduced cash flow and weakened financial condition. Further, there can be no assurance this improvement will continue. A lack of a return to favorable economic conditions in a reasonable timeframe could have an adverse affect on Peoples' asset quality, deposit levels and loan demand and, therefore, Peoples' financial condition and results of operations. Because a significant amount of Peoples' loans are secured by either commercial or residential real estate, additional decreases in real estate values could adversely affect the value of property used as collateral and Peoples' ability to sell the collateral upon foreclosure.

- Government regulation significantly affects Peoples' business.

The banking industry is heavily regulated under both federal and state law. Peoples is subject to regulation and supervision by the Federal Reserve Board, and Peoples Bank is subject to regulation and supervision by the OCC, and secondarily the FDIC. These regulations are primarily intended to protect depositors and the federal deposit insurance

fund, not Peoples' common shareholders. Peoples' non-bank subsidiaries are also subject to the supervision of the Federal Reserve Board, in addition to other regulatory and self-regulatory agencies including the SEC and state securities and insurance regulators.

The Dodd-Frank Act was signed into law on July 21, 2010. Many of its provisions have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities as well as require multiple studies to be conducted over the next one to two years. The Dodd-Frank Act and future regulations implementing its provisions could have numerous adverse consequences for Peoples, including the following:

- Peoples and Peoples Bank may be subject to more stringent capital and liquidity requirements;
- Peoples and Peoples Bank may be subjected to new and/or higher fees paid to various regulatory entities, including but not limited to deposit insurance premiums to the FDIC;

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- revenue on interchange fees may decrease as a result of the level of fees the Federal Reserve deems "reasonable and proportional" when it establishes regulation standards on the amount of interchange fees that can be charged to merchants for electronic debit card transactions. The Federal Reserve has proposed two alternative fee standards and rules prohibiting network exclusivity arrangements and routing restrictions, although the fee standard would not apply to any company that, together with its affiliates, has assets of less than \$10 billion, including Peoples. Nonetheless, smaller companies may suffer indirect consequences from such standards that are not yet determinable;
- Peoples may also be subject to additional regulations under the newly established Bureau of Consumer Financial Protection, which was given broad authority to implement new consumer protection regulations.

These and other provisions of the Dodd-Frank Act may place large additional costs on Peoples, impede its growth and place it at a competitive disadvantage.

Regulations affecting banks and financial services businesses are undergoing continuous change, and management cannot predict the effect of those changes. Regulations and laws may be modified at any time, and new legislation may be enacted that affects Peoples and its subsidiaries. Any modifications or new laws could adversely affect Peoples' business. Further information about government regulation of Peoples' business can be found under the caption "Supervision and Regulation" in Item 1 of this Form 10-K.

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

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

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

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

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

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

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

Since late 2008, the FDIC has taken various actions intended to maintain a strong funding position and restore reserve ratios of the Deposit Insurance Fund. These actions have included increasing assessment rates for all insured institutions, requiring riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels, imposing a special assessment on all insured depository institutions for the second quarter of 2009 and requiring insured depository institutions to prepay their quarterly risk-based assessments for the fourth quarter of 2009 and full years 2010 through 2012 on December 29, 2009. On February 7, 2011, the FDIC issued final regulations that will change the assessment base and assessment rate schedule for all insured depository institutions effective April 1, 2011. Management does not expect these changes to have a material adverse effect on Peoples' future results of operations given the current structure of Peoples Bank's balance sheet.

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

- The Series A Preferred Shares impact net income available to Peoples' common shareholders, and the Warrant may be dilutive to Peoples' common shareholders.

The additional capital Peoples raised through its participation in the TARP Capital Purchase Program has provided further funding for its lending activities. Management also believes this capital has improved investor perceptions with regard to Peoples' financial position. However, such capital has increased Peoples' equity and the number of dilutive outstanding common shares. In addition, the dividends declared and the accretion of discount on the Series A Preferred Shares reduces the net income available to Peoples' common shareholders and earnings per common share. The Series A Preferred Shares will also receive preferential treatment in the event of Peoples' liquidation, dissolution or winding up. Additionally, the ownership interest of Peoples' existing common shareholders will be diluted to the extent the Warrant Peoples issued to the U.S. Treasury is exercised. Although the U.S. Treasury has agreed not to vote any of the common shares it receives upon exercise of the Warrant, a transferee of any portion of the Warrant or of any common shares acquired upon exercise of the Warrant is not bound by this agreement.

- If Peoples is unable to fully redeem the Series A Preferred Shares after five years, the cost of this capital will increase substantially.

If Peoples is unable to fully redeem the Series A Preferred Shares prior to February 15, 2014, the cost of this capital will increase substantially on that date, from 5.0% per annum to 9.0% per annum. Depending on Peoples' financial condition at the time, this increase in the annual dividend rate on the Series A Preferred Shares could have a material negative effect on Peoples' liquidity.

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

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

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

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

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

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

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

- Peoples' allowance for loan losses may be insufficient.

Peoples maintains an allowance for loan losses to provide for probable loan losses based on management's quarterly analysis of the loan portfolio. The determination of the allowance for loan losses requires management to make various assumptions and judgments about the collectibility of Peoples' loan portfolio, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Additional information regarding Peoples' allowance for loan losses methodology and the sensitivity of the estimates can be found the discussion of Peoples' "Critical Accounting Policies" included in Item 7 of this Form 10-K.

Peoples' estimation of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond Peoples' control, and these losses may exceed current estimates. Peoples cannot be assured of the amount or timing of losses nor whether the loan loss allowance will be adequate in the future.

If Peoples' assumptions prove to be incorrect, Peoples' allowance for loan losses may not be sufficient to cover losses inherent in its loan portfolio, resulting in additions which could have a material adverse impact on Peoples' financial condition and results of operations. In addition, federal and state regulators periodically review Peoples' allowance for loan losses as part of their examination process and may require management to increase the allowance or recognize further loan charge-offs based on judgments different than those of management. Any increase in the provision for loan losses would decrease Peoples' pretax and net income.

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

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

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

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

Peoples and Peoples Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. If capital requirements are raised or if Peoples Bank experiences loan losses,

additional capital may be needed. In addition, Peoples and Peoples Bank may elect to raise additional capital to support their businesses or to finance acquisitions, if any, or for other anticipated reasons. Their ability to raise additional capital, if needed, will depend on financial performance, conditions in the capital markets, economic conditions and a number of other factors, many of which are outside their control. Therefore, there can be no assurance additional capital can be raised when needed or that capital can be raised on acceptable terms. The inability to raise capital may have a material adverse effect on Peoples' financial condition, results of operations and prospects.

- The financial services industry is very competitive.

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

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- Peoples' ability to pay dividends is limited.

Peoples is a separate and distinct legal entity from Peoples' subsidiaries. Peoples receives nearly all of its revenue from dividends from Peoples Bank, which are limited by federal banking laws and regulations. These dividends also serve as the primary source of funds to pay dividends on Peoples' common shares. The inability of Peoples Bank to pay sufficient dividends to Peoples could have a material, adverse effect on its business. In addition, Peoples' participation in the U.S. Treasury's TARP Capital Purchase Program currently restricts the ability to increase the dividend payable to holders of common shares above \$0.23 per share without prior approval of the U.S. Treasury. Further discussion of Peoples' ability to pay dividends can be found under the captions "Supervision and Regulation – TARP Capital Purchase Program" and "Supervision and Regulation – Dividend Restrictions" in Item 1 of this Form 10-K and Note 17 of the Notes to the Consolidated Financial Statements.

- Peoples is subject to several restrictions on compensation paid to Peoples' executive officers because of its participation in the TARP Capital Purchase Program and may become subject to additional compensation restrictions under proposed regulations.

As a recipient of government funding under the TARP Capital Purchase Program, Peoples must comply with the executive compensation and corporate governance standards imposed by the ARRA and the standards established by the Secretary of the Treasury under the ARRA. The restrictions on executive compensation under these standards are more fully described in Item 1 of this Form 10-K under the caption "Supervision and Regulation – TARP Capital Purchase Program." In addition, the federal banking regulators have proposed regulations prohibiting incentive compensation that exposes a financial institution to inappropriate risk because the compensation is excessive or because the compensation encourages risks that could lead to a material financial loss. These standards and the proposed regulations, if adopted, could impact Peoples' ability to hire or retain key executives or cause Peoples to make material changes to its current compensation plans and philosophy that could result in higher compensation costs in future periods.

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

Peoples collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both Peoples and third party service providers. Peoples has security and backup and recovery systems in place, as well as a business continuity plan, to ensure the computer systems will not be inoperable, to the extent possible. Peoples also has implemented security controls to prevent unauthorized access to the computer systems and requires Peoples' third party service providers to maintain similar controls. However, management cannot be certain these measures will be successful. A security breach of the computer systems and release of confidential information, such as customer account numbers and related information, could negatively affect customers' confidence in Peoples, which may cause a loss of business, and could result in Peoples' incurring financial losses for any fraudulent transactions completed by third parties due to the security breach.

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

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

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

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

income or deductions or the allocation of income among tax jurisdictions.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Peoples' sole banking subsidiary, Peoples Bank, generally owns its offices, related facilities and unimproved real property. In Ohio, Peoples Bank operates offices in Marietta (4 offices), Belpre (2 offices), Lowell, Reno, Nelsonville, Athens (3 offices), The Plains, Middleport, Pomeroy (2 offices), Gallipolis, Cambridge (2 offices), Byesville, Quaker City, Flushing, Caldwell, McConnelsville, Baltimore, Carroll, Lancaster (2 offices), Westerville and Zanesville. In West Virginia, Peoples Bank operates offices in Huntington (2 offices), Parkersburg (3 offices), Vienna, Point Pleasant (2 offices), New Martinsville (2 offices) and Steelton. In Kentucky, Peoples Bank's office locations include Greenup, Summit, Ashland and Russell. Of these 45 offices, 15 are leased and the rest are owned by Peoples Bank.

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

Rent expense on the leased properties totaled \$911,000 in 2010, which excludes intercompany rent expense. The following are the only properties that have a lease term expiring on or before June 2012:

| Location | Address | Lease Expiration Date (a) |
|------------------------|---------------------------------------|---------------------------|
| Marietta Kroger Office | 40 Acme Street Marietta, Ohio | March 2011 |
| The Plains | 70 N. Plains Road The Plains, Ohio | December 2011 |
| Athens Mall | 801 East State Street Athens, Ohio | June 2012 |

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

in this Item 2.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. [Reserved]

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PART II

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

Peoples' common shares are traded on The NASDAQ Global Select Market® under the symbol PEBO. At December 31, 2010, Peoples had 1,163 shareholders of record. The table presented below provides the high and low sales prices for Peoples' common shares as reported on The NASDAQ Global Select Market® and the cash dividends per share declared for the indicated periods.

| | High Sales | Low Sales | Dividends Declared |
|-------------------|---------------|--------------|-----------------------|
| 2010 | | | |
| Fourth Quarter | \$16.98 | \$11.54 | \$0.10 |
| Third Quarter | 17.60 | 11.13 | 0.10 |
| Second Quarter | 19.02 | 12.82 | 0.10 |
| First Quarter | 17.72 | 9.25 | 0.10 |
| 2009 | | | |
| Fourth Quarter | \$13.52 | \$8.51 | \$0.10 |
| Third Quarter | 18.70 | 13.05 | 0.10 |
| Second Quarter | 19.01 | 12.25 | 0.23 |
| First Quarter | 19.92 | 7.25 | 0.23 |

Peoples plans to continue to pay quarterly cash dividends, subject to certain regulatory restrictions described in Note 17 of the Notes to the Consolidated Financial Statements, as well as in the sections captioned "Supervision and Regulation-TARP Capital Purchase Program" and "Supervision and Regulation-Dividend Restrictions" of Item 1 of this Form 10-K. On January 28, 2010, Peoples' Board of Directors determined that, effective with the first calendar quarter of 2010, the decision as to whether a cash dividend should be declared in respect of Peoples' common shares would be made in the third month of each calendar quarter. Any dividends so declared would be paid to shareholders in the subsequent month. Historically, Peoples' Board of Directors had declared a cash dividend in respect of Peoples' common shares, when appropriate, in the second month of each calendar quarter.

Issuer Purchases of Equity Securities

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

| (a) | (b) | (c) | (d) |
|--------------|---------------|-----|---------|
| Total Number | Average Price | | Maximum |

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| | of Common Shares Purchased | Paid per Common Share | Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|-----------------------------|----------------------------------|-----------------------------|---|--|
| October 1 – 31, 2010 | 1,740(2) | \$ 12.68(2) | – | – |
| November 1 – 30, 2010 | 450(2) | \$ 13.32(2) | – | – |
| December 1 – 31, 2010 | 501(2) | \$ 15.96(2) | – | – |
| Total | 2,691 | \$ 13.40 | – | – |

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

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

Performance Graph

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

The following line graph compares the five-year cumulative total shareholder return of Peoples’ common shares, based on an initial investment of \$100 on December 31, 2005, and assuming reinvestment of dividends, against that of an index comprised of all domestic common shares traded on The NASDAQ Stock Market (“NASDAQ Stocks (U.S. Companies)”), and an index comprised of all depository institutions (SIC Code #602) and depository institution holding companies (SIC Code #671) that are traded on The NASDAQ Stock Market (“NASDAQ Bank Stocks”).

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

| | At December 31, | | | | | |
|--------------------------------|-----------------|----------|----------|---------|---------|---------|
| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
| Peoples Bancorp Inc. | \$100.00 | \$107.04 | \$92.77 | \$74.48 | \$39.54 | \$65.70 |
| NASDAQ Stocks (U.S. Companies) | \$100.00 | \$109.84 | \$119.14 | \$57.41 | \$82.53 | \$97.95 |
| NASDAQ Bank Stocks | \$100.00 | \$112.23 | \$88.95 | \$64.86 | \$54.35 | \$64.29 |

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ITEM 6. SELECTED FINANCIAL DATA

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

| | At or For the Year Ended December 31, | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
| (Dollars in thousands, except per share data) | 2010 | 2009 | 2008 | 2007 | 2006 |
| Operating Data | | | | | |
| Total interest income | \$89,335 | \$102,105 | \$106,227 | \$113,419 | \$108,794 |
| Total interest expense | 29,433 | 40,262 | 47,748 | 59,498 | 55,577 |
| Net interest income | 59,902 | 61,843 | 58,479 | 53,921 | 53,217 |
| Provision for loan losses | 26,916 | 25,721 | 27,640 | 3,959 | 3,622 |
| Net impairment loss on investment securities | (1,786) | (7,707) | (4,260) | (6,170) | – |
| Net (loss) gain on securities and asset transactions | (39) | 1,343 | 2,424 | 184 | 746 |
| Total non-interest income | 31,634 | 32,050 | 32,097 | 31,350 | 30,379 |
| FDIC insurance expense | 2,470 | 3,442 | 361 | 146 | 143 |
| Other non-interest expense | 54,572 | 55,240 | 53,124 | 51,306 | 51,154 |
| Preferred dividends (1) | 2,052 | 1,876 | – | – | – |
| Net income available to common shareholders | \$3,529 | \$2,314 | \$7,455 | \$18,314 | \$21,558 |
| Balance Sheet Data | | | | | |
| Total assets | \$1,837,985 | \$2,001,827 | \$2,002,338 | \$1,885,553 | \$1,875,255 |
| Investment securities | 641,307 | 751,866 | 708,753 | 565,463 | 548,733 |
| Gross loans | 960,718 | 1,052,058 | 1,104,032 | 1,120,941 | 1,132,394 |
| Allowance for loan losses | 26,766 | 27,257 | 22,931 | 15,718 | 14,509 |
| Total intangible assets | 64,870 | 65,599 | 66,406 | 68,029 | 68,852 |
| Non-interest-bearing deposits | 215,069 | 198,000 | 180,040 | 175,057 | 170,921 |
| Retail interest-bearing deposits | 1,059,066 | 1,095,466 | 1,034,418 | 951,731 | 933,480 |
| Brokered deposits | 87,465 | 102,420 | 151,910 | 59,589 | 129,128 |
| Short-term borrowings | 51,509 | 76,921 | 98,852 | 222,541 | 194,883 |
| Long-term borrowings | 157,703 | 246,113 | 308,297 | 231,979 | 200,793 |
| | 22,565 | 22,530 | 22,495 | 22,460 | 29,412 |

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| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Junior subordinated notes held by subsidiary trusts | | | | | |
| Preferred stockholders' equity (1) | 38,645 | 38,543 | – | – | – |
| Common stockholders' equity | 192,036 | 205,425 | 186,626 | 202,836 | 197,169 |
| Tangible assets (2) | 1,773,115 | 1,936,228 | 1,935,932 | 1,817,524 | 1,806,403 |
| Tangible common equity (2) | \$127,166 | \$139,826 | \$120,220 | \$134,807 | \$128,317 |

Per Share Data

| | | | | | |
|--|------------|------------|------------|------------|------------|
| Earnings per common share – Basic | \$0.34 | \$0.22 | \$0.72 | \$1.75 | \$2.03 |
| Earnings per common share – Diluted | 0.34 | 0.22 | 0.72 | 1.74 | 2.01 |
| Cash dividends paid on common shares | 0.40 | 0.66 | 0.91 | 0.88 | 0.83 |
| Book value at end of period | 18.36 | 19.80 | 18.06 | 19.70 | 18.51 |
| Tangible book value at end of period (2) | \$12.16 | \$13.48 | \$11.63 | \$13.09 | \$12.05 |
| Weighted-average common shares outstanding - Basic | 10,424,474 | 10,363,975 | 10,315,263 | 10,462,933 | 10,606,570 |
| Weighted-average common shares outstanding - Diluted | 10,431,990 | 10,374,792 | 10,348,579 | 10,529,634 | 10,723,933 |
| Common shares outstanding at end of period | 10,457,327 | 10,374,637 | 10,333,884 | 10,296,748 | 10,651,985 |

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| | At or For the Year Ended December | | | | |
|---|-----------------------------------|--------|--------|--------|--------|
| | 31, | | | | |
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| Significant Ratios | | | | | |
| Return on average assets | 0.28% | 0.21% | 0.39% | 0.98% | 1.15% |
| Return on average common stockholders' equity | 1.76 | 1.17 | 3.67 | 9.21 | 11.33 |
| Net interest margin | 3.51 | 3.48 | 3.51 | 3.32 | 3.29 |
| Efficiency ratio | 60.30 | 60.14 | 56.30 | 57.07 | 57.51 |
| Dividend payout ratio | 119.33 | 298.23 | 127.03 | 50.38 | 41.09 |
| Average stockholders' equity to average assets | 12.20 | 11.50 | 10.62 | 10.62 | 10.18 |
| Average loans to average deposits | 73.01% | 77.97% | 88.10% | 93.52% | 94.80% |
| Asset Quality | | | | | |
| Allowance for loan losses to total loans | 2.79% | 2.59% | 2.08% | 1.40% | 1.28% |
| Allowance for loan losses to nonperforming loans | 66.1 | 79.3 | 55.5 | 168.0 | 145.0 |
| Nonperforming loans to total loans | 4.19 | 3.27 | 3.74 | 0.83 | 0.88 |
| Nonperforming assets to total assets | 2.45 | 2.03 | 2.09 | 0.51 | 0.53 |
| Nonperforming assets to total loans and other real estate owned | 4.64 | 3.85 | 3.79 | 0.87 | 0.88 |
| Net charge-offs to average loans | 2.66 | 1.96 | 1.83 | 0.25 | 0.35 |
| Provision for loan losses to average loans | 2.61% | 2.35% | 2.48% | 0.35% | 0.33% |
| Capital Information | | | | | |
| Tier 1 capital ratio | 16.91% | 15.49% | 11.88% | 11.91% | 11.98% |
| Tier 1 common ratio | 11.59 | 10.58 | 10.17 | 10.18 | 9.80 |
| Total risk-based capital ratio | 18.24 | 16.80 | 13.19 | 13.23 | 13.17 |
| Leverage ratio | 10.63 | 10.06 | 8.18 | 8.48 | 8.90 |
| Tangible common equity to tangible assets (2) | 7.17% | 7.22% | 6.21% | 7.42% | 7.10% |

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

- (2) 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 the Management's Discussion and Analysis section under the caption "Capital/Stockholders' Equity".

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

Forward-Looking Statements

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

- (1) 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 heading "ITEM 1A. RISK FACTORS" of this Form 10-K.

All forward-looking statements speak only as of the filing date of this Form 10-K and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the filing

date of this Form 10-K or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at <http://www.sec.gov> and/or from Peoples Bancorp's website.

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

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Summary of Recent Transactions and Events

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

- As described in Note 11 of the Notes to the Consolidated Financial Statements, on January 30, 2009, Peoples received \$39.0 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 cumulative perpetual preferred shares and a related 10-year warrant to purchase common shares sold by Peoples to the U.S. Treasury (the "TARP Capital Investment"). On February 2, 2011, Peoples completed a partial redemption of the Tarp Capital Investment by repurchasing \$21.0 million of the preferred shares held by the U.S. Treasury (the "Partial TARP Capital Redemption").
- Since 2008, Peoples periodically has taken actions to reduce interest rate exposures within the investment portfolio and entire balance sheet. This strategic focus has involved the sale of low yielding investment securities from time-to-time, with the proceeds being either reinvested into other securities with lower interest rate risk or used to repay high-cost borrowings and deleverage the balance sheet. As a result, Peoples recognized net pre-tax gains of \$6.8 million in 2010, \$1.4 million in 2009 and \$1.7 million in 2008. The majority of the net gain in 2010 was attributable to Peoples selling \$86.6 million of investment securities, primarily U.S. agency mortgage-backed securities and U.S. government-backed student loan pools, in the third quarter at a \$3.8 million net gain. The proceeds from these sales of investment securities were used to prepay \$60.0 million of wholesale repurchase agreements, resulting in early repayment charges totaling \$3.6 million. The repurchase agreements had a weighted-average cost of 4.53% and originally were scheduled to mature in either 2011 or 2012.
- Peoples has recognized other-than-temporary impairment ("OTTI") losses in each of the past three years, which related primarily to Peoples' investments in collateralized debt obligation ("CDO") securities and individual bank-issued trust preferred securities. These impairment losses totaled \$1.8 million in 2010, \$7.7 million in 2009 and \$4.3 million in 2008 and were based upon management's evaluation of the issuers and estimation of cash flows to be received from the securities. As a result of the OTTI losses recognized in 2010, Peoples no longer has any exposure to CDO securities within its investment portfolio.
- 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 2010 were significantly higher than historical levels. Peoples also recognized losses on other real estate owned ("OREO") totaling \$1.8 million in 2010 attributable to declining commercial real estate values.
- Peoples' earnings also have been impacted by ongoing workout efforts related to 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" – which resulted in additional loan charge-offs and provision for loan losses. Peoples also took steps to sell three commercial loans involving a common borrower and secured by real estate outside Peoples' primary market area, resulting in the loans being re-classified to "held-for-sale". Management believes these workout efforts are prudent since they afford opportunities to reduce nonperforming assets and manage loss exposures within the loan portfolio.
- During 2009, the Board of Directors of the Federal Deposit Insurance Corporation ("FDIC") took steps to rebuild the Deposit Insurance Fund, which had been reduced substantially by the higher rate of bank failures in 2008 and 2009

compared to prior years. These actions affected all FDIC-insured depository institutions and included increasing base assessment rates beginning April 1, 2009, imposing a one-time special assessment during the second quarter of 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 recorded FDIC insurance expense of \$2.5 million in 2010, \$3.4 million in 2009, of which \$930,000 related to the special assessment, and \$361,000 in 2008. Additionally, Peoples prepaid \$9.0 million of FDIC assessments on December 29, 2009, which was recorded 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. This prepayment did not have a material adverse effect on Peoples' liquidity, financial condition or results of operations.

- Peoples' Board of Directors declared quarterly cash dividends of \$0.10 per common share for the final two quarters of 2009 and all of 2010. These dividends represented a reduction from the \$0.23 per common share paid in the first two quarters of 2009. Management believes the lower dividend rate balances the need for Peoples to maintain a dividend payout consistent with recent earnings levels and long-term capital needs while also providing a return on shareholder investment.

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- Peoples' net interest income and margin are impacted by changes in market interest rates based upon actions taken by the Federal Reserve either directly or through its Open Market Committee. Between August 2007 and December 2008, the Federal Reserve reduced the target Federal Funds rate 500 basis points to a range of 0% to 0.25% and reduced the Discount Rate 575 basis points to 0.50%. These actions caused a corresponding downward shift in short-term market interest rates. In 2009, the Federal Reserve maintained the target Federal Funds Rate and Discount Rate at their historically low levels of 0% to 0.25% and 0.50%, respectively. In February 2010, the Federal Reserve increased the Discount Rate by 25 basis points to 0.75% while leaving its target Federal Funds Rate range unchanged, thereby widening the spread between the Discount Rate and the high end of the target Federal Funds Rate.
- In late 2008, the Federal Reserve initiated a plan to buy mortgage-backed and other debt securities through its open market operations as a means of lowering longer-term market interest rates and stimulating the economy – a policy commonly referred to as “quantitative easing”. The resulting purchases caused a flattening of the yield curve in the first half of 2009. The yield curve steepened moderately in the second half of 2009 after the Federal Reserve halted its investment purchases. In mid-2010, the Federal Reserve signaled the possibility of additional quantitative easing, which resulted in a flatter yield curve during much of the second half of 2010. In late 2010, the yield curve steepened after the Federal Reserve announced its plan to purchase U.S. Treasury securities with shorter maturities than anticipated by many market participants.

The impact of these transactions or events, where significant, is discussed in the applicable sections of this Management’s Discussion and Analysis.

Critical Accounting Policies

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

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

Income Recognition

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

Peoples discontinues the accrual of interest on a loan when conditions cause management to believe collection of all or any portion of the loan’s contractual interest is doubtful. Such conditions may include the borrower being 90 days or more past due on any contractual payments or current information regarding the borrower’s financial condition and repayment ability. All unpaid accrued interest deemed uncollectible is reversed, which would reduce Peoples’ net

interest income. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured.

Allowance for Loan Losses

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

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

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

There can be no assurance the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses at December 31, 2010, was adequate to provide for probable losses from existing loans based on information currently available. While management uses available information to estimate losses, the ultimate collectibility of a substantial portion of the loan portfolio, and the need for future additions to the allowance, will be based on changes in economic conditions and other relevant factors. As such, adverse changes in economic activity could reduce currently estimated cash flows for both commercial and individual borrowers, which would likely cause Peoples to experience increases in problem assets, delinquencies and losses on loans in the future.

Investment Securities

Peoples' investment portfolio accounted for 35% of total assets at December 31, 2010, of which approximately 96% were classified as available-for-sale. Correspondingly, Peoples carries these securities at fair value on its Consolidated Balance Sheets, with any unrealized gain or loss recorded in stockholders' equity as a component of accumulated other comprehensive income. As a result, both the investment and equity sections of Peoples' Consolidated Balance Sheet are sensitive to changes in the overall market value of the investment portfolio, due to changes in market interest rates, investor confidence and other factors affecting market values.

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

In early 2009, the Financial Accounting Standards Board ("FASB") issued an accounting pronouncement that modified the general standards of accounting for OTTI losses. Prior to this pronouncement, if Peoples determined a loss to be "other-than-temporary", then an impairment loss was recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. Under the new standards adopted by Peoples in the second quarter of 2009, an OTTI loss is recognized in earnings only when (1) Peoples intends to sell the debt security; (2) it is more likely than not that Peoples will be required to sell the security before recovery of its

amortized cost basis or (3) Peoples does not expect to recover the entire amortized cost basis of the security. In situations where Peoples intends to sell or when it is more likely than not that Peoples will be required to sell the security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of accumulated other comprehensive income, net of deferred taxes.

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

Goodwill and Other Intangible Assets

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

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

Peoples performs its required annual impairment test as of June 30 each year. Management concluded no impairment existed at June 30, 2010, since the fair value of Peoples’ single reporting unit exceeded its carrying value. Peoples is required to perform interim tests for goodwill impairment in subsequent quarters if events occur or circumstances change that indicate potential goodwill impairment exists, such as adverse changes to Peoples’ business or a significant decline in Peoples’ market capitalization.

In the second half of 2010, Peoples’ provisions for loan losses remained elevated, as a result of continued weakness in commercial real estate values which resulted in additional losses on portfolio loans, other real estate owned and loans held-for-sale. Additionally, Peoples’ market capitalization during the second half of 2010 remained less than its book value. Management believed these conditions were indicators of potential goodwill impairment and performed interim impairment tests as of September 30, and December 31, 2010. Based on its analyses, management concluded the estimated fair value of Peoples’ single reporting unit exceeded its carrying amount, although the excess was not significant enough to provide management with a reasonable basis on which to conclude further evaluation was not necessary. Consequently, management performed additional analyses to estimate the fair value of goodwill and concluded no goodwill was impaired since the estimated fair value of goodwill exceeded its carrying value. Management’s analysis indicated that a decline in the fair value of Peoples’ single reporting unit of 24% or more would result in goodwill impairment as of December 31, 2010.

The significant assumptions made by management in estimating the reporting unit’s fair value were (1) level of future cash flows over the next five years, (2) long-term growth rate of cash flows after year five and (3) the discount rate. Management’s analysis at year-end 2010 indicated a 25% sustained decline in future cash flows or a 40 basis point increase in the discount rate would cause the implied fair value of goodwill to equal its carrying value.

Peoples records mortgage servicing rights (“MSRs”) in connection with its mortgage banking activities, which are intangible assets representing the right to service loans sold to third party investors. These intangible assets are recorded initially at fair value and subsequently amortized over the estimated life of the loans sold. MSRs are stratified based on their predominant risk characteristics and assessed for impairment at the strata level at each reporting date based on their fair value. At December 31, 2010, management concluded no portion of the recorded MSRs was impaired since the fair value exceeded the carrying value. However, future events, such as a significant

increase in prepayment speeds, could result in a fair value that is less than the carrying amount, which would require the recognition of an impairment loss in earnings.

Income Taxes

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

A valuation allowance is recognized to reduce any deferred tax asset that, based upon available information, it is more-likely-than-not all, or any portion, of the deferred tax asset will not be realized. Assessing the need for, and amount of, a valuation allowance for deferred tax assets requires significant judgment and analysis of evidence regarding realization of the deferred tax assets. In most cases, the realization of deferred tax assets is dependent upon Peoples generating a sufficient level of taxable income in future periods, which can be difficult to predict. Peoples' largest deferred tax assets involve differences related to Peoples' allowance for loan losses and realization of income tax credits received from Peoples' investments in low-income housing projects and funds. Given the nature of Peoples' deferred tax assets, management determined no valuation allowances were needed at either December 31, 2010 or 2009.

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

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

Fair Value Measurements

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

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

Available-for-Sale Investment Securities

Investment securities classified as available-for-sale are measured and reported at fair value on a recurring basis. For most securities, the fair value is based upon quoted market prices or determined by pricing models that consider observable market data. However, the fair value of certain investment securities, such as CDO securities and similar structured investments, must be based upon unobservable market data, such as non-binding broker quotes and discounted cash flow analysis or similar models, due to the absence of an active market for these securities. As a result, management's determination of fair value for these securities is highly dependent on subjective or complex judgments, estimates and assumptions, which could change materially between periods. Management occasionally uses information from independent third-party consultants in its determination of the fair value of more complex investment securities, such as the CDO securities. At December 31, 2010, all of Peoples' available-for-sale investment securities were measured using observable market data.

Impaired loans

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

the sale of the collateral, less costs incurred during the sale, based upon observable market data and market value data provided by independent, licensed or certified appraisers.

Goodwill

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

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

For Peoples' December 31, 2010 goodwill impairment test, management estimated the fair value of Peoples' reporting unit using both an income approach and a market approach. The income approach consisted of a discounted cash flow analysis of projected future earnings. The market approach was based upon multiples of book value of recently acquired financial institutions, including distressed institutions. The discount rate used represented the estimated cost of Peoples' common equity based upon observable market data. The fair values derived under both approaches were weighted to arrive at an overall estimated fair value. Management placed greater weight on the income approach due to the limited number of acquisitions occurring in 2010 involving healthy or non-distress entities compared to prior years. Consequently, the estimated fair value of Peoples' reporting unit could be materially different in future periods due to changes in either projected future earnings or the cost of common equity.

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

Mortgage Servicing Rights

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

EXECUTIVE SUMMARY

In 2010, net income available to common shareholders totaled \$3.5 million, versus \$2.3 million in 2009 and \$7.5 million in 2008, representing diluted earnings per common share of \$0.34, \$0.22 and \$0.72, respectively. Key factors for the lower earnings over the last three years were higher than historical levels of provision for loan losses and other loan-related credit losses, plus OTTI losses related to investment securities. Earnings available to common shareholders for 2009 and 2010 also were reduced by preferred dividends of \$1.9 million and \$2.1 million, respectively, related to the TARP Capital Investment. Despite these challenges, Peoples generated positive results in several key areas, including expansion of retail deposits, expense control and continued diversification of revenues.

Provision for loan losses totaled \$26.9 million in 2010, compared to \$25.7 million in 2009 and \$27.6 million in 2008. These provisions reflect the amounts needed to maintain the adequacy of the allowance for loan losses based on

management's formal quarterly analysis. The combination of steady declines in commercial real estate values and the deteriorating financial condition of borrowers commensurate with recessionary economic conditions resulted in higher provisions for loan losses than historical amounts.

Net interest income decreased 3% in 2010 compared to the prior year, due primarily to decreased earning assets as a result of commercial loan payoffs and charge-offs, coupled with lower reinvestment rates corresponding with market interest rates. In comparison, net interest income grew 6% in 2009, due to a greater decrease in Peoples' funding costs in comparison to asset yields in response to lower short-term market rates. Net interest margin has been relatively stable over the last three years, as management took steps to adjust the balance sheet size and mix to lessen the impact of historically low market interest rates.

Non-interest income, which excludes the impact of gains and losses, was down slightly in 2010 compared to the prior year. Electronic banking income increased 19% in 2010, while trust and investment income grew 13%. Both of these increases were more than offset by lower deposit account service charges and insurance income. In 2009, total non-interest income was consistent with the prior year. Peoples experienced significant growth in mortgage banking income due to strong refinancing activity, which was offset by declines in other non-interest income categories.

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Total non-interest expense decreased 3% in 2010, to \$57.0 million, largely attributable to cost saving initiatives implemented during 2010. The impact of these initiatives was tempered by costs associated with an elevated level of foreclosed real estate and problems loans. In 2009, total non-interest expense was up \$5.2 million over the prior year, with most of this increase due to \$3.1 million in additional FDIC insurance expense. Other significant factors impacting the increase in 2009 included higher employee medical benefit costs and workout costs for problem loans.