PEOPLES BANCORP INC
Form 10-Q
November 01, 2011
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number: 0-16772
PEOPLES BANCORP INC.
(Exact name of Registrant as specified in its charter)

Ohio	31-0987416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
138 Putnam Street, P. O. Box 738, Marietta, Ohio	45750
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(740) 373-3155

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 10,612,353 common shares, without par value, at October 31, 2011.

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

PART I – FINANCIAL INFORMATION

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

(Dollars in thousands)	September 30, 2011	December 31, 2010
Assets		
Cash and cash equivalents:		
Cash and due from banks	$29,335	$28,324
Interest-bearing deposits in other banks	2,422	46,320
Total cash and cash equivalents	31,757	74,644
Available-for-sale investment securities, at fair value (amortized cost of $633,279 at September 30, 2011 and $617,122 at December 31, 2010)	642,659	613,986
Held-to-maturity investment securities, at amortized cost (fair value of $3,043 at September 30, 2011 and $2,954 at December 31, 2010)	2,966	2,965
Other investment securities, at cost	24,356	24,356
Total investment securities	669,981	641,307
Loans, net of deferred fees and costs	950,793	960,718
Allowance for loan losses	(25,213)	(26,766)
Net loans	925,580	933,952
Loans held for sale	3,825	4,755
Bank premises and equipment, net	24,294	24,934
Bank owned life insurance	53,807	53,532
Goodwill	62,520	62,520
Other intangible assets	1,969	2,350
Other assets	32,010	39,991
Total assets	$1,805,743	$1,837,985
Liabilities		
Deposits:		
Non-interest-bearing	$235,585	$215,069
Interest-bearing	1,106,981	1,146,531
Total deposits	1,342,566	1,361,600
Short-term borrowings	58,555	51,509
Long-term borrowings	143,970	157,703
Junior subordinated notes held by subsidiary trust	22,592	22,565
Accrued expenses and other liabilities	13,530	13,927
Total liabilities	1,581,213	1,607,304
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, 18,000 shares issued at September 30, 2011, and 39,000 issued at December 31, 2010	17,875	38,645
Common stock, no par value, 24,000,000 shares authorized, 11,100,125 shares issued at September 30, 2011 and 11,070,022 shares issued at December 31, 2010, including shares in treasury	166,799	166,298

Retained earnings	51,142	45,547
Accumulated other comprehensive income (loss), net of deferred income taxes	3,984	(4,453)
Treasury stock, at cost, 610,725 shares at September 30, 2011 and 612,695 shares at December 31, 2010	(15,270)	(15,356)
Total stockholders' equity	224,530	230,681
Total liabilities and stockholders' equity	$1,805,743	$1,837,985

See Notes to the Unaudited Consolidated Financial Statements

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

(Dollars in thousands, except per share data)	For the Three Months Ended September 30, 2011	2010	For the Nine Months Ended September 30, 2011	2010
Interest Income:				
Interest and fees on loans	$12,147	$14,262	$37,214	$43,656
Interest and dividends on taxable investment securities	5,871	7,688	18,237	23,392
Interest on tax-exempt investment securities	378	590	1,187	1,850
Other interest income	4	32	20	57
Total interest income	18,400	22,572	56,658	68,955
Interest Expense:				
Interest on deposits	3,332	4,693	10,991	14,790
Interest on short-term borrowings	24	62	85	209
Interest on long-term borrowings	1,285	2,058	3,912	6,630
Interest on junior subordinated notes held by subsidiary trust	495	495	1,480	1,485
Total interest expense	5,136	7,308	16,468	23,114
Net interest income	13,264	15,264	40,190	45,841
Provision for loan losses	(865)	(8,005)	(8,471)	(19,964)
Net interest income after provision for loan losses	12,399	7,259	31,719	25,877
Gross impairment losses on investment securities	—	—	—	(1,620)
Less: Non-credit losses included in other comprehensive income	—	—	—	166
Net impairment losses on investment securities	—	—	—	(1,786)
Other Income:				
Deposit account service charges	2,628	2,415	7,256	7,170
Insurance income	2,324	2,216	7,321	6,888
Trust and investment income	1,385	1,226	4,119	3,991
Electronic banking income	1,313	1,180	3,818	3,443
Mortgage banking income	370	354	1,030	856
Bank owned life insurance	96	137	275	495
Net gain on investment securities	57	3,818	473	6,852
Net gain (loss) on asset disposals and other transactions	389	(4,638)	(107)	(5,969)
Other non-interest income	275	183	837	691
Total other income	8,837	6,891	25,022	24,417
Other Expenses:				
Salaries and employee benefit costs	8,701	7,232	24,281	22,105
Net occupancy and equipment	1,453	1,383	4,426	4,341
Professional fees	807	847	2,615	2,140
FDIC insurance	440	617	1,552	1,846
Electronic banking expense	713	668	2,016	1,830
Data processing and software	490	461	1,406	1,558
Foreclosed real estate and other loan expenses	251	282	825	1,400
Franchise tax	369	373	1,128	1,120
Amortization of other intangible assets	141	224	455	704
Other non-interest expense	2,065	1,871	6,063	5,798
Total other expenses	15,430	13,958	44,767	42,842
Income before income taxes	5,806	192	11,974	5,666
Income tax (expense) benefit	(1,885)	221	(3,263)	(653)

Net income	$3,921	$413	$8,711	$5,013
Preferred dividends	(237)	(514)	(998)	(1,539)
Net income (loss) available to common shareholders	$3,684	$(101)	$7,713	$3,474
Earnings (loss) per common share - basic	$0.35	$(0.01)	$0.74	$0.33
Earnings (loss) per common share - diluted	$0.35	$(0.01)	$0.73	$0.33
Weighted-average number of common shares outstanding - basic	10,484,609	10,437,770	10,478,310	10,417,316
Weighted-average number of common shares outstanding - diluted	10,519,673	10,437,770	10,498,708	10,425,463
Cash dividends declared on common shares	$1,060	$1,053	$2,118	$3,158
Cash dividends declared per common share	$0.10	$0.10	$0.20	$0.30

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2010	$38,645	$166,298	$45,547	$(4,453)	$(15,356)	$230,681
Net income			8,711			8,711
Other comprehensive income, net of tax				8,437		8,437
Preferred stock dividends			(768)			(768)
Amortization of discount on preferred stock	230		(230)			—
Common stock cash dividends declared			(2,118)			(2,118)
Reissuance of treasury stock for deferred compensation plan					176	176
Purchase of treasury stock					(90)	(90)
Common shares issued under dividend reinvestment plan		240				240
Common shares issued under Board of Directors' compensation plan		75				75
Stock-based compensation expense		186				186
Repurchase of preferred stock	(21,000)					(21,000)
Balance, September 30, 2011	$17,875	$166,799	$51,142	$3,984	$(15,270)	$224,530

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2011	2010
Net cash provided by operating activities	$32,800	$33,280
Investing activities:		
Available-for-sale securities:		
Purchases	(174,082)	(207,754)
Proceeds from sales	59,868	150,617
Proceeds from maturities, calls and prepayments	88,989	152,995
Purchase of held-to-maturity securities	—	(2,000)
Net decrease in loans	47	18,819
Net expenditures for premises and equipment	(1,100)	(1,447)
Proceeds from sales of other real estate owned	1,534	444
Investment in limited partnership and tax credit funds	(234)	(249)
Net cash (used in) provided by investing activities	(24,978)	111,425
Financing activities:		
Net increase in non-interest-bearing deposits	20,516	11,693
Net decrease in interest-bearing deposits	(39,619)	(15,214)
Net increase (decrease) in short-term borrowings	7,046	(27,861)
Proceeds from long-term borrowings	—	5,000
Payments on long-term borrowings	(13,732)	(81,392)
Repurchase of preferred shares	(21,000)	—

Preferred stock dividends	(899)	(1,463)
Cash dividends paid on common shares	(2,940)	(2,844)
Purchase of treasury stock	(90)	(136)
Proceeds from issuance of common shares	9	445
Excess tax expense for stock-based compensation	—	(46)
Net cash used in financing activities	(50,709)	(111,818)
Net (decrease) increase in cash and cash equivalents	(42,887)	32,887
Cash and cash equivalents at beginning of period	74,644	41,773
Cash and cash equivalents at end of period	$31,757	$74,660

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2010 ("2010 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2010 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2011, for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2010, contained herein has been derived from the audited Consolidated Balance Sheet included in Peoples' 2010 Form 10-K.

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

New Accounting Pronouncements: In April 2011, the FASB issued an accounting update that clarifies when creditors should classify loan modifications as troubled debt restructurings. The guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the year. The guidance on measuring the impairment of a receivable restructured in a troubled debt restructuring is effective on a prospective basis. The update supersedes the FASB's previous deferral of additional disclosures about troubled debt restructurings. For a loan restructuring to constitute a troubled debt restructuring ("TDR"), a creditor must conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. Peoples adopted this new guidance on July 1, 2011, as required. As a result of this adoption, commercial real estate loans with an aggregate recorded value of $3.0 million were deemed to be TDRs. These loans previously were considered impaired.

As described in Note 1 of Peoples' 2010 Form 10-K, impaired loans are placed on nonaccrual status and are allocated a specific portion of the allowance for loan losses, if necessary, to reduce the net reported value of the loan to its estimated net realizable value. The net realizable value of the restructured loan is based upon a discounted cash flow analysis or the estimated value of the collateral that is securing the loan, if repayment of the loan is dependent upon the sale of the collateral. If a restructuring of a loan occurs subsequent to the loan being considered impaired, the restructuring will not have an impact on Peoples' financial statements as the loan will already be recorded at its net realizable value. If a loan is restructured prior to the loan being classified as impaired, the loan will be valued in the same manner as an impaired loan. Therefore, there will be an adjustment to the allowance for loan losses based upon the net realizable value of the restructured loan. All of the loans classified as TDRs under the new accounting were considered impaired prior to being restructured. Thus, the determination of these loans being TDRs had no impact on the recorded values of these loans or the related valuation allowance.

Note 2   Fair Value of Financial Instruments

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

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

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

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

Assets measured at fair value on a recurring basis comprised the following at September 30, 2011:

		Fair Value Measurements at Reporting Date Using		
(Dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2011				
Obligations of:				
U.S. Treasury and government agencies	$34	$—	$34	$—
U.S. government sponsored agencies	13,004	—	13,004	—
States and political subdivisions	38,112	—	38,112	—
Residential mortgage-backed securities	539,094	—	539,094	—
Commercial mortgage-backed securities	36,401	—	36,401	—
Bank-issued trust preferred securities	12,681	—	12,681	—
Equity securities	3,333	3,208	125	—
Total available-for-sale securities	$642,659	$3,208	$639,451	$—
December 31, 2010				
Obligations of:				
U.S. Treasury and government agencies	$39	$—	$39	$—
U.S. government sponsored agencies	12,262	—	12,262	—
States and political subdivisions	47,379	—	47,379	—
Residential mortgage-backed securities	507,534	18,179	489,355	—
Commercial mortgage-backed securities	30,700	3,545	27,155	—
Bank-issued trust preferred securities	12,984	—	12,984	—
Equity securities	3,088	2,960	128	—
Total available-for-sale securities	$613,986	$24,684	$589,302	$—

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatilities, LIBOR yield curve, credit spreads and prices from market makers and live trading systems (Level 2). The fair values of the residential and commercial mortgage-backed securities measured at fair value using Level 1 inputs at December 31, 2010 represented the purchase price of the securities since they were acquired near year-end 2010. At September 30, 2011, these securities were classified as Level 2 as a pricing model was used to value the securities, which was consistent with the rest of the classification for the sector.

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

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Impaired Loans: Impaired loans are measured and reported at fair value when management believes collection of contractual interest and principal payments is doubtful. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2011, impaired loans with an aggregate outstanding principal balance of $9.4 million were measured and reported at a fair value of $7.9 million. For the three and nine months ended September 30, 2011, Peoples recognized losses on impaired loans of $0.6 million and $1.5 million, respectively, through the allowance for loan losses.

Other Real Estate Owned: Other real estate owned ("OREO") is measured and reported at fair value when the current book value exceeds the estimated fair value of the property. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the property based on observable market prices and market value provided by independent, licensed or certified appraisers (Level 2 Inputs). At September 30, 2011, Peoples had $3.6 million of OREO which was measured and reported at a fair value of $2.3 million. As a result, Peoples recorded losses of $60,000 and $1.3 million through earnings for the three and nine months ended September 30, 2011, respectively.

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

	September 30, 2011		December 31, 2010	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$31,757	$31,757	$74,644	$74,644
Investment securities	669,981	670,058	641,307	641,296
Loans	929,405	838,720	938,707	825,547
Financial liabilities:				
Deposits	$1,342,566	$1,357,069	$1,361,600	$1,380,336
Short-term borrowings	58,555	58,555	51,509	51,509
Long-term borrowings	143,970	157,256	157,703	164,075
Junior subordinated notes held by subsidiary trust	22,592	23,785	22,565	23,861

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

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

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

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

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

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

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Note 3 Investment Securities

Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2011				
Obligations of:				
U.S. Treasury and government agencies	$34	$—	$—	$34
U.S. government sponsored agencies	12,400	604	—	13,004
States and political subdivisions	35,697	2,415	—	38,112
Residential mortgage-backed securities	534,200	15,639	(10,745)	539,094
Commercial mortgage-backed securities	35,852	549	—	36,401
Bank-issued trust preferred securities	13,883	2	(1,204)	12,681
Equity securities	1,213	2,216	(96)	3,333
Total available-for-sale securities	$633,279	$21,425	$(12,045)	$642,659
December 31, 2010				
Obligations of:				
U.S. Treasury and government agencies	$38	$1	$—	$39
U.S. government sponsored agencies	12,753	55	(546)	12,262
States and political subdivisions	46,717	1,063	(401)	47,379
Residential mortgage-backed securities	512,399	14,155	(19,020)	507,534
Commercial mortgage-backed securities	30,124	648	(72)	30,700
Bank-issued trust preferred securities	13,877	79	(972)	12,984
Equity securities	1,214	1,970	(96)	3,088
Total available-for-sale securities	$617,122	$17,971	$(21,107)	$613,986

Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies at both September 30, 2011 and December 31, 2010.

At September 30, 2011, there were no securities of a single issuer, other than U.S. Treasury and government agencies and U.S. government sponsored agencies that exceeded 10% of stockholders' equity. Peoples had pledged investment securities with a carrying value of $366.1 million and $394.7 million at September 30, 2011 and December 31, 2010, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged investment securities with carrying values of $69.5 million and $28.1 million at September 30, 2011 and December 31, 2010, respectively, to secure additional borrowing capacity at the Federal Home Loan Bank of Cincinnati ("FHLB") and the Federal Reserve Bank of Cleveland ("FRB").

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2011	2010	2011	2010
Gross gains realized	$612	$5,272	$1,110	$8,306
Gross losses realized	555	1,454	637	1,454
Net gain realized	$57	$3,818	$473	$6,852

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

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

(Dollars in thousands)	Less than 12 Months Fair Value	Unrealized Loss	No. of Securities	12 Months or More Fair Value	Unrealized Loss	No. of Securities	Total Fair Value	Unrealized Loss
September 30, 2011								
Obligations of:								
U.S. government sponsored agencies	$—	$—	—	$—	$—	—	$—	$—
States and political subdivisions	—	—	—	—	—	—	—	—
Residential mortgage-backed securities	57,381	1,064	12	84,245	9,681	14	141,626	10,745
Commercial mortgage-backed securities	—	—	—	—	—	—	—	—
Bank-issued trust preferred securities	7,981	432	6	2,225	772	3	10,206	1,204
Equity securities	—	—	—	80	96	1	80	96
Total	$65,362	$1,496	18	$86,550	$10,549	18	$151,912	$12,045
December 31, 2010								
Obligations of:								
U.S. government sponsored agencies	$11,202	$546	1	$—	$—	—	$11,202	$546
States and political subdivisions	13,055	401	19	—	—	—	13,055	401
Residential mortgage-backed securities	152,075	13,080	23	39,540	5,939	9	191,615	19,019
Commercial mortgage-backed securities	21,388	72	4	—	—	—	21,388	72
Bank-issued trust preferred securities	4,290	47	3	5,144	925	5	9,434	972
Equity securities	—	—	—	80	96	1	80	96
Total	$202,010	$14,146	50	$44,764	$6,960	15	$246,774	$21,106

Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2011, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2011 and December 31, 2010, were attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2011, the residential mortgage-backed securities that have been at an unrealized loss position for less than twelve months consisted almost entirely of securities issued by U.S government sponsored agencies. Additionally, approximately 96% of the mortgage-backed securities that have been at an unrealized loss position for twelve months or more were issued by U.S government sponsored agencies. Of the remaining mortgage-backed securities, all of the underlying mortgages were originated prior to 2004. Furthermore, six of the nine bank-issued trust preferred securities were within 90% of book value, while the unrealized losses for the remaining three were primarily attributable to the floating nature of these investments and the current interest rate environment.

Of the positions with a fair value less than 90% of their book value, four of the ten securities were mortgage-backed securities issued by U.S government sponsored agencies. The remaining securities were limited to three variable rate bank-issued trust preferred securities, which had an aggregate book value of $3.0 million and fair value of $2.2

million at September 30, 2011, and three variable rate residential mortgage-backed securities with book and market values of $2.3 million and $1.6 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and current market interest rates.

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The table below presents the amortized cost, fair value and weighted-average yield of securities by contractual maturity at September 30, 2011. The average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
U.S. Treasury and government agencies	$—	$12	$22	$—	$34
U.S. government sponsored agencies	—	783	11,617	—	12,400
States and political subdivisions	3,037	5,892	9,817	16,951	35,697
Residential mortgage-backed securities	—	5,885	49,627	478,688	534,200
Commercial mortgage-backed securities	—	—	34,575	1,277	35,852
Bank-issued trust preferred securities	—	—	—	13,883	13,883
Equity securities	—	—	—	1,213	1,213
Total available-for-sale securities	$3,037	$12,572	$105,658	$512,012	$633,279
Fair value					
Obligations of:					
U.S. Treasury and government agencies	$—	$12	$22	$—	$34
U.S. government sponsored agencies	—	846	12,158	—	13,004
States and political subdivisions	3,066	6,092	10,784	18,170	38,112
Residential mortgage-backed securities	—	6,531	51,662	480,901	539,094
Commercial mortgage-backed securities	—	—	34,995	1,406	36,401
Bank-issued trust preferred securities	—	—	—	12,681	12,681
Equity securities	—	—	—	3,333	3,333
Total available-for-sale securities	$3,066	$13,481	$109,621	$516,491	$642,659
Total average yield	5.76%	5.66%	4.32%	3.75%	3.89%

Held-to-Maturity

At September 30, 2011, Peoples' held-to-maturity investments consisted of two qualified school construction bonds that are classified as held-to-maturity because of Peoples' intent and ability to hold the securities to maturity given uncertainty regarding ownership rights of associated tax credits. These securities are carried at an aggregate amortized cost of $3.0 million and have gross unrealized gains totaling $76,831; weighted average cash coupon and tax credit rates of 1.83% and 6.09%, respectively, and remaining contractual maturity over 10 years.

Other Securities

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

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Note 4 Loans

Peoples' loan portfolio consists of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of central and southeastern Ohio, west central West Virginia, and northeastern Kentucky markets. The major classifications of loan balances, excluding loans held for sale, were as follows:

(Dollars in thousands)	September 30, 2011	December 31, 2010
Commercial real estate	$424,741	$425,528
Commercial and industrial	140,058	153,713
Real estate construction	26,751	27,595
Residential real estate	222,374	219,833
Home equity lines of credit	48,085	48,525
Consumer	87,072	83,323
Deposit account overdrafts	1,712	2,201
Total loans	$950,793	$960,718

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

(Dollars in thousands)	September 30, 2011	December 31, 2010
Commercial real estate	$3,878	$3,616
Commercial and industrial	202	200
Residential real estate	14,917	17,893
Consumer	119	123
Total outstanding balance	$19,116	$21,832
Net carrying amount	$18,515	$21,229

Peoples has pledged certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled $185.6 million and $181.8 million at September 30, 2011 and December 31, 2010, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled $133.4 million and $195.6 million at September 30, 2011 and December 31, 2010, respectively.

Nonaccrual and Past Due Loans

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

	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
(Dollars in thousands)	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Commercial real estate	$25,658	$34,392	$—	$—
Commercial and industrial	2,468	1,714	20	—
Real estate construction	—	—	—	—
Residential real estate	4,558	3,790	126	27
Home equity lines of credit	271	554	—	—
Consumer	2	—	—	—

Total	$32,957	$40,450	$146	$27

At December 31, 2010, nonaccrual commercial real estate loans with an aggregate carrying amount of $951,000 were classified as held-for-sale and thus excluded for the table above. During the second quarter of 2011, one loan with a carrying value of $379,000 was sold for a gain of $371,000, while the remaining loans were transferred to OREO.
The following table presents the aging of the recorded investment in past due loans and leases:

	Loans Past Due				Current	Total
(Dollars in thousands)	30 - 59 days	60 - 89 days	90 + Days	Total	Loans	Loans
September 30, 2011						
Commercial real estate	$1,944	$887	$11,746	$14,577	$410,164	$424,741
Commercial and industrial	390	3	20	413	139,645	140,058
Real estate construction	—	—	—	—	26,751	26,751
Residential real estate	4,897	902	3,023	8,822	213,552	222,374
Home equity lines of credit	237	—	271	508	47,577	48,085
Consumer	448	82	2	532	86,540	87,072
Deposit account overdrafts	57	—	—	57	1,655	1,712
Total	$7,973	$1,874	$15,062	$24,909	$925,884	$950,793
December 31, 2010						
Commercial real estate	$2,952	$5,171	$13,816	$21,939	$403,589	$425,528
Commercial and industrial	563	12	247	822	152,891	153,713
Real estate construction	100	—	872	972	26,623	27,595
Residential real estate	4,481	2,229	2,739	9,449	210,384	219,833
Home equity lines of credit	186	58	458	702	47,823	48,525
Consumer	725	119	—	844	82,479	83,323
Deposit account overdrafts	—	—	—	—	2,201	2,201
Total	$9,007	$7,589	$18,132	$34,728	$925,990	$960,718

Credit Quality Indicators
As discussed in Note 1 of Peoples' 2010 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:
“Pass” (grades 1 through 4): Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.
“Watch” (grade 5): Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in Peoples' credit position.
“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that Peoples will sustain some loss if the deficiencies are not corrected.
“Doubtful” (grade 7): Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimate loss is deferred until its more exact status may be determined.

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“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean the loan has absolutely no recovery value, but rather it is neither practical nor desirable to defer writing off the loan, even though partial recovery may be obtained in the future. Charge-offs against the allowance for loan losses are taken in the period in which the loan becomes uncollectible. Consequently, Peoples typically does not maintain a recorded investment in loans within this category.
Consumer loans and other smaller-balance loans are evaluated and categorized as “substandard”, “doubtful” or “loss” based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually nor meeting the regulatory conditions to be categorized as describe above would be considered as being “not rated”.
The following table summarizes the risk category of Peoples' loan portfolio based upon the most recent analysis performed:

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
September 30, 2011						
Commercial real estate	$317,570	$39,060	$60,228	$—	$7,883	$424,741
Commercial and industrial	102,731	9,804	7,308	—	20,215	140,058
Real estate construction	19,936	2,950	2,081	—	1,784	26,751
Residential real estate	28,348	3,508	10,981	18	179,519	222,374
Home equity lines of credit	1,290	280	1,368	—	45,147	48,085
Consumer	80	—	—	—	86,992	87,072
Deposit account overdrafts	—	—	—	—	1,712	1,712
Total	$469,955	$55,602	$81,966	$18	$343,252	$950,793
December 31, 2010						
Commercial real estate	$303,997	$47,203	$71,765	$—	$2,563	$425,528
Commercial and industrial	123,612	6,340	9,446	247	14,068	153,713
Real estate construction	17,284	3,545	4,010	—	2,756	27,595
Residential real estate	19,326	4,144	10,035	—	186,328	219,833
Home equity lines of credit	284	340	2,108	—	45,793	48,525
Consumer	89	—	—	—	83,234	83,323
Deposit account overdrafts	—	—	—	—	2,201	2,201
Total	$464,592	$61,572	$97,364	$247	$336,943	$960,718

Impaired Loans
The following tables summarize loans classified as impaired:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2011							
Commercial real estate	$53,398	$					