

PEOPLES BANCORP INC
Form 10-Q
August 02, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the transition period from ____ to ____

Commission file number 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio

(State or other jurisdiction of incorporation or organization)

31-0987416

(I.R.S. Employer Identification No.)

**138 Putnam Street, P. O. Box 738, Marietta,
Ohio**

(Address of principal executive offices)

45750

(Zip Code)

Registrant's telephone number, including area code:

(740) 373-3155

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 10,475,110 common shares, without par value, at July 31, 2007.

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CONSOLIDATED BALANCE SHEETS (Unaudited)**

| <i>(Dollars in thousands)</i> | June 30, | December |
|---|--|---------------------|
| | 2007 | 31, 2006 |
| Assets | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 35,925 | \$ 35,405 |
| Interest-bearing deposits in other banks | 1,379 | 1,101 |
| Federal funds sold | 500 | 3,300 |
| Total cash and cash equivalents | 37,804 | 39,806 |
| Available-for-sale investment securities, at estimated fair value (amortized cost of \$558,081 at June 30, 2007 and \$550,239 at December 31, 2006) | | |
| | 553,930 | 548,733 |
| Loans, net of deferred fees and costs | | |
| | 1,108,409 | 1,132,394 |
| Allowance for loan losses | | |
| | (14,692) | (14,509) |
| Net loans | 1,093,717 | 1,117,885 |
| Loans held for sale | | |
| | 1,755 | 1,041 |
| Bank premises and equipment, net | | |
| | 23,008 | 23,455 |
| Business owned life insurance | | |
| | 49,449 | 48,630 |
| Goodwill | | |
| | 62,520 | 61,373 |
| Other intangible assets | | |
| | 6,473 | 7,479 |
| Other assets | | |
| | 28,041 | 26,853 |
| Total assets | \$ 1,856,697 | \$ 1,875,255 |
| Liabilities | | |
| Deposits: | | |
| Non-interest-bearing | \$ 173,675 | \$ 170,921 |
| Interest-bearing | 1,029,423 | 1,062,608 |
| Total deposits | 1,203,098 | 1,233,529 |
| Short-term borrowings | | |
| | 235,005 | 194,883 |
| Long-term borrowings | | |
| | 181,760 | 200,793 |
| Junior subordinated notes held by subsidiary trusts | | |
| | 22,443 | 29,412 |
| Accrued expenses and other liabilities | | |
| | 17,840 | 19,469 |
| Total liabilities | 1,660,146 | 1,678,086 |
| Stockholders' Equity | | |
| Common stock, no par value, 24,000,000 shares authorized, | | |
| | 10,903,116 shares issued at June 30, 2007 and 10,889,242 shares issued | |

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| | | |
|--|---------------------|---------------------|
| at December 31, 2006, including shares in treasury | 163,044 | 162,654 |
| Retained earnings | 49,784 | 43,439 |
| Accumulated comprehensive loss, net of deferred income taxes | (4,663) | (2,997) |
| Treasury stock, at cost, 438,375 shares at June 30, 2007 and 237,257 shares at December 31, 2006 | (11,614) | (5,927) |
| Total stockholders' equity | 196,551 | 197,169 |
| Total liabilities and stockholders' equity | \$ 1,856,697 | \$ 1,875,255 |

See Notes to the Consolidated Unaudited Financial Statements

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

| <i>(Dollars in thousands, except per share data)</i> | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|--|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Interest Income: | | | | |
| Interest and fees on loans | \$ 21,509 | \$ 19,977 | \$ 42,850 | \$ 38,938 |
| Interest on taxable investment securities | 5,984 | 6,267 | 12,386 | 12,284 |
| Interest on tax-exempt investment securities | 543 | 724 | 1,114 | 1,454 |
| Other interest income | 44 | 38 | 90 | 78 |
| Total interest income | 28,080 | 27,006 | 56,440 | 52,754 |
| Interest Expense: | | | | |
| Interest on deposits | 9,347 | 7,435 | 18,474 | 14,077 |
| Interest on short-term borrowings | 2,841 | 2,756 | 6,056 | 4,523 |
| Interest on long-term borrowings | 2,028 | 2,861 | 3,874 | 6,062 |
| Interest on junior subordinated notes held by subsidiary trusts | 531 | 649 | 1,182 | 1,284 |
| Total interest expense | 14,747 | 13,701 | 29,586 | 25,946 |
| Net interest income | 13,333 | 13,305 | 26,854 | 26,808 |
| Provision for loan losses | 847 | 573 | 1,470 | 841 |
| Net interest income after provision for loan losses | 12,486 | 12,732 | 25,384 | 25,967 |
| Other Income: | | | | |
| Service charges on deposit accounts | 2,445 | 2,604 | 4,813 | 5,065 |
| Insurance commissions | 2,409 | 2,274 | 5,359 | 5,426 |
| Trust and investment income | 1,286 | 1,120 | 2,429 | 2,120 |
| Electronic banking income | 900 | 799 | 1,728 | 1,496 |
| Business owned life insurance | 408 | 399 | 819 | 805 |
| Mortgage banking income | 264 | 243 | 471 | 413 |
| Gain on securities transactions | 21 | 4 | 38 | 4 |
| Other | 242 | 166 | 449 | 394 |
| Total other income | 7,975 | 7,609 | 16,106 | 15,723 |
| Other Expenses: | | | | |
| Salaries and employee benefits | 6,870 | 6,432 | 14,167 | 13,344 |
| Net occupancy and equipment | 1,352 | 1,210 | 2,684 | 2,452 |
| Professional fees | 631 | 663 | 1,245 | 1,275 |
| Data processing and software | 551 | 476 | 1,064 | 944 |
| Amortization of intangible assets | 489 | 567 | 989 | 1,149 |
| Franchise tax | 448 | 446 | 887 | 891 |
| Bankcard Costs | 394 | 318 | 754 | 607 |

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| | | | | |
|----------------------------|-----------------|-----------------|------------------|------------------|
| Marketing | 379 | 413 | 728 | 888 |
| Other | 2,036 | 2,032 | 3,974 | 4,073 |
| Total other expenses | 13,150 | 12,557 | 26,492 | 25,623 |
| Income before income taxes | 7,311 | 7,784 | 14,998 | 16,067 |
| Income taxes | 1,962 | 2,248 | 4,003 | 4,600 |
| Net income | \$ 5,349 | \$ 5,536 | \$ 10,995 | \$ 11,467 |

Earnings per share:

| | | | | |
|---------|---------|---------|---------|---------|
| Basic | \$ 0.51 | \$ 0.52 | \$ 1.04 | \$ 1.09 |
| Diluted | \$ 0.51 | \$ 0.52 | \$ 1.04 | \$ 1.07 |

Weighted-average number of shares outstanding:

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 10,503,952 | 10,591,926 | 10,544,199 | 10,561,355 |
| Diluted | 10,574,250 | 10,714,030 | 10,619,815 | 10,689,465 |

| | | | | |
|-----------------------------------|----------|----------|----------|----------|
| Cash dividends declared | \$ 2,322 | \$ 2,239 | \$ 4,650 | \$ 4,359 |
| Cash dividends declared per share | \$ 0.22 | \$ 0.21 | \$ 0.44 | \$ 0.41 |

See Notes to the Consolidated Unaudited Financial Statements

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

| <i>(Dollars in thousands, except per share data)</i> | Common Stock | | Retained | Accumulated | | Treasury | Total |
|---|----------------------|-------------------|------------------|--------------------|--------------------|-----------------|-------------------|
| | Shares | Amount | Earnings | Loss | Stock | | |
| Balance, December 31, 2006 | 10,889,242 | \$ 162,654 | \$ 43,439 | \$ (2,997) | \$ (5,927) | | \$ 197,169 |
| Net income | | | 10,995 | | | | 10,995 |
| Other comprehensive loss, net of tax | | | | (1,666) | | | (1,666) |
| Cash dividends declared of \$0.44 per share | | | (4,650) | | | | (4,650) |
| Stock-based compensation expense | | 239 | | | | | 239 |
| Purchase of treasury stock, 243,842 shares | | | | | (6,861) | | (6,861) |
| Exercise of common stock options (reissued 38,062 treasury shares) | | (395) | | | 1,045 | | 650 |
| Tax benefit from exercise of stock options | | 165 | | | | | 165 |
| Issuance of common stock under dividend reinvestment plan | 13,874 | 386 | | | | | 386 |
| Issuance of common stock related to the acquisition of the Putnam Agency (reissued 4,662 treasury shares) | | (5) | | | 129 | | 124 |
| Balance, June 30, 2007 | \$ 10,903,116 | \$ 163,044 | \$ 49,784 | \$ (4,663) | \$ (11,614) | | \$ 196,551 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| <i>(Dollars in thousands)</i> | For the Three Months | | For the Six Months | |
|---|-----------------------------|-----------------|---------------------------|-----------------|
| | Ended June 30, | | Ended June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 5,349 | \$ 5,536 | \$ 10,995 | \$ 11,467 |
| Other comprehensive loss: | | | | |
| Unrealized loss on available-for-sale securities arising in the period | (5,214) | (4,316) | (2,606) | (8,694) |
| Less: reclassification adjustment for net securities gains included in net income | 21 | 4 | 38 | 4 |
| Net unrecognized loss and service cost on pension plan | 41 | — | 81 | — |
| Total other comprehensive loss | (5,194) | (4,320) | (2,563) | (8,698) |
| Income tax benefit | 1,818 | 1,512 | 897 | 3,044 |
| Total other comprehensive loss, net of tax | (3,376) | (2,808) | (1,666) | (5,654) |
| Total comprehensive income | \$ 1,973 | \$ 2,728 | \$ 9,329 | \$ 5,813 |

See Notes to the Consolidated Unaudited Financial Statements

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

| | For the Six Months Ended June 30, | |
|--|--|------------------|
| <i>(Dollars in thousands)</i> | 2007 | 2006 |
| Net cash provided by operating activities | \$ 11,722 | \$ 15,508 |
| Cash flows from investing activities: | | |
| Purchases of available-for-sale securities | (76,912) | (20,289) |
| Proceeds from maturities, calls and prepayments of available-for-sale securities | 68,951 | 31,921 |
| Net decrease (increase) in loans | 22,762 | (42,363) |
| Expenditures for premises and equipment | (987) | (850) |
| Net proceeds from sales of other real estate owned | 59 | 515 |
| Business acquisitions, net of cash received | (637) | (1,059) |
| Investment in limited partnership and tax credit funds | (277) | (899) |
| Net cash provided by (used in) investing activities | 12,959 | (33,024) |
| Cash flows from financing activities: | | |
| Net increase in non-interest-bearing deposits | 2,754 | 7,174 |
| Net (decrease) increase in interest-bearing deposits | (33,285) | 55,656 |
| Net increase in short-term borrowings | 40,122 | 54,872 |
| Proceeds from long-term borrowings | 45,000 | — |
| Payments on long-term borrowings | (64,033) | (99,494) |
| Cash dividends paid | (4,212) | (3,961) |
| Purchase of treasury stock | (6,861) | (452) |
| Repurchase of trust preferred securities | — | (25) |
| Repayment of trust preferred securities | (7,000) | — |
| Proceeds from issuance of common stock | 665 | 1,678 |
| Excess tax benefit for share-based payments | 167 | — |
| Net cash (used in) provided by financing activities | (26,683) | 15,448 |
| Net decrease in cash and cash equivalents | (2,002) | (2,068) |
| Cash and cash equivalents at beginning of period | 39,806 | 39,648 |
| Cash and cash equivalents at end of period | \$ 37,804 | \$ 37,580 |

See Notes to the Consolidated Unaudited Financial Statements

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NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

1. Basis of Presentation

The accounting and reporting policies of Peoples Bancorp Inc. (“Peoples Bancorp”) and its subsidiaries (collectively, “Peoples”) conform to accounting principles generally accepted in the United States (“US GAAP”) and to general practices within the financial services industry. Peoples considers all of its principal activities to be financial services related. The accompanying unaudited consolidated financial statements of Peoples reflect all adjustments (which include normal recurring adjustments) necessary to present fairly such information for the periods and dates indicated. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. To conform to the 2007 presentation, brokerage income was reclassified to trust and investment income from insurance and investment commissions, which had no impact on net income, comprehensive income, net cash provided by operating activities or stockholders’ equity. Results of operations for the six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

Certain information and footnotes typically included in the annual financial statements prepared in conformity with US GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The balance sheet at December 31, 2006 contained herein has been derived from the audited balance sheet included in Peoples Bancorp’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (“2006 Form 10-K”). These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the 2006 Form 10-K.

The consolidated financial statements include the accounts of Peoples Bancorp and its consolidated subsidiaries, Peoples Bank, National Association (“Peoples Bank”) and Peoples Investment Company, along with their respective wholly-owned subsidiaries. Peoples Bancorp previously formed two statutory business trusts that are variable interest entities for which Peoples Bancorp is not the primary beneficiary. As a result, the accounts of these trusts are not included in Peoples’ consolidated financial statements. All significant intercompany accounts and transactions have been eliminated.

2. New Accounting Pronouncements:

On February 15, 2007, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115,” (“SFAS 159”), which permits companies to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007, but permitted companies an option for earlier adoption. Peoples will adopt SFAS 159 effective January 1, 2008, as required, although management has not yet completed its evaluation of SFAS 159 to determine the impact adoption may have on Peoples’ financial statements taken as a whole.

On September 15, 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“SFAS 157”), which replaces various definitions of fair value in existing accounting literature with a single definition, establishes a framework for measuring fair value and requires additional disclosures about fair value measurements upon adoption. SFAS 157 clarifies that fair value is the price that would be received to sell an asset or the price paid to transfer a liability in the most advantageous market available to the entity and emphasizes that fair value is a market-based measurement and should be based on the assumptions market participants would use. SFAS 157 also creates a three-level hierarchy under which individual fair value estimates are to be ranked based on the relative reliability of the inputs used in the valuation. This hierarchy is the basis for the disclosure requirements, with

fair value estimates based on the least reliable inputs requiring more extensive disclosures about the valuation method used and the gains and losses associated with those estimates. SFAS 157 is required to be applied whenever another financial accounting standard requires or permits an asset or liability to be measured at fair value. The statement does not expand the use of fair value to any new circumstances. Peoples will be required to apply the new guidance beginning January 1, 2008. Management has not completed its analysis to determine what impact adoption will have a material impact on Peoples' financial statements.

On July 13, 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes –an interpretation of FASB Statement No. 109" ("FIN 48"), which prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under FIN 48, a tax position is initially recognized in the financial statements when it is more

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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. FIN 48 permits companies the option to classify penalties and interest incurred under the applicable tax law as either income tax expense or a component of other expenses. Effective January 1, 2007, Peoples adopted the provisions of FIN 48, as required. In connection with the adoption, Peoples elected to continue its existing accounting policy of classifying penalties and interest as income tax expense.

The adoption of FIN 48 had no material impact on Peoples' financial statements taken as a whole and no cumulative effect adjustments relating to the adoption were required. The amount of Peoples' uncertain income tax positions, unrecognized benefits and accrued interest were immaterial at both June 30, 2007 and January 1, 2007. Peoples is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2004 through 2006. Peoples' state income tax returns are currently open to audit under the applicable statutes of limitations for the years ended December 31, 2004 through 2006.

3. Stock-Based Compensation:

Under the Peoples Bancorp Inc. 2006 Equity Plan (the "2006 Equity Plan") approved by shareholders, Peoples Bancorp may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights or any combination thereof to certain employees and non-employee directors of Peoples Bancorp and its subsidiaries covering up to 500,000 common shares. Common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

The Compensation Committee of Peoples Bancorp's Board of Directors has the authority to select the employees and non-employee directors of Peoples Bancorp's subsidiaries to be granted awards, establish the awards to be granted, and approve the terms and conditions of each award contract. The full Board of Directors of Peoples Bancorp has sole authority to select thenon-employee directors of Peoples Bancorpto be granted awards, establish the awards to be granted, and approve the terms and conditions of each award contract. Through December 31, 2006, nonqualified and incentive stock options were the only stock-based awards made to employees and directors by Peoples Bancorp. Beginning in February 2007, Peoples Bancorp has granted a combination of restricted common shares and stock appreciation rights ("SARs") to certain employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan.

Stock Options

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

The following summarizes the changes to Peoples' stock options for the six months ended June 30, 2007:

| | | | Weighted- Average Remaining Aggregate | |
|------------------|-------------------------|--------------------|--|--|
| Number of | Weighted-Average | Contractual | Intrinsic | |
| Shares | Exercise Price | Life | Value | |
| 397,766 | \$ 21.88 | | | |

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| | | | | | |
|--------------------------|---------|----|-------|-----------|-------------|
| Outstanding at January 1 | | | | | |
| Granted | | — | | — | |
| Exercised | 38,407 | | 17.17 | | |
| Forfeited | 3,163 | | 17.03 | | |
| Outstanding at June 30 | 356,196 | \$ | 22.43 | 5.1 years | \$2,038,000 |
| Exercisable at June 30 | 310,690 | \$ | 21.55 | 4.6 years | \$2,038,000 |

For the six months ended June 30, 2007, total intrinsic value of stock options exercised was \$395,000. At June 30, 2007, unrecognized stock-based compensation expense related to unvested stock options totaled \$101,000.

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The following summarizes information concerning Peoples' stock options outstanding at June 30, 2007:

| Options Outstanding | | | | Options Exercisable | |
|--------------------------|------------------|---|-----------------|---------------------|---------------------------------|
| Range of Exercise Prices | Number of Shares | Weighted-Average Remaining Contractual Life | | Number of Shares | Weighted-Average Exercise Price |
| | | Contractual Life | Exercise Price | | |
| \$13.48 to \$18.21 | 90,055 | 2.4 years | \$ 14.41 | 90,055 | \$ 14.41 |
| \$18.70 to \$22.32 | 86,132 | 4.0 years | 21.26 | 86,132 | 21.26 |
| \$22.33 to \$27.51 | 93,244 | 6.1 years | 25.50 | 93,244 | 25.50 |
| \$27.51 to \$30.00 | 86,765 | 8.1 years | 28.61 | 41,259 | 28.80 |
| | 356,196 | 5.1 years | \$ 22.43 | 310,690 | \$ 21.55 |

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples Bancorp's common shares on the date of grant and will be settled using common shares of Peoples Bancorp. Additionally, the SARs granted will vest three years from the grant date and expire ten years from the date of grant. The following summarizes the changes to Peoples' SARs for the six months ended June 30, 2007:

| | Number of Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life |
|--------------------------|------------------|---------------------------------|---|
| Outstanding at January 1 | – | \$ – | |
| Granted | 22,047 | 29.25 | |
| Exercised | – | – | |
| Forfeited | 673 | 29.25 | |
| Outstanding at June 30 | 21,374 | \$ 29.25 | 9.6 years |

The weighted-average estimated fair value of the SARs granted was \$8.13. At June 30, 2007, unrecognized stock-based compensation expense related to unvested SARs totaled \$82,000.

The estimated fair value of SARs granted was calculated at grant date using the Black-Scholes option pricing model with the following weighted-average assumptions:

| | |
|---|-------|
| Risk-free interest rate | 4.89% |
| Dividend yield | 2.85% |
| Volatility factor of the market price of parent stock | 25.3% |

| | |
|-----------------------------------|-------------|
| Weighted-average expected life | 10 years |
|-----------------------------------|-------------|

The Black-Scholes option valuation model was originally developed for use in estimating the fair value of traded options, which have different characteristics than stock-based awards granted by Peoples, such as no vesting or transfer restrictions. The model requires the input of highly subjective assumptions, including the expected stock price volatility, which can materially affect the fair value estimate. The expected volatility and expected life assumptions were based solely on historical data. The expected dividend yield is computed based on the current dividend rate and the risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term approximating the expected life of the awards.

Restricted Shares

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

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The following summarizes the changes to Peoples' restricted common shares for the six months ended June 30, 2007:

| | Number of Shares | Weighted-Average Grant Date Fair Value |
|-----------------------------|---------------------|--|
| Outstanding at January 1 | – | \$ – |
| Awarded | 12,443 | 28.84 |
| Released | – | – |
| Forfeited | 192 | 29.25 |
| Outstanding at June 30 | 12,251 | \$ 28.84 |

Unrecognized stock-based compensation expense related to restricted common shares totaled \$150,000 at June 30, 2007.

4. Employee Benefit Plans:

Peoples Bancorp sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2003, and a noncontributory defined contribution plan that covers substantially all employees hired on or after January 1, 2003. Peoples Bancorp also sponsors a contributory postretirement benefit plan for former employees who were retired as of December 31, 1992.

The following table details the components of the net periodic benefit cost for the plans:

Pension Benefits

| <i>(Dollars in thousands)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------|--------------------------------|--------|------------------------------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| Service cost | \$ 211 | \$ 217 | \$ 423 | \$ 434 |
| Interest cost | 190 | 190 | 379 | 378 |
| Expected return on plan assets | (386) | (291) | (596) | (582) |
| Amortization of prior service cost | – | – | 1 | 1 |
| Amortization of net loss | 40 | 64 | 80 | 128 |
| Net periodic benefit cost | \$ 55 | \$ 180 | \$ 287 | \$ 359 |

Postretirement Benefits

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------|------------------------------|------|
| | 2007 | 2006 | 2007 | 2006 |

(Dollars in thousands)

| | | | | | | | | |
|---------------------------|----|---|----|---|----|----|----|----|
| Interest cost | \$ | 6 | \$ | 7 | \$ | 13 | \$ | 13 |
| Amortization of net loss | | 1 | | – | | 2 | | – |
| Net periodic benefit cost | \$ | 7 | \$ | 7 | \$ | 15 | \$ | 13 |

5. Junior Subordinated Notes Held by Subsidiary Trusts:

Peoples Bancorp previously formed two statutory business trusts (the “Trusts”) for the purpose of issuing or participating in pools of corporation-obligated mandatorily redeemable capital securities (the “Capital Securities” or “Trust Preferred Securities”), with 100% of the common equity in the Trusts owned by Peoples Bancorp. The proceeds from the Capital Securities and common equity were invested in junior subordinated debt securities of Peoples Bancorp (the “Debentures”).

The Debentures held by the trusts are the sole assets of those trusts. Distributions on the Capital Securities are payable semiannually at a rate per annum equal to the interest rate being earned by the Trusts on the Debentures and are recorded as interest expense by Peoples. Since the Trusts are variable interest entities and Peoples Bancorp is not deemed to be the primary beneficiary, the Trusts are not included in Peoples’ consolidated financial statements. As a result, Peoples includes the Debentures as a separate category of long-term debt on the Consolidated Balance Sheets

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entitled “Junior Subordinated Notes Held by Subsidiary Trusts” and the related expense as interest expense on the Consolidated Statements of Income.

Under the provisions of the Debentures, Peoples Bancorp has the right to defer payment of interest on the Debentures at any time, or from time to time, for periods not exceeding five years. If interest payments on the Debentures are deferred, the dividends on the Capital Securities are also deferred. Interest on the Debentures is cumulative. Peoples Bancorp has entered into agreements which, taken collectively, fully and unconditionally guarantee the Capital Securities subject to the terms of each of the guarantees.

The Capital Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Debentures. The Debentures held by PEBO Capital Trust I are first redeemable, in whole or in part, by Peoples Bancorp on May 1, 2009. On April 23, 2007, Peoples Bancorp repaid the entire \$7.2 million of the Debentures held by PEBO Capital Trust II, which had a then current rate of 9.10%. As a result of this repayment, PEBO Capital Trust II redeemed all of the outstanding Capital Securities and common equity and was dissolved in accordance with the terms of the Amended and Restated Declaration of Trust of PEBO Capital Trust II.

Under the risk-based capital standards for bank holding companies adopted by the Board of Governors of the Federal Reserve System, the Trust Preferred Securities qualify as Tier 1 capital for regulatory capital purposes, subject to certain quantitative limits and qualitative standards. Specifically, the aggregate amount of trust preferred securities and certain other capital elements that qualify as Tier 1 capital is limited to 25% of core capital elements, net of goodwill, with the excess amount not qualifying for Tier 1 capital being included in Tier 2 capital. Additionally, trust preferred securities no longer qualify for Tier 1 capital within five years of their maturity. The redemption of the Capital Securities issued by PEBO Capital Trust II had a minimal impact on Peoples’ regulatory capital ratios.

The Capital Securities issued by the Trusts are summarized as follows:

| <i>(Dollars in thousands)</i> | June 30, 2007 | December 31, 2006 |
|---|--------------------------|------------------------------|
| Capital securities of PEBO Capital Trust I, 8.62%, due May 1, 2029, net of unamortized issuance costs | \$ 22,443 | \$ 22,425 |
| Capital securities of PEBO Capital Trust II, 6-month LIBOR + 3.70%, due April 22, 2032, net of unamortized issuance costs | – | 6,987 |
| Total capital securities | \$ 22,443 | \$ 29,412 |
| Total capital securities qualifying for Tier 1 capital | \$ 22,443 | \$ 29,412 |

6. Comprehensive Loss

The following details the balances in accumulated other comprehensive loss for the periods indicated:

| <i>(Dollars in thousands)</i> | At June 30, 2007 | | |
|-------------------------------|-------------------------|------------------------|------------------------------|
| | Gross Amount | Tax Benefit | Net of Tax Amount |
| | (4,152) | (1,454) | (2,698) |

| | | | |
|--|----------------|----------------|----------------|
| Unrealized net losses on available-for-sale securities | | | |
| Unrecognized net pension and postretirement costs | (3,023) | (1,058) | (1,965) |
| Total accumulated comprehensive loss | (7,175) | (2,512) | (4,663) |

| At December 31, 2006 | | | |
|--|---------------------|--------------------|--------------------------|
| | Gross Amount | Tax Benefit | Net of Tax Amount |
| Unrealized net losses on available-for-sale securities | (1,506) | (527) | (979) |
| Unrecognized net pension and postretirement costs | (3,105) | (1,087) | (2,018) |
| Total accumulated comprehensive loss | (4,611) | (1,614) | (2,997) |

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7. Contingent Liabilities

In the normal course of business, Peoples Bancorp and its subsidiaries are routinely subject to examinations and challenges from federal and state tax authorities regarding positions taken in their tax returns. 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. Such adjustments, if not resolved in Peoples' favor, could have a material adverse effect on Peoples' financial condition and results of operation.

Peoples Bank has been undergoing an examination by the Ohio Department of Taxation (the "Department") of its 2002 Ohio Corporation Franchise Tax Report related to the fiscal year ended December 31, 2001 (the "2002 Tax Year"). As a result of this examination, the Department issued a Notice of Assessment in the amount of approximately \$1.4 million in regard to Peoples Bank's corporate franchise tax liability for the 2002 Tax Year. The Department has also proposed adjustments to Peoples Bank's 2003 Ohio Corporation Franchise Tax Report (the "2003 Ohio Report") related to the fiscal year ended December 31, 2002 (the "2003 Tax Year") on the basis of the 2002 Tax Year assessment that would materially increase the amount of corporate franchise tax due. Management disagrees with the assessment and the proposed adjustments in their entirety and has filed a Petition for Reassessment with the Department objecting to the assessment.

On June 25, 2007, the Department commenced an examination of Peoples Bank's Ohio Corporation Franchise Tax Reports related to the fiscal years ended December 31, 2002 through 2005, and an examination of other related companies for the same periods. The Department has not proposed any adjustments with respect to these examinations, although the administrative process is ongoing.

While management believes it has taken appropriate positions on the tax returns under examination and does not expect the examinations will have a material impact on Peoples' future financial statements, Peoples is unable to assess whether an unfavorable outcome is probable, nor to estimate the amount of liability, if any, that might result from an unfavorable outcome. However, no assurance can be given that Peoples' corporate franchise tax liability for any tax year under examination will not be different than what is reflected in Peoples' current and historical consolidated financial statements since the outcome of the examinations by the Department and ultimate resolution of the assessment with regard to the 2002 Tax Year are inherently difficult to predict. To the extent additional taxes may be due, Peoples recognizes liabilities for such tax exposures when management judges the losses associated with the claims to be probable and the amount of loss can be reasonably estimated.

Table of Contents**ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION****SELECTED FINANCIAL DATA**

The following data should be read in conjunction with the unaudited consolidated financial statements and management's discussion and analysis that follows:

| SIGNIFICANT RATIOS | At or For the Three Months Ended June 30, | | At or For the Six Months Ended June 30, | |
|---|--|-------------|--|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Return on average equity | 10.81% | 11.88% | 11.19% | 12.45% |
| Return on average assets | 1.16% | 1.18% | 1.19% | 1.24% |
| Net interest margin (a) | 3.31% | 3.29% | 3.32% | 3.34% |
| Efficiency ratio (b) | 58.68% | 56.25% | 58.57% | 56.47% |
| Average stockholders' equity to average assets | 10.69% | 9.96% | 10.62% | 9.98% |
| Average loans to average deposits | 93.35% | 96.90% | 93.52% | 96.32% |
| Cash dividends to net income | 43.41% | 40.44% | 42.29% | 38.01% |
| Nonperforming loans as a percent of total loans (c) | 0.67% | 0.93% | 0.67% | 0.93% |
| Nonperforming assets as a percent of total assets (d) | 0.41% | 0.56% | 0.41% | 0.56% |
| Allowance for loan losses to loans net of unearned interest | 1.33% | 1.38% | 1.33% | 1.38% |
| Allowance for loan losses to nonperforming loans (c) | 198.32% | 148.04% | 198.32% | 148.04% |
| Provision for loan losses to average loans | 0.07% | 0.05% | 0.13% | 0.08% |
| Net charge-offs as a percentage of average loans (annualized) | 0.24% | - 0.03% | 0.23% | 0.04% |
| CAPITAL RATIOS (end of period) | | | | |
| Tier I capital ratio | 11.74% | 11.95% | 11.74% | 11.95% |
| Total risk-based capital ratio | 12.97% | 13.26% | 12.97% | 13.26% |
| Leverage ratio | 8.67% | 8.46% | 8.67% | 8.46% |
| PER SHARE DATA | | | | |
| Earnings per share – basic | \$ 0.51 | \$ 0.52 | \$ 1.04 | \$ 1.09 |
| Earnings per share – diluted | 0.51 | 0.52 | 1.04 | 1.07 |
| Cash dividends declared per share | 0.22 | 0.21 | 0.44 | 0.41 |
| Book value per share (end of period) | 18.78 | 17.60 | 18.78 | 17.60 |
| Tangible book value per share (end of period) (e) | \$ 12.19 | \$ 11.03 | \$ 12.19 | \$ 11.03 |
| | 10,503,952 | 10,591,926 | 10,544,199 | 10,561,355 |

Weighted average shares outstanding –

Basic

| | | | | |
|---------------------------------------|-------------------|------------|-------------------|------------|
| Weighted average shares outstanding – | 10,574,250 | 10,714,030 | 10,619,815 | 10,689,465 |
|---------------------------------------|-------------------|------------|-------------------|------------|

Diluted

| | | | | |
|--|-------------------|------------|-------------------|------------|
| Common shares outstanding at end of period | 10,464,741 | 10,600,413 | 10,464,741 | 10,600,413 |
|--|-------------------|------------|-------------------|------------|

- (a) Fully-tax equivalent net interest income as a percentage of average earning assets.
- (b) Non-interest expense (less intangible amortization) as a percentage of fully-tax equivalent net interest income plus non-interest income.
- (c) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans.
- (d) Nonperforming assets include nonperforming loans and other real estate owned.
- (e) Tangible book value per share reflects capital calculated for banking regulatory requirements and excludes balance sheet impact of intangible assets acquired through acquisitions.

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Forward-Looking Statements

Certain statements in this Form 10-Q which are not historical fact are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Words such as “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) competitive pressures among financial institutions or from non-financial institutions, which may increase significantly;
 - (2) changes in the interest rate environment, which may adversely impact interest margins;
- (3) prepayment speeds, loan originations and sale volumes, charge-offs and loan loss provisions, which may be less favorable than expected;
- (4) general economic conditions, either national or in the states in which Peoples Bancorp and its subsidiaries do business, which may be less favorable than expected;
- (5) political developments, wars or other hostilities, which may disrupt or increase volatility in securities markets or other economic conditions;
- (6) legislative or regulatory changes or actions, which may adversely affect the business of Peoples Bancorp and its subsidiaries;
 - (7) changes in the conditions and trends in the securities markets;
 - (8) a delayed or incomplete resolution of regulatory issues that could arise;
- (9) the impact of reputation risk created by the developments discussed above on such matters as business generation and retention, funding and liquidity;
- (10) 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
- (11) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples Bancorp’s 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 Part I of Peoples Bancorp’s 2006 Form 10-K and in the disclosure in “ITEM 1A: RISK FACTORS” of Part II of this Quarterly Report on Form 10-Q.

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

Business Overview

The following discussion and analysis of the unaudited consolidated financial statements of Peoples is presented to provide insight into management’s assessment of the financial condition and results of operations. Peoples Bancorp’s subsidiaries are Peoples Bank, National Association (“Peoples Bank”), Peoples Investment Company and PEBO Capital Trust I. Peoples Bank also owns Peoples Insurance Agency, Inc. (“Peoples Insurance”), PBNA L.L.C. and Peoples Loan Services, Inc. Peoples Investment Company also owns Peoples Capital Corporation.

Peoples offers diversified financial products and services through 50 financial service locations and 37 ATMs in southeastern Ohio, northwestern West Virginia and northeastern Kentucky through its financial service units – Peoples

Bank, Peoples Financial Advisors (a division of Peoples Bank) and Peoples Insurance. Peoples Bank is a member of the Federal Reserve System and subject to regulation, supervision and examination by the Office of the Comptroller of the Currency. Peoples Bank makes available an array of financial products and services to customers that include traditional banking products such as deposit accounts, lending products, credit and debit cards, corporate and personal trust services, and safe deposit rental facilities. Peoples Bank provides services through traditional walk-in offices and automobile drive-in facilities, automated teller machines, banking by phone, and its internet-banking service, Peoples OnLine Connection, at www.peoplesbancorp.com (this uniform resource locator (URL) is an inactive, textual reference only).

Peoples Bank also makes available other financial services through Peoples Financial Advisors, which provides customer-tailored services for fiduciary needs, investment alternatives, financial planning, retirement plans and other asset management needs. Brokerage services are offered exclusively through an unaffiliated registered broker-dealer located at Peoples Bank's offices. Peoples Insurance is a full-service insurance agency offering a complete array of life, health, property and casualty insurance products.

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Peoples Investment Company and its subsidiary, Peoples Capital Corporation, were formed to optimize Peoples' consolidated capital position and improve profitability by providing new investment opportunities that are either limited or restricted at the bank level. These investments include, but are not limited to, low-income housing tax credit funds or projects, venture capital, and other higher risk investments. Presently, the operations of both companies do not represent a significant part of Peoples' overall business activities.

This discussion and analysis should be read in conjunction with the audited consolidated financial statements, and notes thereto, contained in Peoples Bancorp's 2006 Form 10-K, as well as the consolidated financial statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to an understanding of Peoples' consolidated financial statements and management's discussion and analysis at June 30, 2007, which were unchanged from the policies disclosed in Peoples Bancorp's 2006 Form 10-K.

Summary of Recent Transactions and Events

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

- o On January 12, 2007, Peoples Bancorp announced the authorization to repurchase up to 425,000, or approximately 4%, of Peoples Bancorp's then outstanding common shares in 2007 in open market transactions (the "2007 Stock Repurchase Program"). Any repurchased common shares will be held as treasury shares and are anticipated to be used for future exercises of equity awards granted from Peoples Bancorp's equity plans, future issuances of common shares in connection with Peoples Bancorp's deferred compensation plans, and other general corporate purposes. Through July 31, 2007, Peoples Bancorp had repurchased 295,500 common shares (or 70% of the total authorized), at an average price of \$27.32, under the 2007 Stock Repurchase Program. The 2007 Stock Repurchase Program expires on December 31, 2007.
- o On April 5, 2007, Peoples announced plans to construct a new financial services office in Huntington, West Virginia. The new office will include drive-through banking facilities and an ATM and is expected to be completed during the fourth quarter of 2007.
- o On April 23, 2007, Peoples Bancorp repaid the entire \$7.2 million of variable rate junior subordinated notes issued to and held by its subsidiary, PEBO Capital Trust II, which had a then current rate of 9.10%. As a result of this repayment, PEBO Capital Trust II was required to redeem all of its outstanding capital securities and common shares. Management expects this redemption will have minimal impact on Peoples' regulatory capital ratios and produce a modest improvement in future net interest income and margin, as the junior subordinated notes will be replaced by lower cost borrowings. PEBO Capital Trust II was dissolved in accordance with the terms of the Amended and Restated Declaration of Trust as a result of the redemption of all of the outstanding common securities and all of the capital securities.
- o On June 4, 2007, Peoples announced plans to open a full-service banking location in Zanesville, Ohio. Management originally anticipated the office to be opened during the third quarter; however, it is now

probable that the entry into the Zanesville market will be delayed as management strategically explores all possibilities to entering that market, including office location, personnel, products and services to be offered, the approach to customers and any other element of this expansion.

The impact of these transactions, where material, is discussed in the applicable sections of this management's discussion and analysis.

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As previously disclosed in “ITEM 1A. RISK FACTORS” and Note 18 of the Notes to the Consolidated Financial Statements included in Item 8 of Peoples Bancorp’s 2006 Form 10-K, Peoples Bank has been undergoing an examination by the Ohio Department of Taxation (the “Department”) of its 2002 Ohio Corporation Franchise Tax Report related to the fiscal year ended December 31, 2001 (the “2002 Tax Year”). On June 25, 2007, the Department commenced an examination of Peoples Bank’s Ohio Corporation Franchise Tax Reports related to fiscal years ended December 31, 2002 through 2005, and an examination of other related companies for the same periods. Additional information regarding the examinations by the Department can be found in “ITEM 1: LEGAL PROCEEDINGS” of Part II of this Quarterly Report on Form 10-Q.

Executive Summary

For the three months ended June 30, 2006, net income totaled \$5.3 million, or \$0.51 per diluted share, compared to \$5.5 million and \$0.52 per diluted share earned in the second quarter of 2006. On a year-to-date basis, net income totaled \$11.0 million and diluted earnings per share were \$1.04, versus \$11.5 million and \$1.07, respectively, a year ago. Peoples’ lower earnings for both the second quarter and first half of 2007 were the result of higher non-interest expense, primarily salaries and benefit costs, coupled with flat net interest income due mostly to the challenging interest rate environment. Compared to the first quarter of 2007, net income declined as a result of the non-recurrence of seasonal insurance income earned annually during the first quarter.

Second quarter 2007 return on equity (“ROE”) was 10.81% versus 11.88% a year ago, while return on assets (“ROA”) was 1.16% and 1.18%, respectively. For the six months ended June 30, 2007, ROE was 11.19% and ROA was 1.19%, compared to 12.45% and 1.24%, respectively, for the first half of 2006.

For the three months ended June 30, 2007, net interest income was \$13.3 million, unchanged from a year ago and down slightly compared to the first quarter of 2007. Net interest margin was 3.31% for the second quarter of 2007 versus 3.32% last quarter and 3.29% for 2006’s second quarter. On a year-to-date basis compared to the first half of 2006, net interest income was flat, and net interest margin compressed two basis points to 3.32%. Peoples’ ability to grow both net interest income and margin in the first half of 2007 has been challenged by the interest rate environment, plus sizable commercial loan payoffs and prepayments of investment securities that lowered average earning assets and interest income, although stable funding costs in the second quarter tempered the overall decline. Net interest income for the three and six months ended June 30, 2007, also include an adjustment to write off \$211,000 of interest receivable related to certain investment securities.

Other income totaled \$8.0 million in the second quarter of 2007, up 5% from a year ago, while on a year-to-date basis, other income was \$16.1 million versus \$15.7 million. These increases were due mostly to a combination of higher trust and investment income and electronic banking revenues. Also contributing to the second quarter growth was higher insurance sales commission income. Total other expense was \$13.2 million and \$26.5 million for the three and six months ended June 30, 2007, versus \$12.6 million and \$25.6 million for the same periods a year ago. These increases were due mostly to higher salary and benefit costs and additional occupancy and equipment expenses, offset by lower intangible amortization expense, marketing costs and professional fees.

Total assets were \$1.86 billion at June 30, 2007, down \$18.6 million since year-end 2006 as a result of the decline in loan balances. At June 30, 2007, gross portfolio loan balances were \$1.11 billion compared to \$1.13 billion, a \$24.0 million decrease due to the anticipated commercial loan payoffs that exceeded new originations. Investment securities totaled \$553.9 million at quarter-end versus \$548.7 million at year-end 2006.

At June 30, 2007, total liabilities were \$1.66 billion compared to \$1.68 billion at December 31, 2006. Total deposit balances decreased \$30.4 million during the first half of 2007, the result of Peoples’ reducing brokered deposits by \$62.5 million due to retail deposit growth and utilization of other, lower cost wholesale funds. Retail deposits, which

exclude brokered deposits, grew \$32.1 million, or 3%, from a \$29.3 million increase in interest-bearing retail deposits and additional non-interest-bearing balances of \$2.8 million.

Total stockholders' equity was \$196.6 million at June 30, 2007, down from \$197.2 million at December 31, 2006, due to treasury stock purchases totaling \$6.9 million that were largely offset by the \$6.3 million increase in Peoples' retained earnings.

Table of Contents**RESULTS OF OPERATIONS****Interest Income and Expense**

Peoples earns interest income from loans, investment securities and short-term investments and incurs interest expense on interest-bearing deposits and borrowed funds. Net interest income, the amount by which interest income exceeds interest expense, remains Peoples' largest source of revenue. For the three and six months ended June 30, 2007, net interest income totaled \$13.3 million and \$26.9 million, respectively, and was equal to the prior year.

Peoples derives a portion of its interest income from loans to and investment securities issued by states and political subdivisions. Since these revenues generally are not subject to income taxes, management believes it is more meaningful to analyze net interest income on a fully-tax equivalent ("FTE") basis, which adjusts interest income by converting tax-exempt income to the pre-tax equivalent of taxable income using a 35% tax rate. The following table details the calculation of FTE net interest income:

| <i>(Dollars in thousands)</i> | Three Months Ended | | | Six Months Ended | |
|---|---------------------------|---------------------------|--------------------------|--------------------------|------------------|
| | June 30, 2007 | March 31, 2007 | June 30, 2006 | June 30, 2007 | 2006 |
| Net interest income, as reported | \$ 13,333 | \$ 13,521 | \$ 13,305 | \$ 26,854 | \$ 26,808 |
| Taxable equivalent adjustments | 324 | 334 | 426 | 659 | 855 |
| Fully-tax equivalent net interest income | \$ 13,657 | \$ 13,855 | \$ 13,731 | \$ 27,513 | \$ 27,663 |

Net interest margin, calculated by dividing FTE net interest income by average interest-earning assets, serves as an important measurement of the net revenue stream generated by the volume, mix and pricing of Peoples' earning assets and interest-bearing liabilities. The following tables detail Peoples' average balance sheet and analysis of net interest income for the periods presented:

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| <i>(Dollars in thousands)</i> | For the Three Months Ended June 30, | | | | | |
|---|-------------------------------------|--------------------|----------------|--------------------|--------------------|----------------|
| | 2007 | | | 2006 | | |
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| ASSETS | | | | | | |
| Short-term investments: | | | | | | |
| Interest-bearing deposits with banks | \$ 2,462 | \$ 30 | 4.85% | \$ 2,553 | \$ 23 | 3.61% |
| Federal funds sold | 1,043 | 14 | 5.27% | 1,194 | 15 | 5.01% |
| Total short-term investments | 3,505 | 44 | 4.98% | 3,747 | 38 | 4.06% |
| Securities (1): | | | | | | |
| Taxable | 487,381 | 5,984 | 4.91% | 514,108 | 6,267 | 4.88% |
| Tax-exempt (2) | 53,233 | 836 | 6.28% | 67,816 | 1,114 | 6.57% |
| Total securities | 540,614 | 6,820 | 5.05% | 581,924 | 7,381 | 5.07% |
| Loans (3): | | | | | | |
| Commercial (2) | 760,062 | 14,686 | 7.75% | 722,684 | 13,209 | 7.33% |
| Real estate (4) | 293,204 | 5,247 | 7.16% | 313,307 | 5,381 | 6.87% |
| Consumer | 77,289 | 1,607 | 8.34% | 68,848 | 1,422 | 8.28% |
| Total loans | 1,130,555 | 21,540 | 7.64% | 1,104,839 | 20,012 | 7.26% |
| Less: Allowance for loan loss | (14,656) | | | (15,008) | | |
| Net loans | 1,115,899 | 21,540 | 7.74% | 1,089,831 | 20,012 | 7.36% |
| Total earning assets | 1,660,018 | 28,404 | 6.86% | 1,675,502 | 27,431 | 6.56% |
| Intangible assets | 68,142 | | | 68,557 | | |
| Other assets | 128,315 | | | 132,094 | | |
| Total assets | \$ 1,856,475 | | | \$ 1,876,153 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings | \$ 117,149 | \$ 188 | 0.64% | \$ 125,597 | \$ 203 | 0.65% |
| Interest-bearing demand deposits | 323,216 | 2,361 | 2.93% | 290,323 | 1,755 | 2.42% |
| Time | 597,118 | 6,798 | 4.57% | 556,319 | 5,476 | 3.95% |
| Total interest-bearing deposits | 1,037,483 | 9,347 | 3.61% | 972,239 | 7,434 | 3.07% |
| Borrowed funds: | | | | | | |
| Short-term | 220,758 | 2,841 | 5.11% | 227,983 | 2,757 | 4.84% |
| Long-term | 210,657 | 2,559 | 4.84% | 305,717 | 3,509 | 4.59% |
| Total borrowed funds | 431,415 | 5,400 | 4.96% | 533,700 | 6,266 | 4.66% |
| Total interest-bearing liabilities | 1,468,898 | 14,747 | 4.01% | 1,505,939 | 13,700 | 3.64% |
| Non-interest-bearing deposits | 173,565 | | | 167,918 | | |
| Other liabilities | 15,495 | | | 15,411 | | |
| Total liabilities | 1,657,958 | | | 1,689,268 | | |
| Stockholders' equity | 198,517 | | | 186,885 | | |

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| | | | | |
|--|--------------|--------------|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 1,856,475 | | \$ 1,876,153 | |
| Interest spread | \$ 13,657 | 2.85% | \$ 13,731 | 2.92% |
| Interest income to earning assets | | 6.86% | | 6.56% |
| Interest expense to earning assets | | 3.55% | | 3.27% |
| Net interest margin | | 3.31% | | 3.29% |

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

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| <i>(Dollars in thousands)</i> | For the Six Months Ended June 30, | | | | | |
|---|-----------------------------------|--------------------|----------------|--------------------|--------------------|----------------|
| | 2007 | | | 2006 | | |
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| ASSETS | | | | | | |
| Short-term investments: | | | | | | |
| Interest-bearing deposits with banks | \$ 2,856 | \$ 68 | 4.80% | \$ 2,527 | \$ 48 | 3.77% |
| Federal funds sold | 837 | 22 | 5.25% | 1,332 | 30 | 4.60% |
| Total short-term investments | 3,693 | 90 | 4.89% | 3,859 | 78 | 4.06% |
| Securities (1): | | | | | | |
| Taxable | 496,799 | 12,386 | 4.99% | 516,372 | 12,284 | 4.76% |
| Tax-exempt (2) | 53,103 | 1,714 | 6.46% | 68,356 | 2,237 | 6.55% |
| Total securities | 549,902 | 14,100 | 5.13% | 584,728 | 14,521 | 4.97% |
| Loans (3): | | | | | | |
| Commercial (2) | 757,578 | 29,209 | 7.78% | 705,808 | 25,508 | 7.29% |
| Real estate (4) | 296,241 | 10,561 | 7.13% | 316,022 | 10,715 | 6.84% |
| Consumer | 76,222 | 3,139 | 8.30% | 66,961 | 2,787 | 8.39% |
| Total loans | 1,130,041 | 42,909 | 7.64% | 1,088,791 | 39,010 | 7.21% |
| Less: Allowance for loan loss | (14,693) | | | (14,922) | | |
| Net loans | 1,115,348 | 42,909 | 7.74% | 1,073,869 | 39,010 | 7.31% |
| Total earning assets | 1,668,943 | 57,099 | 6.88% | 1,662,456 | 53,609 | 6.48% |
| Intangible assets | 68,364 | | | 68,767 | | |
| Other assets | 128,455 | | | 130,727 | | |
| Total assets | \$ 1,865,762 | | | \$ 1,861,950 | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings | \$ 115,649 | \$ 354 | 0.62% | \$ 126,591 | \$ 401 | 0.64% |
| Interest-bearing demand deposits | 320,710 | 4,576 | 2.88% | 289,768 | 3,352 | 2.33% |
| Time | 599,691 | 13,544 | 4.55% | 547,675 | 10,324 | 3.80% |
| Total interest-bearing deposits | 1,036,050 | 18,474 | 3.60% | 964,034 | 14,077 | 2.94% |
| Borrowed funds: | | | | | | |
| Short-term | 234,967 | 6,056 | 5.14% | 196,830 | 4,523 | 4.60% |
| Long-term | 208,513 | 5,056 | 4.86% | 333,397 | 7,346 | 4.41% |
| Total borrowed funds | 443,480 | 11,112 | 4.99% | 530,227 | 11,869 | 4.47% |
| Total interest-bearing liabilities | 1,479,530 | 29,586 | 4.02% | 1,494,261 | 25,946 | 3.49% |
| Non-interest-bearing deposits | 172,351 | | | 166,329 | | |
| Other liabilities | 15,817 | | | 15,561 | | |
| Total liabilities | 1,667,698 | | | 1,676,151 | | |
| Stockholders' equity | 198,064 | | | 185,799 | | |

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| | | | | |
|--|--------------|--------------|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 1,865,762 | | \$ 1,861,950 | |
| Interest spread | \$ 27,513 | 2.86% | \$ 27,663 | 2.99% |
| Interest income to earning assets | | 6.88% | | 6.48% |
| Interest expense to earning assets | | 3.56% | | 3.14% |
| Net interest margin | | 3.32% | | 3.34% |

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

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From mid-2004 through mid-2006, the Federal Reserve's Open Market Committee increased the target Fed funds rate by 425 basis points, causing short-term market interest rates to increase. During the same period, longer-term market interest rates increased at a much slower pace, compressing the difference between short-term and longer-term interest rates. The resulting change in the slope of the yield curve, coupled with intense competition for loans and deposits, has challenged the ability of financial institutions to maintain and/or grow net interest income and margins, as funding costs have increased at a faster pace than yields on earning assets.

In the second quarter of 2007, net interest income and margin were reduced by \$211,000, or 5 basis points, from an adjustment to write off interest receivable. This difference was discovered during an analysis of the investment portfolio, which identified immaterial accounting differences that relate primarily to investment securities acquired in early 2003. Management evaluated the impact of these differences and concluded the impact was not material to any quarterly or annual period, either individually or in the aggregate. The impact of this adjustment was mostly offset by relatively stable funding costs and the delay of some anticipated large commercial loan payoffs during the quarter.

The lower average earning assets in the second quarter of 2007 compared to both the linked quarter and second quarter of 2006 was attributable to management's interest rate risk strategy of using investment portfolio cash flows to fund loan growth and reduce the level of wholesale funding. This strategy accounted for the 7% decrease in second quarter average investment securities, which totaled \$540.6 million versus \$581.9 million for the second quarter of 2006. During the second quarter of 2007, management took advantage of attractive investment opportunities after the temporary, positive shift in the yield curve by purchasing approximately \$50 million of investment securities, at a weighted average FTE yield of 5.88%, which could cause a slight increase in average investment securities in the third quarter of 2007.

Another key component of Peoples' current interest rate risk strategy involves growing deposit balances in order to reduce the amount of, and reliance on, wholesale funding sources that generally carry higher market rates of interest. Compared to the second quarter of 2006, average interest-bearing deposits were up \$65.2 million, or 7%, in the second quarter of 2007, to \$1.04 billion, while average non-interest-bearing deposits grew \$5.6 million, or 3%. The higher average deposit balances helped reduce average borrowed funds, which decreased \$102.3 million, or 19%. Peoples' average cost of funds in the second quarter was flat compared to the prior quarter but was up 37 basis points from 2006's second quarter, due to matured deposits and borrowings being replaced at current, higher market rates. Through six months of 2007, average deposits were up \$72.0 million and average borrowed funds were down \$86.7 million compared to a year ago, while the average cost of funds expanded 53 basis points.

The following details the average balances and rates of Peoples' borrowed funds:

| | Three Months Ended | | | | | |
|---------------------------------|----------------------------|--------------|----------------------------|--------------|----------------------------|--------------|
| | June 30, 2007 | | March 31, 2007 | | June 30, 2006 | |
| <i>(Dollars in thousands)</i> | Average Balance | Rate | Average Balance | Rate | Average Balance | Rate |
| Short-term borrowings: | | | | | | |
| FHLB advances | \$ 180,800 | 5.22% | \$ 208,991 | 5.25% | \$ 193,934 | 4.96% |
| Retail repurchase agreements | 34,958 | 4.44% | 35,342 | 4.63% | 34,049 | 3.96% |
| Wholesale repurchase agreements | 5,000 | 5.46% | 5,000 | 5.34% | - | - |
| | \$ 220,758 | 5.11% | \$ 249,333 | 5.17% | \$ 227,983 | 4.84% |

| | | | | | | |
|---------------------------------|------------|-------|------------|-------|------------|-------|
| Total short-term borrowings | | | | | | |
| Long-term borrowings: | | | | | | |
| FHLB advances | \$ 68,250 | 4.52% | \$ 68,644 | 4.45% | \$ 158,473 | 4.37% |
| Wholesale repurchase agreements | 118,352 | 4.26% | 108,278 | 4.03% | 104,602 | 3.46% |
| Other long-term borrowings | 24,055 | 8.72% | 29,424 | 8.86% | 42,642 | 8.07% |
| Total | \$ 210,657 | 4.84% | \$ 206,346 | 4.86% | \$ 305,717 | 4.59% |
| Total borrowed funds | | | | | | |
| | \$ 431,415 | 4.96% | \$ 455,679 | 5.02% | \$ 533,700 | 4.66% |

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| <i>(Dollars in thousands)</i> | Six Months Ended June 30, | | Six Months Ended June 30, | |
|--|---------------------------|--------------|---------------------------|--------------|
| | 2007 | | 2006 | |
| | Average Balance | Rate | Average Balance | Rate |
| Short-term borrowings: | | | | |
| FHLB advances | \$ 194,818 | 5.24% | \$ 162,408 | 4.74% |
| Retail repurchase agreements | 35,149 | 4.53% | 34,422 | 3.79% |
| Wholesale repurchase agreements | 5,000 | 5.40% | – | – |
| Total short-term borrowings | \$ 234,967 | 5.14% | \$ 196,830 | 4.60% |
| Long-term borrowings: | | | | |
| FHLB advances | \$ 68,446 | 4.48% | \$ 171,866 | 4.27% |
| Wholesale repurchase agreements | 113,343 | 4.15% | 118,730 | 3.35% |
| Other long-term borrowings | 26,724 | 8.79% | 42,801 | 7.96% |
| Total long-term borrowings | \$ 208,513 | 4.86% | \$ 333,397 | 4.41% |
| Total borrowed funds | \$ 443,480 | 4.99% | \$ 530,227 | 4.47% |

The higher average short-term Federal Home Loan Bank (“FHLB”) advances in the first quarter and on a year-to-date basis was largely attributable to Peoples repaying maturing long-term borrowings with short-term advances. Additionally, Peoples’ use of brokered deposits to diversify wholesale funding sources, coupled with retail deposit growth and cash flows from the investment and loan portfolios, has tempered the increase in short-term borrowings. The average cost of Peoples’ borrowed funds has steadily increased since mid-2004 in response to the Federal Reserve’s action to increase rates. However, the April 2007 redemption of the junior subordinated notes held by PEBO Capital Trust II has helped temper the overall increase in Peoples’ average cost of borrowed funds, as the junior subordinated notes were replaced by other lower cost borrowings. Management may make adjustments to the mix of borrowed funds in the future, as deemed desirable, to manage liquidity and position the balance sheet for potential changes in interest rates. Additional information regarding Peoples’ borrowed funds can be found later in this discussion under the caption “FINANCIAL CONDITION-Funding Sources”.

While Peoples’ net interest income and margin benefited from relatively stable funding costs and the positive change in the slope of the yield curve late in the second quarter, the current interest rate environment and intense competition for loans and deposits will continue to pressure both sides of the balance sheet. Management believes modest net interest margin compression could occur in the third quarter of 2007, due to various factors, including a full quarter’s impact of the second quarter loan payoffs, the flattening of the yield curve since quarter-end, competitive pricing of loans and the repricing of maturing deposits and borrowings to current rates. Still, management will continue its efforts to adjust the mix of Peoples’ balance sheet, with the goal of minimizing the impact of future interest rate changes on net interest income, although Peoples’ net interest margin and income remain difficult to predict and manage in the current interest rate environment. Additional information regarding Peoples’ interest rate risk and the potential impact of interest rate changes on Peoples’ results of operations and financial condition can be found later in this discussion under the caption “Interest Rate Sensitivity and Liquidity”.

Provision for Loan Losses

Peoples' provision for loan losses was \$847,000 for the second quarter of 2007, compared to \$623,000 last quarter and \$573,000 for the second quarter of 2006. The provision for loan losses is based on management's quarterly evaluation of the loan portfolio and is directionally consistent with changes in Peoples' overall loan quality since the first quarter of 2007. When expressed as a percentage of average loans, the provision was 0.07% in the second quarter of 2007, versus 0.06% last quarter and 0.05% for the second quarter of 2006.

The provision for loan losses will fluctuate each quarter based on the results of management's formal analysis of the adequacy of the allowance for loan losses and procedural methodology that estimates the amount of credit losses probable within the loan portfolio. Additional information regarding changes in Peoples' allowance for loan losses and loan credit quality can be found later in this discussion under the caption "Allowance for Loan Losses".

Table of Contents**Non-Interest Income**

Peoples generates non-interest income from six primary sources: deposit account service charges, trust and investment income, insurance commissions, electronic banking (“e-banking”), mortgage banking and business owned life insurance (“BOLI”). Non-interest income, which excludes gains and losses on securities transactions and asset disposals, totaled \$7.9 million and \$16.0 million for the three and six months ended June 30, 2007, up from \$7.6 million and \$15.7 million for the same periods a year ago.

Service charges and other fees on deposit accounts, which are based on the recovery of costs associated with services provided, comprised the largest portion of Peoples’ second quarter non-interest revenue. The following table details Peoples’ deposit account service charges:

| <i>(Dollars in thousands)</i> | Three Months Ended | | | Six Months Ended | |
|-------------------------------|---------------------------|-----------------------|----------------------|-------------------------|----------------------|
| | June 30, 2007 | March 31, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Overdraft fees | \$ 1,725 | \$ 1,506 | \$ 1,789 | \$ 3,231 | \$ 3,316 |
| Non-sufficient funds fees | 493 | 437 | 543 | 930 | 1,004 |
| Other fees and charges | 227 | 425 | 272 | 652 | 745 |
| Total | \$ 2,445 | \$ 2,368 | \$ 2,604 | \$ 4,813 | \$ 5,065 |

The amount of deposit account service charges recognized by Peoples each quarter, particularly overdraft and non-sufficient funds fees, is largely dependent on the timing and volume of customer activity. Compared to the first quarter of 2007, deposit account service charges increased 3% in the second quarter, primarily as a result of a reduction in the amount of fees being waived. Peoples continues to focus on growing core deposits and adding new customer relationships. While these efforts could have a positive impact on future deposit account service charges, management believes the new relationships provide more opportunities to enhance other non-interest revenues through Peoples’ relationship-based approach to serving customers.

Insurance commissions also comprise a significant portion of Peoples’ total non-interest income. The following table details Peoples’ insurance commissions:

| <i>(Dollars in thousands)</i> | Three Months Ended | | | Six Months Ended | |
|--|---------------------------|-----------------------|----------------------|-------------------------|----------------------|
| | June 30, 2007 | March 31, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Property and casualty insurance | \$ 2,178 | \$ 1,985 | \$ 2,048 | \$ 4,163 | \$ 3,983 |
| Life and health insurance | 168 | 140 | 140 | 308 | 288 |
| Credit life and A&H insurance | 51 | 30 | 49 | 81 | 81 |
| Contingent performance based commissions | 12 | 795 | 37 | 807 | 1,074 |
| Total | \$ 2,409 | \$ 2,950 | \$ 2,274 | \$ 5,359 | \$ 5,426 |

Property and casualty insurance sales commissions have grown steadily in 2007, as increased production more than offset the impact of lower pricing margins. Compared to the first quarter 2007, total insurance income decreased

slightly, reflecting the seasonality of the performance based insurance commissions. The majority of this income is earned annually by Peoples during the first quarter and is based on a combination of factors, including loss experience of insurance policies sold, production volumes and overall financial performance of the insurance industry during the preceding year.

Trust and investment revenues were up 15% year-over-year for both the three and six months ended June 30, 2007. Compared to the first quarter of 2007, trust and investment revenues grew 13% in the second quarter. These increases were attributable to the addition of seasoned sales personnel that resulted in an increase in assets under management. At June 30, 2007, trust and brokerage assets under management had a market value of \$884.5 million compared to \$854.3 million at March 31, 2007 and \$805.3 million at June 30, 2006, increases of 4% and 10%, respectively. The following table details Peoples' trust and investment revenues:

| <i>(Dollars in thousands)</i> | Three Months Ended | | | Six Months Ended | |
|-------------------------------|---------------------------|---------------------------|--------------------------|--------------------------|--------------------------|
| | June 30, 2007 | March 31, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Fiducary | \$ 1,041 | \$ 927 | \$ 918 | \$ 1,968 | \$ 1,695 |
| Brokerage | 245 | 216 | 202 | 461 | 425 |
| Total | \$ 1,286 | \$ 1,143 | \$ 1,120 | \$ 2,429 | \$ 2,120 |

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E-banking revenues experienced double-digit year-over-year growth both for the second quarter and on a year-to-date basis, as a result of a higher volume of debit card transactions. At June 30, 2007, Peoples had 38,415 deposit relationships with debit cards, or 55% of all eligible deposit accounts, compared to 35,618 relationships and a 53% penetration rate a year ago. Peoples' customers used their debit cards to complete \$111.3 million of transactions through six months of 2007, up 17% from \$94.8 million for the first half of 2006.

Non-Interest Expense

Non-interest expense was \$13.2 million and \$26.5 million for the three and six months ended June 30, 2007, versus \$12.6 million and \$25.6 million for the same periods a year ago. These increases were due mostly to higher salary and benefit costs and additional occupancy and equipment expenses, offset by lower intangible amortization expense, marketing costs and professional fees. Compared to the first quarter of 2007, total non-interest expense was down slightly due to lower salaries and benefit costs.

Salaries and benefit costs, Peoples' largest non-interest expense, have increased in 2007 from a year ago, due to executive severance costs of approximately \$100,000 during the second quarter, coupled with higher levels of full-time equivalent employees, increased employee medical benefit costs and increased insurance sales commission expense. The following table details Peoples' salaries and benefit costs:

| | Three Months Ended | | | Six Months Ended | |
|--|--------------------|-------------------|------------------|------------------|------------------|
| | June 30, 2007 | March 31, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| <i>(Dollars in thousands)</i> | | | | | |
| Salaries and other compensation | \$ 5,326 | \$ 5,602 | \$ 5,033 | \$ 10,928 | \$ 10,406 |
| Employee benefits | 1,009 | 1,136 | 905 | 2,145 | 1,919 |
| Payroll taxes and other employment-related costs | 535 | 559 | 494 | 1,094 | 1,019 |
| Total | \$ 6,870 | \$ 7,297 | \$ 6,432 | \$ 14,167 | \$ 13,344 |

Compared to the first quarter of 2007, salaries and other compensation decreased as a result of lower incentive compensation accrued for year-end payouts and larger amounts of salaries included in direct loan origination costs for second quarter loan originations. Although medical benefit costs continued to rise in 2007, Peoples saw a reduction in pension plan expense during the second quarter compared to a year ago and the first quarter, tempering the increased medical benefit costs. Also contributing to the linked quarter decline in benefit costs was lower stock-based compensation expense, totaling \$95,000 versus \$144,000. This decrease was the result of Peoples' recognizing \$81,000 of stock-based compensation in the first quarter related to awards made in February 2007 that were deemed fully vested for expense recognition due to the implicit service period under Peoples' equity plans. At June 30, 2007, Peoples' unrecognized stock-based compensation expense totaled \$333,000, which will be recognized over the remaining requisite service periods ranging from six months to three years.

In the second quarter of 2007, net occupancy and equipment costs increased 12% from a year ago, and grew 9% on a year-to-date basis. The increased costs were primarily attributable to additional maintenance costs, plus higher utilities expenses and property taxes.

Bankcard costs were up 24% for both the three and six months ended June 30, 2007, from the same periods in 2006. Compared to the first quarter of 2007, bankcard costs grew 9% in the second quarter. These increases reflected higher volumes of customer activity and additional debit cards issued to customers. While bankcard expenses have

risen, Peoples has experienced a greater increase in the related bankcard revenue, which is included as a component of e-banking income. Overall, management feels the additional bankcard costs are reasonable considering the higher second quarter net bankcard revenue. Peoples' e-banking services also make it easier and more convenient for customers to complete transactions at a lower cost to Peoples, thus affording opportunities to improve overall relationship profitability.

Marketing expense, which includes the cost of advertising, public relations and charitable contributions, was down 8% in the second quarter of 2007 compared to the second quarter a year ago and down 18% on a year-to-date basis. Lower costs associated with Peoples' deposit direct mail marketing and gift program was a key driver of the reduction in marketing costs, while lower charitable contributions was a contributing factor in the decrease marketing expense through six months.

Table of Contents**Income Tax Expense**

For the six months ended June 30, 2007, Peoples' effective tax rate was 26.7%, matching the full year 2006 rate of 26.7%, and reflecting management's current estimate of Peoples' effective rate for full year 2007. Peoples has made various tax-advantaged investments as part of tax strategies designed to reduce its effective tax rate and overall tax burden. At June 30, 2007, these investments totaled \$135.3 million versus \$140.4 million at year-end 2006. Depending on economic and regulatory conditions, Peoples may make additional investments in the future as a means of managing its future effective tax rate.

FINANCIAL CONDITION**Cash and Cash Equivalents**

Cash and cash equivalents, primarily cash on hand and balances due from other banks, increased \$2.4 million during the second quarter of 2007, to \$37.8 million at June 30, 2007, but was down \$2.0 million since year-end 2006. The amount of cash and cash equivalents fluctuates on a daily basis due to customer activity and Peoples' liquidity needs. Management believes the current balance of cash and cash equivalents, along with the availability of other funding sources, provides Peoples with sufficient liquidity to meet its cash requirements. Further information regarding Peoples' liquidity can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."

Investment Securities

At June 30, 2007, Peoples' investment securities had a fair market value of \$553.9 million versus \$548.7 million at December 31, 2006. In the first half of 2007, Peoples purchased \$76.9 million of investment securities, which exceeded the total proceeds from calls, maturities and prepayments of \$69.0 million. The fair market value of the portfolio has declined \$2.6 million since year-end 2006. At June 30, 2007, management determined no individual investment security with an unrealized loss represented an other-than-temporary impairment since Peoples has the ability and intent to hold those securities for a period of time sufficient to recover the amortized cost. The following table details Peoples' available-for-sale investment portfolio, at estimated fair value:

| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|--|--------------------------|---------------------------|------------------------------|--------------------------|
| U.S. Treasury securities and obligations of | | | | |
| U.S. government agencies and corporations | \$ 214 | \$ 232 | \$ 282 | \$ 438 |
| Obligations of U.S. government-sponsored enterprises | 119,824 | 120,016 | 130,600 | 121,138 |
| Obligations of states and political subdivisions | 58,302 | 51,544 | 53,938 | 67,406 |
| Mortgage-backed securities | 319,556 | 317,832 | 304,413 | 324,843 |
| Other securities | 56,034 | 57,413 | 59,500 | 54,981 |
| Total available-for-sale securities | \$ 553,930 | \$ 547,037 | \$ 548,733 | \$ 568,806 |

Overall, the composition of Peoples' investment portfolio remained comparable to recent periods. In the second quarter of 2007, Peoples purchased approximately \$50 million of investment securities, primarily mortgage-backed securities and tax-exempt municipal securities, due to the significant commercial loan payoffs and prepayments of

other investment securities, as well as the attractive yields from the temporary upward shift in the yield curve during the second quarter. Management expects prepayments will remain steady in the final six months of 2007 and loan growth to be minimal. Thus, a portion of the cash flows from the investment portfolio is expected to be reinvested, although a portion may be used to reduce the level of borrowed funds.

Loans

Peoples Bank originates various types of loans, including commercial, financial and agricultural loans (“commercial loans”), real estate loans and consumer loans, throughout its market areas in central and southeastern Ohio, northwestern West Virginia, and northeastern Kentucky markets. In the second quarter of 2007, gross portfolio loan balances contracted, due to the anticipated commercial loan payoffs that exceeded new originations. The following table details total outstanding loans:

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| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|-------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|
| Commercial, mortgage | \$ 468,241 | \$ 477,189 | \$ 469,934 | \$ 484,486 |
| Commercial, other | 177,651 | 195,612 | 191,847 | 187,296 |
| Real estate, construction | 96,690 | 97,116 | 99,311 | 66,627 |
| Real estate, mortgage | 286,198 | 290,514 | 297,663 | 305,199 |
| Consumer | 79,629 | 75,194 | 73,639 | 70,605 |
| Total loans | \$ 1,108,409 | \$ 1,135,625 | \$ 1,132,394 | \$ 1,114,213 |

The decrease in commercial loan balances, including loans secured by commercial real estate, during the second quarter reflects the \$30 million of expected payoffs from two, unrelated customer relationships, of which \$20 million was in the “commercial, other” category and the remaining \$10 million was a lodging and lodging related construction loan. While management believes lending opportunities exist in Peoples’ markets, future commercial lending activities will be dependent on economic and related conditions, such as general demand for loans in Peoples’ primary markets, competitive pricing of loans and normal underwriting considerations.

Portfolio real estate mortgage loan balances continue to be impacted by customer demand for long-term, fixed-rate mortgages, which Peoples generally sells to the secondary market with servicing rights retained. At June 30, 2007, Peoples was servicing \$172.3 million of real estate loans previously sold to the secondary market compared to \$165.7 million at March 31, 2007 and \$162.5 million at year-end 2006. Included in real estate mortgage loans are home equity credit line balances of \$43.1 million at June 30, 2007, versus \$43.3 million at March 31, 2007 and \$45.6 million at December 31, 2006.

Consumer loan balances, excluding overdrafts, increased for another consecutive quarter, growing 18% on an annualized basis since March 31, 2007, due in part to the success of Peoples’ indirect lending activities. At June 30, 2007, indirect consumer loans totaled \$40.6 million compared to \$38.9 million at the prior quarter-end and \$37.1 million a year ago.

In the second half of 2007, management believes additional loan payoffs and ongoing aggressive competition from the capital markets and larger institutions for new loans will continue to challenge loan growth. As a result, loan balances are expected to be flat or decrease slightly from the quarter-end level in the short term. Consequently, management may consider purchasing some loans to supplement internal loan originations, although Peoples will not sacrifice loan quality merely for the sake of growth.

Loan Concentration

Peoples’ loans consist of credits to borrowers spread over a broad range of industrial classifications, with no loans to foreign entities. Peoples’ largest concentration of commercial loans includes credits to assisted living facilities and nursing homes, which comprised 8.4% of total outstanding commercial loans at June 30, 2007, versus 9.5% at year-end 2006. Loans to lodging and lodging related companies also represent a significant portion of Peoples’ commercial loans, comprising 7.0% and 8.1% of total outstanding commercial loans at June 30, 2007 and December 31, 2006, respectively.

These lending opportunities typically have arisen due to the growth of these industries in markets served by Peoples or in contiguous areas, and also from sales associates' efforts to develop these lending relationships. Management believes Peoples' loans to assisted living facilities and nursing homes, as well as loans to lodging and lodging-related companies, do not pose abnormal risk when compared to risk assumed in other types of lending since these credits have been subjected to Peoples' normal underwriting standards, which include an evaluation of the financial strength, market expertise and experience of the borrowers and principals in these business relationships. In addition, a sizeable portion of the loans to lodging and lodging-related companies is spread over various geographic areas and is guaranteed by principals with substantial net worth.

Allowance for Loan Losses

Peoples' allowance for loan losses totaled \$14.7 million, or 1.33% of total loans, at June 30, 2007, compared to \$14.5 million or 1.28% of loans at year-end 2006. The following table presents changes in Peoples' allowance for loan losses:

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| <i>(Dollars in thousands)</i> | Three Months Ended | | Six Months Ended | |
|-------------------------------|---------------------------|------------------|-------------------------|------------------|
| | June 30, | | June 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Balance, beginning of period | \$ 14,513 | \$ 14,672 | \$ 14,509 | \$ 14,720 |
| Chargeoffs | (965) | (521) | (2,610) | (1,174) |
| Recoveries | 297 | 607 | 1,323 | 944 |
| Net (chargeoffs) recoveries | (668) | 86 | (1,287) | (230) |
| Provision for loan losses | 847 | 573 | 1,470 | 841 |
| Balance, end of period | \$ 14,692 | \$ 15,331 | \$ 14,692 | \$ 15,331 |

Through six months of 2007, gross charge-offs were up significantly year-over-year due to losses from three unrelated loan relationships during the first half of 2007, while the sizeable recovery in the first quarter of 2007 relating to a group of commercial loans charged-off in 2002 resulted in higher than normal recoveries. The following table details Peoples' net charge-offs (recoveries):

| <i>(Dollars in thousands)</i> | Three Months Ended | | | Six Months Ended | |
|---|---------------------------|-----------------------|----------------------|-------------------------|----------------------|
| | June 30, 2007 | March 31, 2007 | June 30, 2006 | June 30, 2007 | June 30, 2006 |
| Commercial | \$ 523 | \$ 288 | \$ (98) | \$ 811 | \$ 39 |
| Overdrafts | 133 | 53 | 173 | 186 | 277 |
| Consumer | 29 | 266 | 42 | 295 | 28 |
| Real estate | (14) | 13 | (202) | (1) | (111) |
| Credit card | (3) | (1) | (1) | (4) | (3) |
| Total net charge-offs (recoveries) | \$ 668 | \$ 619 | \$ (86) | \$ 1,287 | \$ 230 |
| As a percent of average loans (a) | 0.24% | 0.22% | - 0.03% | 0.23% | 0.04% |

(a) Presented on an annualized basis.

The allowance for loan losses is allocated among the loan categories based upon management's consistent, quarterly procedural discipline, which includes consideration of changes in loss trends and loan quality. However, the entire allowance for loan losses is available to absorb loan losses in any loan category. The following details the allocation of the allowance for loan losses:

| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|--|----------------------|-----------------------|--------------------------|----------------------|
| Commercial | \$ 12,911 | \$ 12,723 | \$ 12,661 | \$ 13,154 |
| Real estate | 958 | 943 | 957 | 1,051 |
| Consumer | 554 | 582 | 596 | 809 |
| Overdrafts | 269 | 265 | 295 | 317 |
| Total allowance for loan losses | \$ 14,692 | \$ 14,513 | \$ 14,509 | \$ 15,331 |

The significant allocation of the allowance to commercial loans is based upon Peoples' quarterly review process that considers the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. The allowance allocated to the real estate and consumer loan categories is based upon Peoples' allowance methodology for homogeneous pools of loans, which includes consideration of changes in loss experience and total loan balances.

Asset quality remains a key focus, as management continues to emphasize loan underwriting quality more than loan growth. The following table details Peoples' nonperforming assets:

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| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|---|--------------------------|---------------------------|------------------------------|--------------------------|
| Loans 90+ days past due and accruing | \$ 313 | \$ – | \$ 1 | \$ 808 |
| Renegotiated loans | – | – | 1,218 | – |
| Nonaccrual loans | 7,096 | 6,015 | 8,785 | 9,548 |
| Total nonperforming loans | 7,409 | 6,015 | 10,004 | 10,356 |
| Other real estate owned | 213 | 50 | – | 130 |
| Total nonperforming assets | \$ 7,622 | \$ 6,065 | \$ 10,004 | \$ 10,486 |
| Nonperforming loans as a percent of total loans | 0.67% | 0.53% | 0.88% | 0.93% |
| Nonperforming assets as a percent of total assets | 0.41% | 0.32% | 0.53% | 0.56% |

Despite the increase in nonperforming loans during the second quarter of 2007, total loan delinquencies, which include all loans past due 30 days or more, comprised only 1.24% of total loans at June 30, 2007, down from 1.30% at year-end 2006. While many financial institutions have experienced increased levels of problem assets due to higher rates of residential real estate foreclosures and other credit problems, Peoples' long-standing commitment to sound underwriting practices has produced loan quality that compares favorably to peers.

At June 30, 2007, the recorded investment in loans considered to be impaired was \$19.2 million, down slightly from \$19.4 million at year-end 2006. Included in these totals were \$8.2 million and \$4.9 million of impaired loans for which the related allowance for loan losses was \$1.8 million and \$1.5 million, respectively. The remaining impaired loans did not have a related allocation of the allowance for loan losses because the loans have previously been written-down, are well collateralized or possess characteristics indicative of the borrowers' ability to repay the loan. For the six months ended June 30, 2007, Peoples' average recorded investment in impaired loans was approximately \$19.6 million and interest income of \$678,000 was recognized on impaired loans during the period, representing 2.4% of Peoples' total interest income. This compares to average impaired loans of \$16.4 million and interest income of \$619,000, or 1.2% of Peoples' total interest income, for the same period in 2006.

Funding Sources

Deposits, both interest-bearing and non-interest-bearing, continue to be the most significant source of funds for Peoples. At June 30, 2007, total deposits were \$1.20 billion, down \$30.4 million since year-end 2006 attributable to a reduction in brokered deposits. Excluding the impact of brokered deposits, total retail deposit balances grew \$32.1 million or 3% since the end of 2006. The following table details Peoples' deposit balances:

| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|---------------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|
| Retail certificates of deposit | \$ 517,910 | \$ 528,543 | \$ 514,885 | \$ 499,448 |
| Interest-bearing transaction accounts | 179,430 | 182,164 | 170,022 | 177,905 |
| Money market deposit accounts | 149,791 | 145,073 | 134,387 | 123,513 |
| Savings accounts | 115,691 | 119,153 | 114,186 | 123,293 |
| | 66,601 | 70,535 | 129,128 | 57,969 |

| | | | | |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Brokered certificates of deposits | | | | |
| Total interest-bearing deposits | 1,029,423 | 1,045,468 | 1,062,608 | 982,128 |
| Non-interest-bearing deposits | 173,675 | 172,122 | 170,921 | 169,903 |
| Total deposit balances | \$ 1,203,098 | \$ 1,217,590 | \$ 1,233,529 | \$ 1,152,031 |

Non-interest-bearing deposit balances have increased since December 31, 2006, due in part to Peoples' efforts to reduce its reliance on higher cost funding through growth of core deposits. Peoples also has been successful in attracting business and personal deposits with its competitive "Peoples Plus Money Market" account, which was the primary driver of the \$15.4 million, or 23% annualized, growth in money market balances. Competition for deposits remains fierce in Peoples' markets, which could challenge deposit growth in the final half of 2007. During the first six months of 2007, Peoples reduced its brokered deposits \$62.5 million due to growth in retail deposit balances and the use of other lower rate funding sources.

Peoples also accesses other funding sources, including short- and long-term borrowings, to fund asset growth and satisfy liquidity needs. The following details Peoples' short- and long-term borrowings:

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| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|--|--------------------------|---------------------------|------------------------------|--------------------------|
| Short-term borrowings: | | | | |
| FHLB advances | \$ 198,800 | \$ 179,000 | \$ 158,200 | \$ 191,800 |
| National market repurchase agreements | 5,000 | 5,000 | 5,000 | — |
| Retail repurchase agreements | 31,205 | 36,515 | 31,683 | 36,768 |
| Total short-term borrowings | \$ 235,005 | \$ 220,515 | \$ 194,883 | \$ 228,568 |
| Long-term borrowings: | | | | |
| FHLB advances | \$ 68,010 | \$ 67,767 | \$ 70,793 | \$ 151,071 |
| National market repurchase agreements | 113,750 | 120,000 | 130,000 | 100,000 |
| Term note payable | — | — | — | 11,900 |
| Total long-term borrowings | \$ 181,760 | \$ 187,767 | \$ 200,793 | \$ 262,971 |
| Subordinated notes held by subsidiary trusts | \$ 22,443 | \$ 29,434 | \$ 29,412 | \$ 29,369 |
| Total borrowed funds | \$ 439,208 | \$ 437,716 | \$ 425,088 | \$ 520,908 |

The short-term FHLB advances consist of overnight advances used to manage Peoples' daily liquidity needs, which has caused some of the increase in these overnight balances. Further contributing to the increase was management's decision to repay maturing brokered deposits and long-term borrowings using short-term FHLB advances rather than extending the borrowings at current market rates. Management expects to continue to utilize various wholesale borrowings, both amortizing and non-amortizing, to help manage its interest rate sensitivity, cost of funds and liquidity position. Further information regarding Peoples' management of interest rate sensitivity can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."

Capital/Stockholders' Equity

At June 30, 2007, stockholders' equity was \$196.6 million versus \$197.2 million at December 31, 2006, as treasury stock purchases totaling \$6.9 million offset the \$6.3 million increase in Peoples' retained earnings.

Through six months of 2007, Peoples Bancorp declared dividends of \$4.6 million, or 42.3% of earnings, compared to \$4.4 million, or 38.0% of earnings in the first half of 2006. While management anticipates Peoples continuing its 41-year history of consistent dividend growth in future periods, Peoples Bancorp's ability to pay dividends on its common shares is largely dependent upon dividends from Peoples Bank. In addition, other restrictions and limitations may prohibit Peoples from paying dividends even when sufficient cash is available.

At June 30, 2007, Peoples had treasury stock totaling \$11.6 million compared to \$5.9 million at year-end 2006. During the first six months 2007, Peoples Bancorp repurchased a total of 240,000 common shares, at an average price of \$28.15, or 56% of the total amount authorized under the 2007 Stock Repurchase Plan, accounting for the increase in treasury stock since December 31, 2006. This increase was tempered by the reissuance of 38,062 treasury shares in connection with exercises of stock options. Management believes additional repurchases of Peoples Bancorp's common shares may occur in 2007 since 185,000 common shares remain available under the 2007 Stock Repurchase Program.

In addition to monitoring performance through traditional capital measurements (i.e., dividend payout ratios and ROE), Peoples has also complied with the capital adequacy standards mandated by the banking regulatory agencies. At June 30, 2007, all three risk-based capital ratios for both Peoples and Peoples Bank were well above the minimum standards for a well-capitalized institution.

Interest Rate Sensitivity and Liquidity

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

Table of Contents**Interest Rate Risk**

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

Peoples has charged the Asset-Liability Committee (the “ALCO”) with the overall management of IRR. Peoples’ ALCO has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. There have been no material changes to these policies or methods used by the ALCO to assess IRR from those disclosed in Peoples Bancorp’s 2006 Form 10-K.

While various methods are used in the overall assessment of Peoples’ IRR, the ALCO predominantly relies on simulation modeling in its overall management of IRR since it estimates the impact of potential changes in interest rates on Peoples’ future earnings and projected fair value of equity. The following table illustrates the estimated earnings and economic value at risk as of June 30, 2007 (dollars in thousands):

| Immediate Interest Rate Increase (Decrease) in Basis Points | Estimated (Decrease) Increase In Net Interest Income | | Estimated Decrease in Economic Value of Equity | |
|--|---|---------|---|---------|
| 200 | \$ (6,044) | (11.7)% | \$ (44,874) | (17.4)% |
| 100 | (2,845) | (5.5)% | (32,403) | (12.5)% |
| (100) | 1,916 | 3.7 % | (18,403) | (7.1)% |
| (200) | \$ 2,566 | 5.0 % | \$ (24,139) | (9.3)% |

The ALCO also monitors the timing difference between the maturity or repricing of earning assets and interest-bearing liabilities, which is known as the sensitivity gap, focusing on the one-year cumulative gap position in assessing IRR. At June 30, 2007, Peoples’ one-year cumulative gap amount was negative 14.6% of earning assets, which represented \$243.2 million more in liabilities than assets that may contractually reprice or mature during that period. This compares to a one-year cumulative gap of negative 17.3% of earning assets, or \$292.7 million more in liabilities than assets, at year-end 2006. Management believes Peoples’ gap position could be negatively effected by continued customer preference for loans with initial fixed rate periods in excess of one year and deposits with terms of one year or less.

At June 30, 2007, Peoples’ interest rate risk analysis showed that Peoples was liability sensitive, which indicates an immediate and sustained increase in interest rates would negatively impact net interest income primarily due to liabilities repricing upward faster than assets. Conversely, a decrease in interest rates provides slightly higher net interest income. Improvement in asset yields in a rising rate environment may be limited by variable rate loans that may reach their annual interest rate cap, or potentially their lifetime interest rate cap, and a slow down in the prepayment amounts on loans and mortgage-backed securities, producing less cash flow to reinvest at current interest rates. Further, Peoples’ interest-bearing liabilities do not possess the same level of optionality or repricing characteristics as the earning assets. Specifically, management administers the rates paid on deposits, and thus, can control the change in rates in a rising rate environment and may decrease rates more quickly in a declining rate environment, which may mitigate some of the IRR exposure. The ALCO will continue to monitor Peoples’ overall

IRR position and take appropriate actions, when necessary, to minimize the impact of changes in interest rates on future earnings.

Liquidity

In addition to IRR management, a primary objective of the ALCO is to maintain a sufficient level of liquidity. The ALCO defines liquidity as the ability to meet anticipated and unanticipated operating cash needs, loan demand and deposit withdrawals, without incurring a sustained negative impact on profitability. The ALCO's liquidity management policy sets limits on the net liquidity position of Peoples and the concentration of non-core funding sources, both wholesale funding and brokered deposits.

Typically, the main source of liquidity for Peoples is deposit growth. Liquidity is also provided by cash generated from earning assets such as maturities, calls, principal payments and interest income from loans and investment securities. Through six months of 2007, cash and cash equivalents declined \$2.0 million, as financing activities consumed \$26.7 million due mostly to lower deposit balances, which offset the \$13.0 million net cash from investing activities and \$11.7

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million net cash from operations. During the same period in 2006, net cash decreased \$2.1 million, as net cash from operations and financing activities of \$15.5 million and \$15.4 million, respectively, was offset by \$33.0 million used in investing activities, primarily to fund loan originations.

As part of the process of the management of liquidity, the ALCO reviews trends of deposits and loans, as well as other maturing liabilities, in relation to the need for cash or additional funding. A liquidity forecast is prepared based on that information and the ALCO may discuss appropriate actions, if any, that should be taken. However, actual future cash flows may be materially different from the forecast due to the level of uncertainty regarding the timing and magnitude of anticipated cash flows, such as demands for funding related to unfunded loan commitments and other contractual obligations and prepayments on loans and investment securities.

When appropriate, Peoples takes advantage of external sources of funds, such as advances from the FHLB, national market repurchase agreements and brokered deposits. These external sources often provide Peoples with the ability to obtain large quantities of funds in a relatively short time period and supplement funding from customer deposits. At June 30, 2007, Peoples had available borrowing capacity of approximately \$247 million through these external sources, along with unpledged investment securities of approximately \$59 million that can be utilized as an additional source of liquidity.

The net liquidity position of Peoples is calculated by subtracting volatile funds from liquid assets. Peoples' volatile funds consist of deposits that are considered short-term in nature along with a variable-rate loan from an unrelated institution. Liquid assets include short-term investments and unpledged available-for-sale securities. At June 30, 2007, Peoples' net liquidity position was \$69.8 million, or 3.8% of total assets, compared to \$27.1 million, or 1.4% of total assets, at December 31, 2006. The liquidity position as of both dates was within Peoples' policy limit of negative 10% of total assets.

Off-Balance Sheet Activities and Contractual Obligations

Peoples routinely engages in activities that involve, to varying degrees, elements of risk that are not reflected in whole or in part in the consolidated financial statements. These activities are part of Peoples' normal course of business and include traditional off-balance sheet credit-related financial instruments, interest rate contracts, operating leases, long-term debt and commitments to make additional capital contributions in low-income housing tax credit investments.

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

| <i>(Dollars in thousands)</i> | June 30, 2007 | March 31, 2007 | December 31, 2006 | June 30, 2006 |
|-------------------------------|--------------------------|---------------------------|------------------------------|--------------------------|
| Loan commitments | \$ 187,222 | \$ 178,302 | \$ 176,431 | \$ 190,258 |
| Standby letters of credit | 42,446 | 45,973 | 43,900 | 33,231 |

Peoples also has commitments to make additional capital contributions to low-income housing tax credit funds, consisting of a pool of low-income housing projects. As a limited partner in these funds, Peoples receives Federal income tax benefits, which assist Peoples in managing its overall tax burden. At June 30, 2007, these commitments approximated \$1.3 million, with approximately \$0.3 million expected to be paid over the next twelve months. Management may make additional investments in various tax credit funds.

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

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

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Effects of Inflation on Financial Statements

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information called for by this item is provided under the caption "Interest Rate Sensitivity and Liquidity" under "ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION AND FINANCIAL CONDITION" in this Form 10-Q, and is incorporated herein by reference.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples Bancorp's management, with the participation of Peoples Bancorp's President and Chief Executive Officer and Peoples Bancorp's Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples Bancorp's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934, as amended) (the "Exchange Act") as of June 30, 2007. Based upon that evaluation, Peoples Bancorp's President and Chief Executive Officer and Peoples Bancorp's Chief Financial Officer and Treasurer have concluded that:

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

Changes in Internal Control Over Financial Reporting

There were no changes in Peoples Bancorp's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples Bancorp's fiscal quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, Peoples Bancorp's internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

In the ordinary course of their respective businesses or operations, Peoples Bancorp and 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 Bancorp 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.

Examination by Ohio Department of Taxation

As previously disclosed in “ITEM 1A. RISK FACTORS” and Note 18 of the Notes to the Consolidated Financial Statements included in Item 8 of Peoples Bancorp’s 2006 Form 10-K, Peoples Bank has been undergoing an examination by the Ohio Department of Taxation (the “Department”) of its 2002 Ohio Corporation Franchise Tax Report related to the fiscal year ended December 31, 2001 (the “2002 Tax Year”). On August 23, 2006, the Department issued a Notice of Assessment in the amount of approximately \$1.4 million in regard to Peoples Bank’s corporate franchise tax liability for the 2002 Tax Year. Management disagrees with this assessment in its entirety, and on September 22, 2006, Peoples Bank filed a Petition for Reassessment with the Department objecting to the assessment. Peoples Bank is not liable for nor is it required to pay the assessment while the Petition for Reassessment is pending.

The Department has also issued proposed adjustments to Peoples Bank’s 2003 Ohio Corporation Franchise Tax Report (the “2003 Ohio Report”) related to the fiscal year ended December 31, 2002 (the “2003 tax year”) on the basis of the 2002 Tax Year assessment that would materially increase the amount of corporate franchise tax due. Management has objected to these proposed adjustments in their entirety and is working with the Department to resolve and eliminate the proposed adjustments. As part of this process, management has agreed to a two-year extension of the statute of limitations for the 2003 tax year and one-year extension for the 2004 tax year. The Department has not issued a Notice of Assessment with respect to the 2003 Ohio Report.

On June 25, 2007, the Department commenced an examination of Peoples Bank’s Ohio Corporation Franchise Tax Reports related to the fiscal years ended December 31, 2002 through 2005, and an examination of other related companies for the same periods. Management believes these examinations are consistent with the Department’s recent pattern of examinations of Peoples Bank. To date, no proposed adjustments or Notices of Assessment have been issued as a result of these examinations.

While management believes it has taken appropriate positions on the tax returns under examination and does not expect the examinations will have a material impact on Peoples future financial statements, Peoples is unable to assess whether an unfavorable outcome is probable, nor to estimate the amount of liability, if any, that might result from an unfavorable outcome.

ITEM 1A: RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risk factors discussed in “ITEM 1A. RISK FACTORS” of Part I of Peoples Bancorp’s 2006 Form 10-K, one of which is updated below, should be considered. These risk factors could materially affect Peoples’ business, financial condition or future operating results. The risk factors described in Peoples Bancorp’s 2006 Form 10-K and in this Quarterly Report on Form 10-Q are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial

condition and/or operating results.

Peoples Bancorp and Its Subsidiaries Are Subject to Examinations and Challenges by Tax Authorities

In the normal course of business, Peoples Bancorp and its subsidiaries are routinely subject to examinations and challenges from federal and state tax authorities regarding positions taken in 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 or to be filed and does not anticipate any examination, including the pending examinations by the Ohio Department of Taxation (the “Department”), 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. To the extent additional taxes may be due, Peoples recognizes liabilities for such tax exposures when management judges the losses associated with the claims to be probable and the amount of loss can be reasonably estimated, which generally cannot occur until the matter is ultimately resolved.

As discussed in “ITEM 1: LEGAL PROCEEDINGS” of Part II of this Quarterly Report on Form 10-Q, Peoples Bank and other related companies are undergoing examinations by the Department. The discussion of these examinations by the Department is incorporated herein by reference.

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

On April 30, 2004, Peoples Insurance Agency, Inc. (“Peoples Insurance”), a wholly-owned subsidiary of Peoples Bancorp, acquired substantially all of the assets and assumed specific liabilities of Putnam Agency, Inc. (the “Putnam Agency Acquisition”). In accordance with the terms of the asset purchase agreement, dated April 7, 2004, related to the Putnam Agency Acquisition, the “base purchase consideration was \$8,640,000, of which \$1,500,000 was to be paid out in three annual installments of \$500,000 plus interest on the aggregate remaining balance at the close of business on April 29, 2005, April 29, 2006 and April 29, 2007, at a rate equal to the one year certificate of deposit rate of Peoples Bank. Each installment was to be paid 75% in cash and 25% in common shares of Peoples Bancorp, with the number of common shares to be issued based on the average of the daily closing price of the Peoples Bancorp common shares for the 20 consecutive trading days ending at the close of business on the day which was five trading days prior to the applicable anniversary of the closing date. On April 29, 2007, Peoples paid \$397,016 as the cash portion and issued 4,662 common shares as the common share portion of the installment of the “base purchase consideration” due to Agency Interim, LLC, the successor to Putnam Agency, Inc. The Peoples Bancorp common shares were issued in the Putnam Agency Acquisition in a private placement in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), based upon the limited number of persons to whom the common shares were “sold” (to Agency Interim, LLC which distributed the common shares to its members – 13 persons (the “Agency Interim Members”)) and the representations from each Agency Interim Member (a) that such Agency Interim Member was either (i) an “accredited investor” as defined in Rule 501 promulgated under the Securities Act or (ii) possessed such experience, knowledge and sophistication in financial and business matters generally, and familiarity with the transactions related to the Putnam Agency Acquisition that, together, with such Agency Interim Member’s investment advisors, such Agency Interim Member was capable of evaluating the merits and economic risks of consummating the transactions contemplated by the Putnam Agency Acquisition; and (b) that such Agency Interim Member received the common shares of Peoples Bancorp for such Agency Interim Member’s own account, for investment and not with a view to, or for sale in connection with, any distribution in contravention of the Securities Act.

On May 28, 2004, Peoples Insurance acquired Barengo Insurance Agency, Inc. (“Barengo Insurance Agency”) through the merger of Barengo Insurance Agency into Peoples Insurance (the “Barengo Insurance Agency Merger”). As contemplated by the agreement and plan of merger, dated as of May 28, 2004, related to the Barengo Insurance Agency Merger, on July 16, 2007, each of the two former shareholders of Barengo Insurance Agency received “earn out consideration” based on the performance of the former Barengo Insurance Agency in achieving specified revenue growth goals during the twelve-month period ended May 31, 2007 (the “2007 Earn-Out Period”). The “earn out consideration” paid to each former Barengo Insurance Agency shareholder was in the form of \$216,341 in cash and \$225,159 in Peoples Bancorp common shares, representing 8,364 Peoples Bancorp common shares based on the

average of the daily closing prices of the Peoples Bancorp common shares for the 20 consecutive trading days ending at the close of business on the fifth trading day before July 16, 2007 (i.e., July 10, 2007). Accordingly, an aggregate of 16,728 Peoples Bancorp common shares were issued as “earn out consideration” for the 2007 Earn-Out Period. These common shares were issued in a private placement in reliance upon the exemption from registration under Section 4 (2) of the Securities Act based upon the limited number of persons to whom the common shares were “sold” (two former shareholders of Barengo Insurance Agency) and the representations from each person (a) that such person was either (i) an “accredited investor” as defined in Rule 501 promulgated under the Securities Act or (ii) possessed such experience, knowledge and sophistication in financial and business matters generally, and familiarity with the transactions related to the Barengo Insurance Agency Merger, including the performance associated with determining any “earn out consideration”, that, together with such person’s investment advisors, such person was capable of evaluating the merits and economic risks of consummating the transactions related to the Barengo Insurance Agency Merger; and (b) that such person was acquiring the common shares of Peoples Bancorp for such person’s own account, for investment and not with a view to, or for sale in connection with, any distribution in contravention of the Securities Act.

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The following table details repurchases by Peoples Bancorp and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) of Peoples Bancorp’s common shares during the three months ended June 30, 2007;

| | (a) Total Number of Common Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)(2) |
|-----------------------|--|--|--|--|
| April 1 – 30, 2007 | – | \$ – | – | 255,000 |
| May 1 – 31, 2007 | 41,517 ⁽³⁾ | \$ 26.51 ⁽³⁾ | 40,000 | 215,000 |
| June 1 – 30, 2007 | 30,842 ⁽⁴⁾ | \$ 27.20 ⁽⁴⁾ | 30,000 | 185,000 |
| Total | 72,359 | \$ 26.81 | 70,000 | 185,000 |

(1) Information reflects solely the 2007 Stock Repurchase Program originally announced on January 12, 2007, which authorizes the repurchase of up to 425,000 common shares, with an aggregate purchase price of not more than \$12.1 million. The 2007 Stock Repurchase Program expires on December 31, 2007.

(2) Information reflects maximum number of common shares that may be purchased at the end of the period indicated.

(3) Information includes 1,517 solely common shares purchased in open market transactions at an average price of \$26.90 by Peoples Bank under the Rabbi Trust Agreement establishing a rabbi trust holding assets to provide payment of the benefits under the Peoples Bancorp Inc. Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries (the “Rabbi Trust”).

(4) Information includes 497 common shares purchased in open market transactions at an average price of \$27.28 by Peoples Bank under the Rabbi Trust.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

Table of Contents**ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS**EXHIBIT INDEX**

| Exhibit Number | Description | Exhibit Location |
|----------------|--|---|
| 3.1(a) | Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993) | Incorporated herein by reference to Exhibit 3(a) to the Registration Statement on Form 8-B of Peoples Bancorp Inc. ("Peoples") filed July 20, 1993 (File No. 0-16772) |
| 3.1(b) | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994) | Incorporated herein by reference to Exhibit 3(a)(2) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-16772) ("Peoples' 1997 Form 10-K") |
| 3.1(c) | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996) | Incorporated herein by reference to Exhibit 3(a)(3) to Peoples' 1997 Form 10-K |
| 3.1(d) | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003) | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) ("Peoples' March 31, 2003 Form 10-Q") |
| 3.1(e) | Amended Articles of Incorporation of Peoples Bancorp Inc. (reflecting amendments through April 23, 2003) [For SEC reporting compliance purposes only -- not filed with Ohio | Incorporated herein by reference to Exhibit 3(b) to Peoples' March 31, 2003 Form 10-Q |

Secretary of State]

- | | | |
|--------|--|---|
| 3.2(a) | Code of Regulations of Peoples Bancorp Inc. | Incorporated herein by reference to Exhibit 3(b) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772) |
| 3.2(b) | Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003 | Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q |
| 3.2(c) | Certified Resolutions Regarding Adoption of Amendments to Article Three of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004 | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772) |

Table of Contents**EXHIBIT INDEX**

| Exhibit Number | Description | Exhibit Location |
|----------------|---|---|
| 3.2(d) | Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006 | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772) |
| 3.2(e) | Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 13, 2006) [For SEC reporting compliance purposes only] | Incorporated herein by reference to Exhibit 3(b) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 (File No. 0-16772) |
| 10.1 | Resignation and Severance Agreement, entered into effective April 26, 2007, by and between Peoples Bancorp Inc. and Peoples Bank, National Association and Donald J. Landers, Jr. | Incorporated herein by reference to Exhibit 10.1 to Peoples' Current Report on Form 8-K/A dated and filed May 3, 2007 (File No. 0-16772) |
| 11 | Computation of Earnings Per Share | Filed herewith |
| 12 | Computation of Ratios | Filed herewith |
| 31.1 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) [President and Chief Executive Officer] | Filed herewith |
| 31.2 | Certification Pursuant to Rule 13a-14(a)/15d-14(a) [Chief Financial Officer and Treasurer] | Filed herewith |
| 32 | Section 1350 Certification | Filed herewith |

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SIGNATURES

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

PEOPLES BANCORP INC.

Date: August 2,
2007

By:/s/ MARK F. BRADLEY

Mark F. Bradley
President and Chief Executive
Officer

Date: August 2,
2007

By:/s/ CAROL A.

SCHNEEBERGER
Carol A. Schneeberger
Chief Financial Officer and
Treasurer

Table of Contents**EXHIBIT INDEX****PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007**

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Inc. by shareholders on April 8, 2004

No. 0-16772)

3.2(d) Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006

Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)

3.2(e) Code of Regulations of Peoples Bancorp Inc. (reflecting amendments through April 13, 2006)
[For SEC reporting compliance purposes only]

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