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Staying Focused

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## Letter To Our Shareholders

Our company experienced a net loss of \$0.01 per common share in the third quarter of 2010. Frankly, we are dissatisfied with this bottom line result. The primary cause of the net loss was higher credit losses identified during the quarter. Still, on a year to date basis, Peoples has generated net earnings of \$0.33 per common share, more than double the amount generated for the same period in 2009.

The prolonged weak economy and lack of meaningful recovery in our market areas continue to take their toll on our commercial customers, making it increasingly more difficult for them to stay current on their obligations to us, specifically loans for commercial real estate. In this environment, property values of real estate collateral continue to decline, resulting in longer workout periods and additional write-downs.

In light of these challenges, we have intensified our focus on proactively identifying deteriorating loans, while at the same time seeking expedient, yet prudent, resolution of existing problem assets. There was a slight improvement in the level of nonperforming assets which decreased 4% during the quarter. Additional commercial relationships became impaired in the third quarter and were placed on nonaccrual status, increasing nonperforming assets. These additions were more than offset by a single commercial real estate loan relationship returned to accruing status, plus charge-offs and pay-downs on existing nonaccrual loans. It is likely that earnings for the company will continue to be impacted by elevated charge-offs and provision expense for the remainder of 2010 and well into 2011.

Other actions were taken in the third quarter to improve the overall risk profile of the company and “deleverage” the balance sheet. Certain assets with low investment returns were sold during the quarter and the proceeds were used to repay debt obligations with relatively high interest costs. Specifically, we sold \$87 million of investment securities, generating a net gain of \$3.8 million, and prepaid \$60 million in wholesale funding, resulting in early termination costs of \$3.6 million. These transactions allowed us to enhance capital, liquidity and interest rate risk positions, while being neutral to earnings for both the quarter and near-term future.

There were positive results in other key areas during the third quarter that were overshadowed by the asset quality issues. We improved operating efficiency modestly in the quarter by maintaining our diversified revenue stream and reducing operating expenses. Net interest income was consistent with the prior quarter and net interest margin expanded, despite decreases to earning assets and increased pressure from the very low interest rate environment. This is a reflection of our active balance sheet management over the last several quarters. Non-interest income remains solid, although economic conditions and regulatory changes are impacting certain revenues. Operating costs are being controlled due in part to various initiatives implemented earlier this year.

Loan balances decreased modestly during the third quarter largely attributable to reductions in commercial real estate loans. Demand for new loans remains weak due to economic conditions in our markets. However, we have seen

continued increases in commercial and industrial loans, which have grown nearly \$20 million since year-end 2009.

With stagnate market interest rates and limited investment opportunities, our strategy throughout 2010 has been to drive funding duration shorter and reduce interest costs where possible while still retaining core deposit relationships. This strategy has caused declines in certain deposit balances, primarily higher-cost certificates of deposit, and steady growth in low-cost core deposits, like checking and savings accounts. In the fourth quarter, we will be finalizing plans for new consumer deposit products and services scheduled to be rolled out during the first quarter of 2011. We are excited by these new products and services, which will put us at the forefront of competition in our markets and provide us with additional opportunities to grow consumer deposit balances.

Despite our current asset quality issues, the company remains very strong as measured by the level of capital supporting the balance sheet. Our regulatory capital ratios have remained substantially higher than the minimum amounts needed to be considered “well capitalized” and even improved over the second quarter. This positive position will continue to serve as a source of stability and strength as we work to put the credit quality issues behind us and navigate through the current economic cycle.

On a personal note, I would like to recognize and acknowledge the service of two longtime directors – Dave M. Archer and Joseph H. Wesel – who recently retired from the Board of Directors of both Peoples and Peoples Bank. Dave retired as a director on October 15 after serving over 17 years, while Joe retired on November 18 after more than 35 years of service, which included serving as Chairman of the Board on several occasions. Moreover, both gentlemen provided invaluable service and leadership in their respective businesses and our communities during their tenure as directors. Their presence on the Board will be missed by all of us at Peoples.

It is true that we are facing our share of challenges, but we are preparing Peoples to emerge from this economic cycle as a strong, growing company. We are in the midst of recruiting a permanent President and CEO for Peoples. We are also revising the strategic plan for growth of the company. Our key strategic priorities are to generate long-term stabilized earnings and increase shareholder value. We are confident of our ability to manage through the current economic environment and achieve those objectives. Thank you for your continued support.



**David L. Mead**  
President and Chief Executive Officer

“It is true that we are facing our share of challenges, but we are preparing Peoples to emerge from this economic cycle as a strong, growing company.”



# Peoples Bancorp Inc. and Subsidiaries

## CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited - Dollars in Thousands

<b>ASSETS</b>	<b>September 30, 2010</b>	<b>December 31, 2009</b>
Cash and cash equivalents	\$ 74,660	\$ 41,773
Available-for-sale investment securities, at fair value	610,783	726,547
Held-to-maturity investment securities, at amortized cost	2,964	963
Other investment securities, at cost	24,356	24,356
Total investment securities	638,103	751,866
Loans, net of deferred fees and costs	1,010,879	1,052,058
Allowance for loan losses	(27,210)	(27,257)
Net loans	983,669	1,024,801
Loans held for sale	4,082	1,874
Bank premises and equipment, net	24,244	24,844
Bank owned life insurance	53,419	52,924
Goodwill and other intangible assets	64,934	65,599
Other assets	40,578	38,146
<b>Total assets</b>	<b>\$ 1,883,689</b>	<b>\$ 2,001,827</b>
<b>LIABILITIES</b>		
Deposits:		
Non-interest-bearing	\$ 209,693	\$ 198,000
Interest-bearing	1,182,744	1,197,886
Total deposits	1,392,437	1,395,886
Short-term borrowings	49,060	76,921
Long-term borrowings	164,720	246,113
Junior subordinated notes held by subsidiary trust	22,557	22,530
Accrued expenses and other liabilities	21,156	16,409
<b>Total liabilities</b>	<b>1,649,930</b>	<b>1,757,859</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, no par value, 50,000 shares authorized – 39,000 shares issued at September 30, 2010, and December 31, 2009	38,619	38,543
Common stock, no par value, 24,000,000 shares authorized – 11,062,756 shares issued at September 30, 2010 and 11,031,892 shares issued at December 31, 2009, including shares in treasury	166,152	166,227
Retained earnings	46,545	46,229
Accumulated comprehensive (loss) income, net of deferred income taxes	(1,974)	9,487
Treasury stock, at cost, 624,246 shares at September 30, 2010 and 657,255 shares at December 31, 2009	(15,583)	(16,518)
<b>Total stockholders' equity</b>	<b>233,759</b>	<b>243,968</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,883,689</b>	<b>\$ 2,001,827</b>

# Peoples Bancorp Inc. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

<i>Unaudited – Dollars in Thousands, Except Per Share Data</i>	<b>For the Three Months Ended Sept. 30,</b>		<b>At or For the Nine Months Ended Sept. 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Interest income	\$ 22,572	\$ 25,472	\$ 68,955	\$ 77,551
Interest expense	7,308	10,003	23,114	31,125
Net interest income	15,264	15,469	45,841	46,426
Provision for loan losses	8,005	10,168	19,964	18,965
Net interest income after provision for loan losses	7,259	5,301	25,877	27,461
Net impairment losses on investment securities	–	(5,930)	(1,786)	(5,930)
Loss on debt extinguishment	(3,630)	–	(3,630)	–
Net gains on securities and assets	2,810	235	4,513	761
Other income	7,711	7,786	23,534	24,268
Other expenses	13,958	14,087	42,842	44,110
Income (loss) before income taxes	192	(6,695)	5,666	2,450
Income tax (benefit) expense	(221)	(2,630)	653	(526)
Net income (loss)	\$ 413	\$ (4,065)	\$ 5,013	\$ 2,976
Preferred dividends	514	512	1,539	1,364
<b>Net (loss) income available to common shareholders</b>	<b>\$ (101)</b>	<b>\$ (4,577)</b>	<b>\$ 3,474</b>	<b>\$ 1,612</b>

### PER COMMON SHARE DATA

Earnings per share – Basic	\$ (0.01)	\$ (0.44)	\$ 0.33	\$ 0.16
Earnings per share – Diluted	\$ (0.01)	\$ (0.44)	\$ 0.33	\$ 0.16
Cash dividends declared per share	\$ 0.10	\$ 0.10	\$ 0.30	\$ 0.56
Book value per share			\$ 18.69	\$ 19.85
Weighted-average shares outstanding – Basic	10,437,770	10,372,946	10,417,316	10,359,569
Weighted-average shares outstanding – Diluted	10,437,770	10,372,946	10,425,463	10,372,630

### PERFORMANCE AND ASSET QUALITY RATIOS

Return on average assets <sup>(a)</sup>	0.08%	(0.79%)	0.34%	0.20%
Return on average equity <sup>(a)</sup>	0.69%	(6.70%)	2.78%	1.74%
Return on average common equity <sup>(a)</sup>	(0.20%)	(8.97%)	2.29%	1.11%
Net interest margin (fully tax-equivalent) <sup>(a)</sup>	3.58%	3.45%	3.54%	3.47%
Net loan charge-offs as a % of average loans <sup>(a)</sup>	3.11%	2.57%	2.57%	1.90%
Nonperforming loans as a % of total loans			3.67%	3.94%
Nonperforming assets as a % of total assets			2.21%	2.16%
Allowance for loan losses as a % of total loans			2.68%	2.46%

### CAPITAL INFORMATION

Tier 1 capital ratio			16.22%	15.06%
Tier 1 common ratio			11.13%	10.30%
Total risk-based capital ratio			17.55%	16.39%
Leverage ratio			10.26%	9.82%
Tangible common equity to tangible assets <sup>(b)</sup>			7.16%	7.22%

<sup>(a)</sup> Presented on an annualized basis.

<sup>(b)</sup> Excludes balance sheet impact of intangible assets acquired through acquisitions on each of total stockholders' equity, total common equity and total assets.

Financial data reflects comparative financial information as of September 30, 2010 and 2009.

## Directors

CARL L. BAKER, JR.  
*President and Chief Executive Officer  
B & N Coal, Inc.*

GEORGE W. BROUGHTON  
*Owner and President  
Broughton Commercial Properties, LLC  
GWB Specialty Foods, LLC  
GWB Oil & Gas, LLC*

WILFORD D. DIMIT  
*Retired  
First Settlement Inc.*

RICHARD FERGUSON, Chairman of the Board  
*Owner  
Ferguson Consulting, LLC*

BRENDA F. JONES, M.D.  
*Medical Director  
Marietta Ophthalmology Associates, Inc.*

DAVID L. MEAD  
*President and Chief Executive Officer  
Peoples Bancorp Inc. and Peoples Bank*

T. PAT SAUBER  
*Vice President  
T.C.K.S., Inc.*

PAUL T. THEISEN, Vice Chairman  
*Retired  
Attorney-at-Law*

THOMAS J. WOLF  
*Owner  
McDonald's Restaurants*

## Officers

DAVID L. MEAD  
*President and Chief Executive Officer*

DANIEL K. MCGILL  
*Executive Vice President  
Chief Commercial Lending Officer*

CAROL A. SCHNEEBERGER  
*Executive Vice President  
Operations*

EDWARD G. SLOANE  
*Executive Vice President  
Chief Financial Officer and Treasurer*

RICHARD W. STAFFORD  
*Executive Vice President  
Retail Banking*

JOSEPH S. YAZOMBK  
*Executive Vice President  
Chief Credit Officer*

DOUGLAS G. ANKROM  
*Vice President  
Controller*

KAREN V. CLARK  
*Auditor*

RHONDA L. MEARS  
*General Counsel  
Corporate Secretary*

AMY M. AUCH  
*Assistant Corporate Secretary*

## Directors Emeritus

JEWELL BAKER  
FRANK L. CHRISTY  
BARTON S. HOLL

NORMAN J. MURRAY  
FRED R. PRICE  
THOMAS C. VADAKIN

### **Peoples Bank**

**Ohio offices:** Marietta, Athens, Baltimore, Belpre, Byesville, Caldwell, Cambridge, Carroll, Flushing, Gallipolis, Lancaster, Lowell, McConnelsville, Middleport, Nelsonville, Pomeroy, Quaker City, Reno, The Plains, Westerville, Zanesville

**West Virginia offices:** Huntington, New Martinsville, Parkersburg, Point Pleasant, Steelton, Vienna

**Kentucky offices:** Ashland, Greenup, Russell, Summit

**Peoples Financial Advisors** provides customer-tailored financial services for fiduciary needs, investment alternatives, financial planning, retirement plans, life insurance and other asset management needs. Brokerage services are offered exclusively through Raymond James Financial Services, member FINRA/SIPC, an independent broker/dealer located at Peoples.

**Peoples Insurance Agency, LLC**, which includes the Putnam and Barengo Divisions, provides a full set of property and casualty insurance products and services.

**[www.peoplesbancorp.com](http://www.peoplesbancorp.com)** allows consumers to explore Peoples' financial products and services, chat directly with a Peoples' associate, enroll in **Online Banking** with free **Bill Pay** and **FinanceWorks™** - a personal online financial management tool, and so much more. You can also visit our website from any smart phone and enjoy the convenience of **Online Banking** on the go with **Peoples Mobile**.

## Comparative Stock Data

Quarter Ended	High	Low	Close	Dividend Rate	Book Value	Diluted Earnings Per Common Share
9/30/10	\$17.60	\$11.13	\$12.37	\$0.10	\$18.69	(\$0.01)
6/30/10	\$19.02	\$12.82	\$14.50	\$0.10	\$19.35	\$0.27
3/31/10	\$17.72	\$ 9.25	\$16.48	\$0.10	\$19.43	\$0.08
12/31/09	\$13.52	\$ 8.51	\$ 9.68	\$0.10	\$19.80	\$0.07
9/30/09	\$18.70	\$13.05	\$13.05	\$0.10	\$19.85	(\$0.44)

At September 30, 2010, Peoples had approximately 1,183 shareholders of record.

## Shareholder Information

### CORPORATE OFFICES

Peoples' headquarters is located at:  
 138 Putnam St, P.O. Box 738  
 Marietta, Ohio 45750-0738  
 Investor Relations phone number: (740) 374-6136  
 Website: [www.peoplesbancorp.com](http://www.peoplesbancorp.com)

### TRANSFER AGENT

Shareowner Services  
 161 N Concord Exchange  
 South St Paul, Minnesota, 55075  
 Phone number (800) 468-9716  
 Website: [www.shareowneronline.com](http://www.shareowneronline.com)

### FINANCIAL INFORMATION

Peoples' Annual Report on Form 10-K and other financial information, including recent news releases, are available on or through Peoples' website or upon written request to Peoples' Investor Relations Department.

### DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Peoples offers shareholders a convenient and economical method to purchase additional shares of Peoples, without payment of any brokerage commissions, through the Dividend Reinvestment and Stock Purchase Plan administered through its transfer agent. Each shareholder can arrange to automatically reinvest dividends, in full or in part, or make optional cash investments. Interested shareholders can contact our Investor Relations Department at (740) 374-6136 for a prospectus of the Plan, an enrollment card or more information.

### COMMON STOCK LISTING

The common shares of Peoples Bancorp Inc. are traded on the NASDAQ Global Select Market® under the symbol PEBO.

### MARKET MAKERS

Howe Barnes Investments, Inc.  
 (800) 621-2364

Goldman Sachs & Co.  
 (800) 221-8320

Merrill Lynch  
 (800) 937-0516

Sandler O'Neill & Partners  
 (800) 635-6860

UBS Securities, LLC  
 (800) 421-6172

Sweney Cartwright & Company  
 (800) 334-7481

Keefe, Bruyette & Woods, Inc.  
 (800) 342-5529

Knight Equity Markets L.P.  
 (800) 222-4910

Morgan Stanley & Co., Inc.  
 (800) 223-6559

FBR Capital Markets & Co.  
 (800) 688-3272



\*Current year presented on an annualized basis. Does not guarantee future payments of dividends.



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