PEOPLES BANCORP INC
Form 10-Q
August 07, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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 — 45750
(Address of principal executive offices) — (Zip Code)

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

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

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

Yes [X]   No [   ]

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):

Large accelerated filer [ ] Accelerated filer [X] 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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, at August 1, 2006: 10,624,758 common shares, without par value.

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)

Assets		June 3 2006
Cash and cash equivalents:		
Cash and due from banks	$	
Interest-bearing deposits in other banks		
Federal funds sold		
Total cash and cash equivalents		
Available-for-sale investment securities, at estimated fair value (amortized cost of $579,215 at June 30, 2006 and $591,022 at December 31, 2005)		5
Loans, net of deferred fees and costs		1,1
Allowance for loan losses		(
Net loans		1,0
Loans held for sale		
Bank premises and equipment, net		
Business owned life insurance		
Goodwill		
Other intangible assets		
Other assets		
Total assets	$	1,8
Liabilities		
Deposits:		
Non-interest-bearing	$	1
Interest-bearing		9
Total deposits		1,1

Short-term borrowings	2
Long-term borrowings	2
Junior subordinated notes held by subsidiary trusts	
Accrued expenses and other liabilities	
Total liabilities	1,6
Stockholders' Equity	
Common stock, no par value, 24,000,000 shares authorized, 10,879,023 shares issued at June 30, 2006 and 10,869,655 shares issued at December 31, 2005, including shares in treasury	1
Retained earnings	
Accumulated comprehensive loss, net of deferred income taxes	
Treasury stock, at cost, 278,610 shares at June 30, 2006 and 350,675 shares at December 31, 2005	
Total stockholders' equity	1
Total liabilities and stockholders' equity	$ 1,8

See Notes to the Consolidated Unaudited Financial Statements

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

(Dollars in thousands, except per share data)	For the Three Months Ended June 30, 2006	2005
Interest Income:		
Interest and fees on loans	$ 19,977	$ 16,677
Interest on taxable investment securities	6,267	6,011
Interest on tax-exempt investment securities	724	691
Other interest income	38	18
Total interest income	27,006	23,397
Interest Expense:		
Interest on deposits	7,435	5,589
Interest on short-term borrowings	2,756	726
Interest on long-term borrowings	2,861	3,552
Interest on junior subordinated notes held by subsidiary trusts	649	614
Total interest expense	13,701	10,481
Net interest income	13,305	12,916
Provision for loan losses	573	40
Net interest income after provision for loan losses	12,732	12,876

Other Income:		
Service charges on deposit accounts	2,604	2,472
Investment and insurance commissions	2,476	2,266
Income from fiduciary activities	918	915
Electronic banking income	799	734
Business owned life insurance	399	437
Mortgage banking income	243	264
Gain on securities transactions	4	3
Other	166	227
Total other income	7,609	7,318
Other Expenses:		
Salaries and employee benefits	6,432	7,236
Net occupancy and equipment	1,210	1,338
Professional fees	663	550
Amortization of other intangible assets	567	674
Marketing	413	408
Data processing and software	476	463
Franchise tax	446	418
Other	2,350	2,353
Total other expenses	12,557	13,440
Income before income taxes	7,784	6,754
Income taxes	2,248	1,876
Net income	$ 5,536	$ 4,878
Earnings per share:		
Basic	$ 0.52	$ 0.47
Diluted	$ 0.52	$ 0.46
Weighted-average number of shares outstanding:		
Basic	10,591,926	10,405,989
Diluted	10,714,030	10,541,774
Cash dividends declared	$ 2,239	$ 1,990
Cash dividends declared per share	$ 0.21	$ 0.19

See Notes to the Consolidated Unaudited Financial Statements

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

(Dollars in thousands, except per share data)

	Common Stock			Accu
	Shares	Amount	Retained Earnings	Compr L

Balance, December 31, 2005	10,869,655	$ 162,231	$ 30,740	$ (1,
Net income			11,467	
Other comprehensive loss, net of tax				(5,
Cash dividends declared of $0.41 per share			(4,359)	
Stock-based compensation expense		163		
Purchase of treasury stock, 16,017 shares				
Exercise of common stock options (reissued 83,420 treasury shares)		(493)		
Tax benefit from stock option exercises		224		
Issuance of common stock under dividend reinvestment and stock purchase plan	9,368	276		
Issuance of common stock related to acquisition of Putnam Agency, Inc. (reissued 4,662 treasury shares)		19		
Balance, June 30, 2006	10,879,023	$ 162,420	$ 37,848	$ (6,

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	For the Three Months Ended June 30,	
	2006	2005
Net income	$ 5,536	$ 4,87
Other comprehensive income (loss):		
Unrealized (loss) gain on available-for-sale securities arising in the period	(4,316)	4,81
Less: reclassification adjustment for net securities gains included in net income	4	
Unrealized loss on cash flow hedge derivatives arising in the period	-	(2
Total other comprehensive (loss) income	(4,320)	4,79
Income tax benefit (expense)	1,512	(1,67
Total other comprehensive (loss) income, net of tax	(2,808)	3,11
Total comprehensive income	$ 2,728	$ 7,99

See Notes to the Consolidated Unaudited Financial Statements

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

(Dollars in thousands)	For E 2006
Net cash provided by operating activities	$ 15
Cash flows from investing activities:	
Purchases of available-for-sale securities	(20
Proceeds from sales of available-for-sale securities	
Proceeds from maturities, calls and prepayments of available-for-sale securities	31
Net increase in portfolio loans	(42
Net expenditures for premises and equipment	
Net proceeds from sales of other real estate owned	
Business acquisitions, net of cash received	(1
Investment in limited partnership and tax credit funds	
Net cash used in investing activities	(33
Cash flows from financing activities:	
Net increase in non-interest-bearing deposits	7
Net increase in interest-bearing deposits	55
Net increase in short-term borrowings	54
Payments on long-term borrowings	(99
Cash dividends paid	(3
Purchase of treasury stock	
Repurchase of trust preferred securities	
Proceeds from issuance of common stock	1
Net cash provided by financing activities	15
Net (decrease) increase in cash and cash equivalents	(2
Cash and cash equivalents at beginning of period	39
Cash and cash equivalents at end of period	$ 37
Supplemental cash flow information:	
Interest paid	$ 25
Income taxes paid	2

See Notes to the Consolidated Unaudited Financial Statements

NOTES TO THE CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accounting and reporting policies of Peoples Bancorp Inc. ("Peoples Bancorp") and 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 2006 presentation, certain reclassifications have been made to prior period amounts, which had no impact on net income, comprehensive income, net cash provided by operating activities or stockholders' equity. Results of operations for the three and six months ended June 30, 2006, are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

Certain information and footnotes typically included in financial statements prepared in conformity with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The balance sheet at December 31, 2005 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, 2005 ("2005 Form 10-K"). These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the 2005 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 wholly-owned subsidiaries. Peoples Bancorp has 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 March 17, 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 156, "Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140" ("SFAS 156"). SFAS 156 amends FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125" ("SFAS 140"). SFAS 156 permits entities to subsequently measure servicing rights at fair value and report changes in fair value in earnings rather than amortize servicing rights in proportion to and over the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation as required under SFAS 140.

SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. Earlier adoption of the Statement is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements for any interim period of that fiscal year. Peoples has elected to adopt SFAS 156 on January 1, 2007, and has not changed its method of accounting for its mortgage servicing rights. Management does not expect the adoption of SFAS 156 to have a material impact on Peoples' financial condition, results of operations or cash flows.

On July 13, 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109"), which is effective for fiscal years beginning after December 15, 2006 with earlier adoption encouraged. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Management is currently evaluating the potential impact of this interpretation but does not expect the impact of adoption to be material to Peoples' financial statements taken as a whole.

3. STOCK-BASED COMPENSATION:
On January 1, 2006, Peoples adopted the fair value recognition provisions of FASB Statement No. 123(R), "Share-Based Payment" ("SFAS123 (R)"), using the modified-prospective-transition method. Under that transition method, compensation cost recognized beginning in 2006 includes: (a) the compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB Statement No. 123, and (b) the compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Results for prior periods have not been restated. Prior to January 1, 2006, Peoples accounted for stock-based compensation using the intrinsic value method. Under the provisions of Peoples Bancorp's stock option plans, the exercise price per share of each option granted cannot be less than the fair market value of the underlying common shares on the date of grant. As a result, Peoples previously did not recognize any stock-based employee compensation expense in net income prior to January 1, 2006.

As a result of adopting SFAS 123(R), Peoples' income before income taxes and net income for the six months ended June 30, 2006, were $163,000 and $106,000 lower, respectively, than if Peoples had continued to account for share-based compensation using the intrinsic value method.

The following table illustrates the effect on net income and earnings per share for the periods presented had Peoples applied fair value recognition to stock-based employee compensation, assuming the estimated fair value of the options as of the grant date is amortized to expense over the vesting period:

(Dollars in thousands, except Per Share Data)	Three Months Ended June 30, 2005	Mon Jun
Net income, as reported	$ 4,878	$
Deduct: stock-based compensation expense determined under fair value based method not included in net income, net of tax	114	
Pro forma net income	$ 4,764	$
Basic Earnings Per Share:		
As reported	$ 0.47	$
Pro forma	$ 0.46	$
Diluted Earnings Per Share:		
As reported	$ 0.46	$
Pro forma	$ 0.45	$

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

	2006	2005
Risk-free interest rate	4.55%	3.91%
Dividend yield	2.65%	2.50%
Volatility factor of the market price of parent stock	25.8%	27.0%
Weighted-average expected life of options	6.5 years	7.4 years

The following table summarizes the changes to Peoples' stock options for the six months ended June 30, 2006:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2006	475,832	$ 20.41
Granted	61,615	28.52
Exercised	90,208	20.50
Canceled	1,262	28.25
Outstanding at June 30, 2006	445,977	21.49
Exercisable at June 30, 2006	385,624	20.39
Weighted-average estimated fair value of options granted during the period		$ 7.36

The following summarizes information concerning Peoples' stock options outstanding at June 30, 2006:

	Options Outstanding			Options Exerc
Range of Exercise Prices	Option Shares Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Weighted-Average Exercise Price	Number Exercisable
$11.87 to $13.59	68,665	3.0 years	$ 13.39	68,665 $
$13.59 to $18.70	68,320	2.8 years	15.61	68,320
$18.70 to $22.32	121,069	4.4 years	20.97	121,069
$22.33 to $27.74	100,265	7.2 years	25.48	100,265
$27.74 to $30.00	87,658	9.1 years	28.57	27,305
	445,977	5.5 years	$ 21.49	385,624 $

4. EMPLOYEE BENEFIT PLANS:

Components of Net Periodic Benefit Costs

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:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Dollars in thousands)	2006	2005	2006	2005
Service cost	$ 217	$ 223	$ 434	$ 455
Interest cost	190	201	378	408
Expected return on plan assets	(291)	(312)	(582)	(591)
Amortization of prior service cost	-	-	1	1
Amortization of net loss	64	55	128	117
Settlements	-	578	-	578
Net periodic benefit cost	$ 180	$ 745	$ 359	$ 968

POSTRETIREMENT BENEFITS:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
(Dollars in thousands)	2006	2005	2006	2005
Service cost	$ -	$ -	$ -	$ -
Interest cost	7	7	13	16
Expected return on plan assets	-	-	-	-
Amortization of prior service cost	-	2	-	5
Amortization of net (gain) loss	-	(2)	-	1
Net periodic benefit cost	$ 7	$ 7	$ 13	$ 22

Employer Contributions

Through June 30, 2006, Peoples Bancorp contributed $1.2 million to its pension plan upon the recommendation of and approval by Peoples Bancorp's Retirement Plan Committee and Board of Directors.

5. GOODWILL:

At the close of business on May 28, 2004, Peoples completed the acquisition of Barengo Insurance Agency, Inc., ("Barengo"), based in Marietta, Ohio, for initial consideration of $6.2 million ($3.0 million in cash and $3.2 million in Peoples Bancorp's common shares). The agreement also provides for additional consideration of up to $2.7 million ($1.3 million in cash and $1.4 million in Peoples Bancorp's common shares) to be paid by Peoples over the subsequent three years, contingent on Barengo achieving certain revenue growth goals during those three years. For the twelve-month period ended May 31, 2006, the revenue goals were met resulting in contingent consideration of $803,000, which was paid by Peoples during July 2006 in accordance with the agreement.

At the close of business on April 30, 2004, Peoples completed the acquisition of substantially all of the assets of Putnam Agency, Inc. ("Putnam Agency"), for initial consideration of $8.6 million ($6.6 million in cash and $2.0 million in Peoples Bancorp's common shares), of which $1.5 million is being paid out in three annual installments beginning April 30, 2005. The agreement also provides for additional consideration of up to $4.4 million in cash to be paid by Peoples over the subsequent three years, contingent on the Putnam Agency achieving certain revenue growth goals during those three years. For the twelve-month period ended April 30, 2006, the revenue goals were met resulting in contingent consideration of $662,000, which was paid by Peoples during the second quarter of 2006 in accordance with the agreement.

The following details the changes in the carrying amount of goodwill:

(Dollars in thousands)		
Balance at January 1, 2006	$	59,767
Contingent consideration earned		1,491
Balance at June 30, 2006	$	61,258

Peoples performed the required goodwill impairment tests and concluded the recorded value of goodwill was not impaired as of June 30, 2006, based upon the estimated fair value of the reporting unit.

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:

	At or For the Three Months Ended June 30,	
SIGNIFICANT RATIOS	2006	2005
Return on average equity	11.88%	11.08%
Return on average assets	1.18%	1.08%
Net interest margin (a)	3.29%	3.32%
Efficiency ratio (b)	56.25%	62.22%

Average stockholders' equity to average assets	9.96%	9.75%	
Average loans to average deposits	96.90%	92.71%	
Cash dividends to net income	40.44%	40.82%	
ASSET QUALITY RATIOS			
Nonperforming loans to total loans (c)	0.93%	0.74%	
Nonperforming assets to total assets (d)	0.56%	0.44%	
Allowance for loan losses to loans net of unearned interest	1.38%	1.42%	
Allowance for loan losses to nonperforming loans (c)	148.0%	192.6%	
Provision for loan losses to average loans (period only)	0.05%	0.00%	
Net (recoveries) charge-offs to average loans	(0.03%)	0.20%	
CAPITAL RATIOS (end of period)			
Tier I capital ratio	11.95%	11.21%	
Total risk-based capital ratio	13.26%	12.57%	
Leverage ratio	8.46%	7.78%	
PER SHARE DATA			
Earnings per share - basic	$ 0.52	0.47	$
Earnings per share - diluted	0.52	0.46	
Cash dividends declared per share	0.21	0.19	
Book value per share (end of period)	17.60	17.19	
Tangible book value per share (end of period) (e)	$ 11.03	10.42	$
Weighted-average shares outstanding - Basic	10,591,926	10,405,989	
Weighted-average shares outstanding - Diluted	10,714,030	10,541,774	
Common shares outstanding at end of period	10,600,413	10,411,879	

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 "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 uncertainties 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 depository 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 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 may adversely affect Peoples' business;

(7) changes and trends in the securities markets;
(8) a delayed or incomplete resolution of regulatory issues that could arise;
(9) the impact of reputational 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' 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' 2005 Form 10-K.

All forward-looking statements speak only as of the execution date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to release revisions to these forward-looking statements to reflect events or circumstances after the date of this Form 10-Q 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 primary subsidiaries are Peoples Bank, National Association ("Peoples Bank"), Peoples Investment Company, PEBO Capital Trust I and PEBO Capital Trust II. Peoples Bank also operates Peoples Insurance Agency, Inc. ("Peoples Insurance"), PBNA L.L.C. and Peoples Loan Services, Inc. Peoples Investment Company also owns Peoples Capital Corporation.

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 offers financial products and services through 49 financial service locations and 35 ATMs in Ohio, West Virginia and Kentucky. Peoples Bank's internet-banking service, Peoples OnLine Connection, can be found on the Internet at www.peoplesbancorp.com (this uniform resource locator (URL) is an inactive, textual reference only). Peoples Bank provides 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 provides services through traditional walk-in offices and automobile drive-in facilities, automated teller machines, banking by phone, and the Internet.

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 offices. Peoples Bank also offers a full range of life, health, property and casualty insurance products to customers in Peoples' markets through Peoples Insurance.

Peoples Investment Company and its subsidiary, Peoples Capital Corporation, were formed in 2001 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' 2005 Form 10-K, as well as the 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, 2006, which were unchanged from the policies disclosed in Peoples' 2005 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:

- On January 17, 2006, Peoples Bancorp announced the authorization to repurchase up to 425,000, or approximately 4%, of Peoples Bancorp's outstanding common shares in 2006 from time to time in open market or privately negotiated transactions (the "2006 Stock Repurchase Program"). Any repurchased common shares will be held as treasury shares and are anticipated to be used for future exercises of stock options granted under Peoples Bancorp's stock option and equity-based compensation plans, future issuances of common shares in connection with Peoples Bancorp's deferred compensation plans, and other general corporate purposes. Through June 30, 2006, Peoples Bancorp had repurchased 14,000 common shares under the 2006 Stock Repurchase Program.

- On April 20, 2006, Peoples Bank announced that it had agreed to sell its South Shore, Kentucky banking office to American Savings Bank, fsb. This sale is consistent with Peoples' strategic plan to optimize its branch network for better growth opportunities. The transaction, which is subject to regulatory approval, is expected to be completed by September 30, 2006, and includes the sale of approximately $6 million in deposits at a 5% premium and $1 million of loans at book value. Management does not expect the sale of the South Shore office to have a material impact on Peoples' financial condition, results of operations, capital or cash flows.

- On May 15, 2006, Peoples Bank opened a new full-service banking office in Lancaster, Ohio. This new office includes an ATM and drive-through banking with a focus on providing banking and related financial services to prospective and current clients in the Lancaster area.

- On May 31, 2006, Peoples Bank announced it had signed a purchase and assumption agreement with First National Bank of McConnelsville that provides for Peoples Bank to acquire First National Bank's Carroll, Ohio office, and its associated deposits of approximately $6 million, and First National Bank to acquire Peoples Bank's Chesterhill, Ohio office, and its associated deposits of approximately $5 million. The agreement provides for a deposit premium of 6% to be paid on any difference in deposits acquired. Loans will be retained at the originating financial institution. The transaction, which is subject to regulatory approval, is expected to be completed during the fourth quarter of 2006. Management does not expect this transaction to have a material impact on Peoples' financial condition, results of operations, capital or cash flows.

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

Effective August 1, 2006, John W. Conlon retired and resigned from his position as Chief Financial Officer and Treasurer of both Peoples Bancorp and Peoples Bank. As part of the succession plan announced in July 2005, Donald J. Landers, Jr., who had served as Director of Finance and Chief Accounting Officer, was appointed Chief Financial Officer and Treasurer of both Peoples Bancorp and Peoples Bank effective with Mr. Conlon's retirement.

Financial Overview

Net income totaled $5.5 million, or $0.52 per diluted share, for the second quarter of 2006 compared to $4.9 million, or $0.46 per diluted share, for the same quarter in 2005, representing a 13% increase. Key drivers of second quarter earnings growth were a 7% decline in non-interest expense combined with a 4% growth in non-interest income, resulting in a return on average equity of 11.88% and return on average assets of 1.18%, versus 11.08% and 1.08%, respectively, for the same period in 2005.

For the six months ended June 30, 2006, Peoples' net income grew 20% to $11.5 million, compared to $9.6 million in the first half of 2005, while diluted earnings per share for the period were $1.07 and $0.91, respectively, an 18% increase. These increases were largely the result of $1.2 million growth in net interest income and $1.4 million increase in non-interest income. Return on average equity and return on average assets for the first six months of 2006 improved to 12.45% and 1.24%, respectively, from 10.97% and 1.07%, respectively, for the same period a year ago due to the higher net income.

Peoples' results for the three and six months ended June 30, 2005, also reflect pension settlement charges of $578,000 ($421,000 after-tax or $0.04 per diluted share) as lump sum payments to participants during the second quarter of 2005 exceeded the allowable threshold under US GAAP. Comparatively, no settlement charges were incurred through six months of 2006.

Net interest income totaled $13.3 million in the second quarter of 2006, up from $12.9 million in the second quarter of 2005, due to earning asset growth from strong loan originations exceeding the increase in interest-bearing liabilities. However, the current slope of the yield curve, the repricing of maturing liabilities at higher rates and competitive loan and deposit pricing in Peoples' primary markets continue to challenge net interest income and margin, which compressed to 3.29% for the second quarter of 2006, from 3.32% a year ago. Both net interest income and net interest margin were also negatively impacted by Peoples placing $4 million in loans from a single commercial relationship on nonaccrual status in the second quarter of 2006, resulting in the reversal of $149,000 of interest income. Through six months of 2006, net interest income totaled $26.8 million and net interest margin was 3.34%, versus $25.6 million and 3.29% for the same period a year ago, respectively.

For the second quarter of 2006, other income totaled $7.6 million, up 4% compared to a year ago, while on a year-to-date basis, other income increased 7%, totaling $15.7 million versus $14.7 million a year ago. Higher insurance and investment revenues accounted for much of these increases. Second quarter 2006 other income also included net gains on security and asset transactions of $26,000 compared to $116,000 of net gains in 2005's second quarter. Other expense was down 7% to $12.6 million for the three months ended June 30, 2006, compared to the same period in 2005. On a year-to-date basis, other expense decreased 2% to $25.6 million, from $26.2 million. These decreases in total expense were due to lower salaries and benefits, net occupancy and equipment costs and intangible amortization.

At June 30, 2006, total assets were $1.88 billion, up $23.8 million over year-end 2005. Gross portfolio loans increased by $42.3 million since December 31, 2005, totaling $1.11 billion at quarter-end. The largest portion of this loan growth was from originations of commercial real estate mortgages. Investment securities totaled $568.8 million at June 30, 2006, down 3% from year-end 2005.

Total liabilities were $1.69 billion at June 30, 2006, compared to $1.67 billion at year-end 2005. Deposit balances increased 6% through six months, to $1.15 billion at June 30, 2006, due to $55.6 million of growth in interest-bearing deposits and $7.2 million increase in non-interest-bearing balances. The higher deposit balances allowed Peoples to reduce non-deposit borrowings by $44.6 million to $520.9 million at June 30, 2006, from $565.5 million at December 31, 2005.

At June 30, 2006, total stockholders' equity was $186.6 million versus $183.1 million at December 31, 2005, as Peoples' earnings, net of dividends paid, of $7.1 million were largely offset by a $5.6 million increase in accumulated comprehensive loss for the first six months of 2006.

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, totaling $13.3 million in the second quarter of 2006, up 3% from a year ago. For the second quarter of 2006, interest income grew 15% to $27.0 million, due to higher average earning assets and improved yields on those assets, while interest expense was up 31% to $13.7 million, primarily due to the 76 basis point increase in the average cost of funds, from the second quarter of 2005. Compared to the first quarter of 2006, net interest income was down slightly, as increased interest expense offset higher levels of interest income. Second quarter 2006 net interest income was also reduced by $149,000 due to the reversal of interest income on $4 million of loans placed on nonaccrual status during the quarter.

For the six months ended June 30, 2006, net interest income increased 5% to $26.8 million versus $25.6 million. Interest income grew $6.7 million to $52.8 million, attributable to a $26.2 million increase in average earning assets combined with a 16 basis point improvement in average asset yields. Interest expense was $25.9 million, up $5.5 million from a year ago, due mostly to a 30 basis point increase in the average cost of funds.

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:

	Three Months Ended			Six
(Dollars in thousands)	June 30, 2006	March 31, 2006	June 30, 2005	20
Net interest income, as reported	$ 13,305	$ 13,503	$ 12,916	$ 2
Taxable equivalent adjustments	426	430	401	
Fully-tax equivalent net interest income	$ 13,731	$ 13,933	$ 13,317	$ 2

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 table details Peoples' average balance sheet and analysis of net interest income for the periods presented:

	For the Three Months Ended June 30,				
	2006			2005	
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Inco Expe
ASSETS					
Securities:					
Taxable	$ 514,108	$ 6,267	4.88%	$ 533,006	$
Tax-exempt (1)	67,816	1,114	6.57%	64,619	
Total securities	581,924	7,381	5.07%	597,625	
Loans (2):					
Commercial (1)	722,684	13,209	7.33%	627,944	1
Real estate (3)	313,307	5,381	6.87%	338,605	
Consumer	68,848	1,422	8.28%	58,246	
Total loans	1,104,8398	20,012	7.26%	1,024,795	1
Less: Allowance for loan losses	(15,008)			(15,447)	
Net loans	1,089,831	20,012	7.36%	1,009,348	1
Interest-bearing deposits with banks	2,553	23	3.61%	2,495	
Federal funds sold	1,194	15	5.01%	556	
Total earning assets	1,675,502	$ 27,431	6.56%	1,610,024	$ 2
Intangible assets	68,557			70,069	
Other assets	132,094			130,677	

Total assets	$ 1,876,153			1,810,770	
LIABILITIES AND EQUITY					
Interest-bearing deposits:					
Savings	$ 125,597	$ 203	0.65%	$ 148,284	$
Interest-bearing demand deposits	290,323	1,755	2.42%	302,401	
Time	556,319	5,476	3.95%	495,884	
Total interest-bearing deposits	972,239	7,434	3.07%	946,569	
Borrowed funds:					
Short-term	227,983	2,757	4.84%	101,387	
Long-term	305,717	3,509	4.59%	411,557	
Total borrowed funds	533,700	6,266	4.66%	512,944	
Total interest-bearing liabilities	1,505,939	$ 13,700	3.64%	1,459,513	$ 1
Non-interest-bearing deposits	167,918			158,774	
Other liabilities	15,411			15,900	
Total liabilities	1,689,268			1,634,187	
Stockholders' equity	186,885			176,583	
Total liabilities and equity	$ 1,876,153			$1,810,770	
Interest spread		$ 13,731	2.92%		$ 1
Interest income to earning assets			6.56%		
Interest expense to earning assets			3.27%		
Net interest margin			3.29%		

	For the Six Months Ended June 30,				
	2006			2005	
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Inco Expe
ASSETS					
Securities:					
Taxable	$ 516,372	$ 12,284	4.76%	$ 534,999	$ 1
Tax-exempt (1)	68,356	2,237	6.55%	63,542	
Total securities	584,728	14,521	4.97%	598,541	1
Loans (2):					
Commercial (1)	705,808	25,508	7.29%	619,561	1
Real estate (3)	316,022	10,715	6.84%	346,145	1
Consumer	66,961	2,787	8.39%	58,607	
Total loans	1,088,791	39,010	7.21%	1,024,313	3
Less: Allowance for loan losses	(14,922)			(15,150)	

Net loans	1,073,869	39,010	7.31%	1,009,163	3
Interest-bearing deposits with banks	2,527	48	3.77%	2,404	
Federal funds sold	1,332	30	4.60%	405	
Total earning assets	1,662,456	$ 53,609	6.48%	1,610,513	$ 4
Intangible assets	68,767			70,340	
Other assets	130,727			129,188	
Total assets	$ 1,861,950			$ 1,810,041	
LIABILITIES AND EQUITY					
Interest-bearing deposits:					
Savings	$ 126,591	$ 401	0.64%	$ 151,297	$
Interest-bearing demand deposits	289,768	3,352	2.33%	290,924	
Time	547,675	10,324	3.80%	495,938	
Total interest-bearing deposits	964,034	14,077	2.94%	938,159	1
Borrowed funds:					
Short-term	196,830	4,523	4.60%	96,692	
Long-term	333,397	7,346	4.41%	425,463	
Total borrowed funds	530,227	11,869	4.47%	522,155	
Total interest-bearing liabilities	1,494,261	$ 25,946	3.49%	1,460,314	$ 2
Non-interest-bearing deposits	166,329			157,187	
Other liabilities	15,561			16,543	
Total liabilities	1,676,151			1,634,044	
Stockholders' equity	185,799			175,997	
Total liabilities and equity	$ 1,861,950			$ 1,810,041	
Interest spread		$ 27,663	2.99%		$ 2
Interest income to earning assets			6.48%		
Interest expense to earning assets			3.14%		
Net interest margin			3.34%		

Between June 2004 and June 2006, the Federal Reserve's Open Market Committee has increased the target Federal Funds rate 425 basis points, causing a similar increase in short-term market interest rates. However, market driven longer-term interest rates have risen very little during this same period, resulting in the compression of the spread between short-term and long-term interest rates. This flattening of the yield curve, coupled with intense competition for loans and deposits, has made it difficult for many financial institutions, including Peoples, to grow or even maintain net interest income and margin.

In the second quarter and first half of 2006, average earning asset growth resulted from higher average net loan balances due to continued demand for commercial mortgage loans in certain markets. During these same periods, Peoples has experienced modest improvements in asset yields from loan originations and the upward repricing of variable rate loans tied to the prime rate, although competitive pricing of new business loans and the repayment of some higher yielding loans have tempered these improvements. In 2006, a major part of management's interest rate risk strategy includes changing the mix of earning assets by funding loan growth with investment portfolio cash flows. As a result, average investment securities have decreased throughout the first half of 2006.

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 that generally carry higher market rates of interest. In the second quarter of 2006, average interest-bearing deposits grew 3% from the second quarter of 2005 and 2% from the first quarter of 2006, attributable to higher retail certificates of deposit ("CD") balances. Average brokered deposits were up $14.8 million and $5.5 million in the second quarter of 2006, compared to the second quarter of 2005 and first quarter of 2006, respectively. For the six months ended June 30, 2006, average interest-bearing deposits increased 3%, the result of a $37.4 million increase in average retail CD balances and $13.1 million increase in brokered deposits. The increase in the average cost of interest-bearing deposits reflects the general increase in short-term interest rates and competitive pricing necessary to grow deposit balances.

Peoples also utilizes a variety of borrowings to complement its deposit base. The following details the average balances and rates of Peoples' borrowed funds:

	For the Three months Ended				
	June 30, 2006		March 31, 2006		June
(Dollars in thousands)	Average Balance	Rate	Average Balance	Rate	Averag Balanc
Short-term borrowings:					
FHLB advances	$ 193,934	4.93%	$ 130,532	4.45%	$ 85
Retail repurchase agreements	34,049	3.96%	34,800	3.61%	16
Total short-term borrowings	$ 227,983	4.84%	$ 165,332	4.33%	$ 101
Long-term borrowings:					
FHLB advances	$ 158,473	4.37%	$ 185,408	4.18%	$ 204
Wholesale repurchase agreements	104,602	3.46%	133,016	3.27%	162
Other long-term borrowings	42,642	8.07%	42,961	7.85%	44
Total long-term borrowings	$ 305,717	4.59%	$ 361,385	4.25%	$ 411

	For the Six Months Ended June 30,			
	2006		2005	
	Average Balance	Rate	Average Balance	Rate
Short-term borrowings:				

FHLB advances	$	162,408	4.74%	$	80,817	2.73%
Retail repurchase agreements		34,422	3.79%		15,875	2.03%
Total short-term borrowings	$	196,830	4.60%	$	96,692	2.65%
Long-term borrowings:						
FHLB advances	$	171,866	4.27%	$	206,646	4.10%
Wholesale repurchase agreements		118,730	3.35%		174,401	3.10%
Other long-term borrowings		42,801	7.96%		44,416	6.92%
Total long-term borrowings	$	333,397	4.41%	$	425,462	4.00%

The change in both short- and long-term borrowings reflects management's decision to repay maturing long-term debt with short-term overnight Federal Home Loan Bank ("FHLB") advances rather than extend the term at current market rates, along with using the increase in average deposit balances to reduce the amount of short-term overnight FHLB advances. Additional information regarding Peoples' borrowed funds can be found later in this discussion under the caption "FINANCIAL CONDITION-Funding Sources".

The combination of higher current interest rates and intense competition for loans and deposits continues to pressure net interest income and margin. One of Peoples' major strategic initiatives for 2006 is to adjust its balance sheet mix by increasing loans and decreasing investment securities in proportion to total earning assets while reducing the amount of wholesale funding, when possible. This strategy should produce long-term benefits to Peoples' net interest income and margin. However, management expects the repricing of existing funding sources, pricing competition and the flat yield curve to continue to pressure net interest margin in the short-term, which may mitigate any positive margin impact from these balance sheet changes. Peoples will continue to monitor net interest income performance and manage its balance sheet mix through regular Asset-Liability Committee ("ALCO") meetings. However, the frequency and/or magnitude of changes in market interest rates are difficult to predict, much less react to, and may have a greater impact on net interest income than adjustments initiated by management.

Provision for Loan Losses

In the second quarter of 2006, Peoples' provision for loan losses was $573,000 compared to $268,000 in the first quarter of 2006 and $40,000 in the second quarter of 2005, of which $250,000, $56,000 and $181,000, respectively related to deposit account overdrafts. For the six months ended June 30, 2006, the provision for loan losses was $841,000, down from $981,000 provided for the first six months of 2005. The provision is based on management's in depth quarterly analysis of the loan portfolio and historical loss experience and is directionally consistent with changes in Peoples' loan credit quality.

The provision expressed as a percentage of average loans was 0.08% through the first half of 2006 compared to 0.10% for the same period in 2005. Future provisions for loan losses will continue to be based on management's quarterly procedural discipline that estimates the amount of credit losses incurred within the loan portfolio.

Non-Interest Income

Peoples generates non-interest income from six primary sources: deposit account service charges, fiduciary activities, investment and insurance commissions, electronic banking ("e-banking"), mortgage banking and business owned life insurance ("BOLI"). In the second quarter of 2006, non-interest income, excluding gains and losses on securities and asset disposal transactions, totaled $7.6 million versus $7.2 million in the second quarter of 2005, a 5% increase. Through six months of 2006, non-interest income increased 9% compared to the first half of 2005, totaling $15.7 million, with insurance revenues and deposit account service charges being the key drivers of increased non-interest income. Compared to the first quarter of 2006, non-interest income was down 6% in the second quarter of 2006 as a result of $1.1 million of annual, performance based insurance commission income received in the first quarter.

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 non-interest revenue. In the second quarter of 2006, deposit account service charges were up 5% from a year ago and up 6% from the prior quarter. On a year-to-date basis, deposit account service charges increased 7%. The following table details Peoples' deposit account service charges:

	For the Three Months Ended			For En
(Dollars in thousands)	June 30, 2006	March 31, 2006	June 30 2005	2006
Overdraft fees	$ 1,789	$ 1,527	$ 1,722	$ 3
Non-sufficient funds fees	543	461	464	1
Other fees and charges	272	473	286	
Total	$ 2,604	$ 2,461	$ 2,472	$ 5

The amount of deposit account service charges recognized by Peoples each quarter is largely dependent on the timing and volume of customer activity. In January 2006, Peoples adjusted certain account charges, including a $2 per item increase in overdraft and non-sufficient funds fees, in response to higher operational costs. In addition, Peoples continues to add several new customer relationships in 2006 due to its direct marketing and gift programs and focus on growing core deposits, which has led to an increase in deposit account service charges.

In the second quarter of 2006, insurance and investment revenues were $2.5 million versus $2.3 million for 2005's second quarter, due mainly to increased sales of property and casualty insurance. Compared to the first quarter of 2006, insurance and investment revenues decreased $0.9 million, due to performance based commissions, which are normally earned in the first quarter of each year. For the six months ended June 30, 2006, insurance and investment revenues were up 19%, largely attributable to the higher performance commission income received in the first quarter of 2006. The following table details Peoples' insurance and investment commissions:

	For the Three Months Ended			For En
(Dollars in thousands)	June 30, 2006	March 31, 2006	June 30, 2005	2006

Property and casualty insurance	$ 2,048	$ 1,935	$ 1,861	$ 3
Brokerage	189	166	104	
Life and health insurance	140	148	127	
Credit life and A&H insurance	49	32	40	
Contingent performance based commissions	37	1,037	30	1
Fixed annuities	13	57	104	
Total	$ 2,476	$ 3,375	$ 2,266	$ 5

Peoples' e-banking services include ATM and debit cards, direct deposit services and Internet banking and serve as alternative delivery channels to traditional sales offices for providing services to clients. During the first half of 2006, e-banking revenues have remained strong, largely attributable to the combination of an increase in the number of deposit relationships with debit cards and higher volumes of debit card activity. At June 30, 2006, Peoples had 35,618 deposit relationships with debit cards, or 53% of all eligible deposit accounts, compared to 30,634 relationships and a 49% penetration rate a year ago. Peoples' customers used their debit cards to complete $95 million of transactions through six months of 2006, up 24% from $76 million for the first half of 2005.

Non-Interest Expense

Non-interest expense was down 7% and 2% for the three and six months ended June 30, 2006, respectively, when compared to the same periods of 2005. Lower salaries and benefit costs accounted for much of these declines, while decreased net occupancy and equipment costs and intangible amortization expense offset modest increases in Peoples' other non-interest expenses. Compared to the first quarter of 2006, non-interest expense was down 4% in the second quarter of 2006, attributable to lower salaries and benefit costs.

Salaries and benefit costs, Peoples' largest non-interest expense, were lower in the second quarter and first half of 2006 compared to the same periods in 2005. The $578,000 pension settlement charge incurred in the second quarter of 2005 accounted for much of these declines. The following table details Peoples' salaries and benefit costs:

	For the Three Months Ended			
(Dollars in thousands)	June 30, 2006	March 31, 2006	June 30, 2005	---
Salaries and other compensation	$ 4,894	$ 5,322	$ 5,099	$
Employee benefits	905	1,014	1,579	
Payroll taxes and other employment-related costs	633	576	558	
Total	$ 6,432	$ 6,912	$ 7,236	$

Also contributing to the decline in the amount of salaries and other compensation from the prior quarter and second quarter of 2005, were salaries considered direct loan origination costs from increased loan production that were deferred and will be recognized over the life of the related loans as a reduction of the loan's yield. On a year-to-date basis, the combination of higher incentive compensation expense and normal annual base salary increases offset much of the impact of the increased loan cost deferrals. Peoples' employee benefit costs through six months of 2006 have benefited from the non-recurrence of pension settlement charges and stable medical costs. Second quarter 2005 employee benefits also include a charge of $176,000 for the Director Retirement Plan for the benefit of former Chairman Robert E. Evans' spouse as beneficiary. Additionally, Peoples' adoption of new stock-based compensation accounting rules on January 1, 2006, has tempered the improvement since Peoples was required to record compensation expense for stock options granted in 2006. Information regarding the new stock-based compensation accounting rules and the impact on Peoples' results of operations can be found in Note 3 of the Notes to the Consolidated Unaudited Financial Statements.

Net occupancy and equipment costs decreased 10% in the second quarter of 2006 and 7% on a year-to-date basis, from the same periods a year ago. These declines were primarily attributable to lower depreciation expense from aged assets, while a $42,000 decrease in maintenance costs contributed to the second quarter decline.

Professional fees, which include accounting, legal and other professional expenses, were up 21% in the second quarter of 2006 and increased 5% for the six months ended June 30, 2006, compared to the same periods in 2005. The primary factor driving the increased professional fees was ongoing regulatory compliance costs.

Marketing expense, which includes the cost of advertising, public relations and charitable contributions, was flat in the second quarter of 2006 when compared to the second quarter of 2005. On a year-to-date basis, marketing expense was up 13% from a year ago, due to costs associated with Peoples' deposit direct mail marketing and gift program.

Income Tax Expense

Peoples' effective tax rate was 28.6% for the six months ended June 30, 2006, versus 27.2% a year ago. This increase was due to higher pre-tax income without a comparable increase in income from tax-exempt sources and reflects management's current estimate of the approximate annual effective rate for 2006.

Peoples has made tax-advantaged investments in order to manage its effective tax rate and overall tax burden. At June 30, 2006, the amount of tax-advantaged investments totaled $153.1 million compared to $155.9 million at year-end 2005 and $154.1 million at June 30, 2005. Depending on economic and regulatory conditions, Peoples may make additional investments in various tax credit pools and other tax-advantaged assets.

FINANCIAL CONDITION

Cash and Cash Equivalents

Cash and cash equivalents increased $1.9 million in the second quarter of 2006, to $37.6 million at June 30, 2006, but were down $2.1 million from the $39.6 million at December 31, 2005. The increase during the second quarter reflects a higher amount of items in process of collection, while decreased Federal Funds sold of $2.6 million accounted for the decline since year-end. 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

Total investment securities had a fair market value of $568.8 million at June 30, 2006 down 3% from both the March 31, 2006, and year-end 2005 levels. Through six months of 2006, proceeds from calls, maturities and prepayments totaled $31.9 million, which exceeded purchases totaling $20.3 million. Peoples' unrealized loss on investment securities was $10.4 million at June 30, 2006, compared to $1.7 million at December 31, 2005, primarily due to a decline in market value attributable to changes in market interest rates. Management does not believe any individual unrealized loss at June 30, 2006, represents 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' investment portfolio, at estimated fair value:

(Dollars in thousands)	June 30, 2006	March 31, 2006	Decembe 200
US Treasury securities and obligations of US government agencies and corporations	$ 121,576	$ 121,417	$
Obligations of states and political subdivisions	67,406	68,014	
Mortgage-backed securities	324,843	344,343	
Other securities	54,981	55,013	
Total available-for-sale securities	$ 568,806	$ 588,787	$

Overall, the composition of Peoples' investment portfolio at June 30, 2006 was comparable to recent periods. Peoples' investment in mortgage-backed securities continues to decline due to management using a portion of the principal runoff to fund loan growth and for other corporate liquidity purposes. Management also reinvested some of the cash flows from mortgage-backed securities into U.S. agency and municipal securities during the first quarter of 2006 to improve the diversification and overall performance of the investment portfolio in a changing rate environment.

Management regularly evaluates the performance and liquidity of the investment portfolio. For the remainder of 2006, management may continue to utilize some or all of the cash flows from the investment portfolio to fund loan growth or reduce borrowed funds, as deemed appropriate from an earnings and liquidity perspective. While Peoples' investment portfolio is used to prudently leverage excess capital when appropriate, it serves, first and foremost, as a means of maintaining liquidity to satisfy cash flow requirements and an interest rate risk management tool to balance the timing of cash flows and repricing of Peoples' earning assets and interest-bearing liabilities.

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 2006, gross loans increased $35.2 million, or 12% on an annualized basis, due mostly to strong commercial real estate loan originations. The following table details total outstanding loans:

(Dollars in thousands)	June 30, 2006	March 31, 2006	December 31, 2005	June 30, 2005
Commercial, mortgage	$ 484,486	$ 466,707	$ 504,923	$ 474,34
Commercial, other	187,296	182,801	136,331	133,53
Real estate, construction	66,627	52,698	50,745	35,95
Real estate, mortgage	305,199	310,048	316,081	330,88
Consumer	70,605	66,773	63,796	59,36
Total loans	$ 1,114,213	$ 1,079,027	$ 1,071,876	$ 1,034,07

Commercial loan balances, including loans secured by commercial real estate, continue to represent the largest portion of Peoples' total loan portfolio, comprising 60.3% and 59.8% of total loans at June 30, 2006 and December 31, 2005, respectively. Much of the commercial loan growth in the first half of 2006 resulted from continued demand for commercial mortgage loans in certain markets and lower than expected payoffs. A significant portion of the changes in both commercial mortgage balances and other commercial loans in the first quarter of 2006 was attributable to a reclassification of certain loans resulting from Peoples' ongoing regulatory reporting compliance and loan review process. 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, interest rates offered by Peoples and normal underwriting considerations. Additionally, the potential for larger than normal commercial loan payoffs may limit loan growth during the remainder of 2006.

While commercial loans comprise the largest portion of Peoples' loan portfolio, generating residential real estate loans remains a major focus of Peoples' lending efforts. Included in real estate mortgage loans are home equity credit line balances of $45.1 million at June 30, 2006 versus $46.6 million at December 31, 2005. Real estate loan balances continue to be impacted by customer demand for long-term, fixed-rate mortgages, which Peoples generally sells to the secondary market with servicing rights retained. At June 30, 2006, Peoples was servicing $154.4 million of real estate loans previously sold to the secondary market compared to $144.3 million at year-end 2005 and $132.0 million at June 30, 2005.

Consumer loan balances, which include overdrafts, have risen modestly for the past five consecutive quarters. Peoples' indirect lending area remains the major source of this growth, with balances of $33.9 million at June 30, 2006, versus $31.2 million at March 31, 2006 and $28.2 million at December 31, 2005. Peoples' ability to maintain, or even grow, consumer loans in future quarters continues to be impacted by strong competition for various types of consumer loans, especially automobile loans, as well as availability of alternative credit products, such as home equity credit lines. Additionally, Peoples' commitment to originate quality loans based on sound underwriting practices and appropriate loan pricing discipline remains the paramount objective and could limit any future growth.

Loan Concentration

Peoples' largest concentration of commercial loans is related to assisted living facilities and nursing homes, which comprised approximately 8.8% of Peoples' outstanding commercial loans at quarter-end, compared to 8.9% at December 31, 2005. Loans to lodging and lodging-related companies also represented a significant portion of Peoples' commercial loans, comprising 7.5% of Peoples' outstanding commercial loans at June 30, 2006, versus 8.8% at year-end 2005.

These lending opportunities 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 includes 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, although not considered the primary source of repayment, many of these loans are guaranteed by principals with substantial net worth.

Allowance for Loan Losses

Peoples' allowance for loan losses totaled $15.3 million, or 1.38% of total loans, at June 30, 2006, compared to $14.7 million, or 1.42% of total loans, at June 30, 2005, and $14.7 million, or 1.37% of total loans, at year-end 2005. The following table presents changes in Peoples' allowance for loan losses:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2006	2005	2006	2005
Balance, beginning of period	$ 14,672	$ 15,202	$ 14,720	$ 14,
Charge-offs	(521)	(1,104)	(1,174)	(2,
Recoveries	607	590	944	1,
Net recoveries (charge-offs)	86	(514)	(230)	(1,
Provision for loan losses	573	40	841	
Balance, end of period	$ 15,331	$ 14,728	$ 15,331	$ 14,

In the second quarter of 2006, recoveries exceeded loan charge-offs, resulting in net recoveries of $86,000 versus net charge-offs of $316,000 last quarter and $514,000 a year ago. The following table details Peoples' net (recoveries) charge-offs:

	For the Three Months Ended	For

(Dollars in thousands)	June 30, 2006	March 31, 2006	June 30, 2005	20
Overdrafts	$ 173	$ 104	$ 156	$
Consumer	42	(13)	45	
Real estate	(202)	90	126	
Commercial	(98)	137	201	
Credit card	(1)	(2)	(14)	
Net (recoveries) charge-offs	$ (86)	$ 316	$ 514	$
As a percent of average loans (a)	(0.03%)	0.12%	0.20%	

The allowance is allocated among the loan categories based upon management's consistent, quarterly procedural discipline. 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:

(Dollars in thousands)	June 30, 2006	March 31, 2006	December 31, 2005
Commercial	$ 13,154	$ 11,883	$ 11,88
Real estate	1,051	1,400	1,40
Consumer	809	1,150	1,14
Overdrafts	317	239	28
Total allowance for loan losses	$ 15,331	$ 14,672	$ 14,72

The significant allocation of the allowance to commercial loans is based upon Peoples' quarterly review process and reflects the higher credit risk associated with this type of lending and continued growth in this portfolio. The allowance allocated to the real estate and consumer loan portfolios is based upon Peoples' allowance methodology for homogeneous pools of loans, which includes a consideration of changes in total balances in those portfolios.

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

(Dollars in thousands)	June 30, 2006	March 31, 2006	December 31, 2005	
Loans 90+ days past due and accruing	$ 808	$ -	$ 251	$
Nonaccrual loans	9,548	6,045	6,284	
Total nonperforming loans	10,356	6,045	6,535	
Other real estate owned	130	38	308	

Total nonperforming assets	$ 10,486	$ 6,083	$ 6,843	$
Nonperforming loans as a percent of total loans	0.93%	0.56%	0.61%	
Nonperforming assets as a percent of total assets	0.56%	0.33%	0.37%	

In the second quarter of 2006, the level of both nonperforming loans and assets increased as a result of Peoples placing $4 million of commercial real estate loans to a single borrower on nonaccrual status. This credit has been appropriately considered by management in determining the adequacy of the allowance for loan losses, and management does not anticipate significant losses on this credit. Peoples' overall asset quality remained good in the second quarter, as reflected by net recoveries for the quarter.

At June 30, 2006, the recorded investment in loans that were considered to be impaired was $22.7 million, of which $15.4 million were accruing interest and $7.3 million were nonaccrual loans. Included in total impaired loans were $7.9 million of impaired loans for which the related allowance for loan losses was $2.6 million. The remaining impaired loan balances did not have a related allocation of the allowance for loan losses because the loans have previously been written-down, are well secured or possess characteristics indicative of the ability to repay the loan. For the six months ended June 30, 2006, Peoples' average recorded investment in impaired loans was approximately $16.4 million and interest income of $619,000 was recognized on impaired loans during the period, representing 1.2% of Peoples' total interest income. This compares to average impaired loans of $10.9 million and interest income of $234,000, or 0.5% of Peoples' total interest income, for the same period in 2005.

Funding Sources

Deposits, both interest-bearing and non-interest-bearing, continue to be the most significant source of funds for Peoples, totaling $1.15 billion at June 30, 2006, versus $1.09 billion at year-end 2005. Much of this increase is attributable to higher interest-bearing balances, primarily money market deposit accounts, certificates of deposits and brokered deposits. Non-interest-bearing deposits, which serve as a core funding source, have also increased $7.1 million since year-end 2005, reflecting Peoples' efforts to grow these balances and reduce its reliance on higher cost funding sources. The following table details Peoples' deposit balances:

(Dollars in thousands)	June 30, 2006	March 31, 2006	December 31, 2005
Retail certificates of deposit	$ 499,448	$ 493,235	$ 465,148
Interest-bearing transaction accounts	177,905	183,411	178,030
Money market deposit accounts	123,513	106,367	110,372
Savings accounts	123,293	129,556	131,221
Brokered certificates of deposits	57,969	60,255	41,786
Total interest-bearing deposits	$ 982,128	$ 972,824	926,557
Non-interest-bearing deposits	169,903	166,782	162,729

Total deposit balances	$ 1,152,031	$ 1,139,606	$ 1,089,286

The increase in money market deposit balances in the second quarter of 2006 was generated by Peoples offering a new money market product with a very competitive rate, which resulted in over $9 million in new deposit relationships. However, Peoples continues to experience fierce competition for deposits in its markets, which makes it difficult to maintain, let alone grow, deposit balances.

Peoples also accesses other funding sources, including short- and long-term borrowings, to fund asset growth and satisfy liquidity needs. At June 30, 2006, borrowed funds totaled $520.9 million, down from $565.5 million at year-end 2005, and up slightly from $518.1 million at March 31, 2006. The following details Peoples' short- and long-term borrowings:

(Dollars in thousands)	June 30, 2006	March 31, 2006	December 31, 2005
Short-term borrowings:			
FHLB advances	$ 191,800	$ 158,400	$ 137,8
Retail repurchase agreements	36,768	35,638	35,8
Total short-term borrowings	228,568	$ 194,038	$ 173,6
Long-term borrowings:			
FHLB advances	$ 151,071	$ 174,810	$ 191,0
National market repurchase agreements	100,000	106,250	157,8
Term note payable	11,900	13,600	13,6
Total long-term borrowings	262,971	$ 294,660	$ 362,4
Subordinated notes held by subsidiary trusts	29,369	$ 29,372	$ 29,3
Total borrowed funds	$ 520,908	$ 518,070	$ 565,5

The short-term FHLB advances consist of overnight REPO advances used to manage Peoples' daily liquidity needs, which has caused some of the increase in recent periods. The remaining increase in short-term FHLB advances was due to management repaying maturing 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 and liquidity. 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, 2006, stockholders' equity was $186.6 million versus $183.1 million at December 31, 2005, as Peoples' earnings, net of dividends paid, of $7.1 million were largely offset by a $5.6 million increase in accumulated comprehensive loss due to the decline in market value of the investment portfolio from recent increases in market interest rates.

In the second quarter of 2006, Peoples declared dividends of $0.21 per share, up 11% from $0.19 per share declared a year ago. Through six months of 2006, Peoples Bancorp declared dividends totaling $4.4 million, up 10% from the $4.0 million declared in the first half of 2005, representing dividend payout ratios of 38.0% and 41.6% of earnings, respectively. While management anticipates Peoples Bancorp continuing its 40-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 Bancorp from paying dividends even when sufficient cash is available. Further, Peoples Bancorp or Peoples Bank may decide to limit the payment of dividends, even when the legal ability to pay them exists, in order to retain earnings for other strategic purposes. At June 30, 2006, Peoples Bank had approximately $4.0 million of net retained profits available for dividends to Peoples Bancorp without regulatory approval.

At June 30, 2006, Peoples had treasury stock totaling $6.9 million compared to $8.8 million at year-end 2005, reflecting the reissuance of 83,420 common shares for stock option exercises. During the second quarter of 2006, Peoples repurchased 14,000 common shares under the 2006 Stock Repurchase Program. Peoples may repurchase additional common shares in 2006 as authorized under the 2006 Stock Repurchase Program when deemed appropriate by management.

Management uses the tangible equity ratio as one measure of the adequacy of Peoples' capital. The ratio, defined as tangible equity as a percentage of tangible assets, excludes the balance sheet impact of intangible assets acquired through acquisitions accounted for using the purchase method of accounting. At June 30, 2006, Peoples' tangible equity ratio was 6.46% compared to 6.37% at December 31, 2005 and 6.17% at June 30, 2005. This higher ratio compared to prior periods reflects a greater proportional increase in tangible equity than tangible assets.

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 industry. At June 30, 2006, 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 minimizing interest rate and liquidity risk exposure through its management of the mix of assets and liabilities, their related cash flows and the rates earned and paid on those assets and liabilities. Ultimately, the ALM function is intended to guide management in the acquisition and disposition of earning assets and selection of appropriate funding sources.

Interest Rate Risk

Interest rate risk ("IRR") is one of the most significant risks for Peoples and the financial services industry primarily arising in the normal course of business of offering a wide array of financial products to its customers, including loans and deposits, as well as from 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 streams as well as market values of financial assets and liabilities. Peoples' exposure to

IRR is due primarily to differences in the timing of 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 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' 2005 Form 10-K.

The difference between rate sensitive assets and rate sensitive liabilities for specified time periods is known as the sensitivity gap. The ALCO reviews gap measures for specific periods focusing on a one-year cumulative gap. At June 30, 2006, Peoples' one-year cumulative gap amount was negative 18.5% of earning assets, which represented $311.4 million more in liabilities than assets that may contractually reprice or mature during that period. This compares to a one-year cumulative gap amount of negative 12.7% of earning assets, or $213.3 million more in liabilities than assets, at March 31, 2006. The change in Peoples' gap position during the second quarter reflects customer preference for loans with initial fixed rate periods in excess of one year and deposits with terms of one year or less, as well as $62.5 million of convertible rate FHLB advances that either converted to a floating rate during the quarter or management determined that conversion was highly probable over the next twelve months and indicates Peoples' earnings could be exposed to a greater risk of loss in a rising interest rate environment. Since the gap position at June 30, 2006, was outside the ALCO's desired range of +/- 15% of earning assets, the ALCO has discussed strategies that could reduce Peoples' negative gap position, including shortening the repricing characteristics of earning assets and extending the terms of interest-bearing liabilities or a combination of both. Currently, management anticipates the ALCO will recommend certain strategies that will bring the gap position within the desired level. The ALCO will continue to monitor closely the trend in gap position, as well as earnings and value exposure to changing interest rates.

The following table is provided to illustrate the estimated earnings at risk and economic value at risk positions of Peoples, on a pre-tax basis, at June 30, 2006 (dollars in thousands):

Immediate Interest Rate Increase (Decrease) in Basis Points	Estimated (Decrease) Increase In Net Interest Income		Estimated (Decrease) Increase in Economic Value of Equity	
200	$ (6,247)	(12.3)%	$ (34,503)	(13.1)%
100	(2,982)	(5.9)	(17,415)	(6.6)
(100)	2,112	4.2	10,098	3.8
(200)	$ 2,760	5.4 %	$ 13,380	5.1 %

Peoples is within the established IRR policy limits for all scenarios shown in the above table. The interest rate risk analysis at June 30, 2006, shows that

Peoples is liability sensitive. During the second quarter of 2006, Peoples became more liability sensitive due in large part to customer preference for loans with fixed rate periods greater than one year and deposits with terms of one year or less. Peoples also has repaid maturing long-term borrowings using overnight FHLB borrowings, rather than extending the terms at higher rates. Based on current assumptions, an immediate and sustained increase in interest rates would negatively impact net interest income primarily due to variable rate loans reaching their annual interest rate cap or potentially their lifetime interest rate cap. Further, in a rising rate environment the prepayment amounts on loans and mortgage-backed securities slow down, producing less cash flow to reinvest at current interest rates. 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 lag increases in a rising rate environment and mitigate some of the IRR exposure.

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 net income from loans and investment securities. For the six months ended June 30, 2006, cash and cash equivalents declined $2.1 million, as the $33.0 million of cash used in investing activities exceeded the $15.4 million of net cash provided by financing activities and $15.5 million of net cash from operations. Compared to the first half of 2005, net cash increased $2.5 million, as net cash from operations and financing activities of $25.0 million and $10.7 million, respectively, was offset by only $33.2 million was used in investing activities, primarily to fund loan originations. In the financing activities during the first half of 2006, a net increase in deposits of $62.8 million allowed Peoples to reduce borrowings by $44.6 million. Investing activities during the same period included a net increase in loans of $42.4 million and net decrease of $11.6 million in investment securities, as principal runoff was used to fund loan growth and for other corporate liquidity purposes.

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, 2006, Peoples had available borrowing capacity of approximately $193 million through these external sources, along with unpledged investment securities of approximately $100 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, 2006, Peoples' net liquidity position was $68.8 million, or 3.7% of total assets, compared to $104.3 million, or 5.6% of total assets, at December 31, 2005. 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:

(Dollars in thousands)	June 30, 2006	December 31, 2005	June 30, 2005
Loan commitments	$ 190,258	$ 162,065	$ 153,536
Standby letters of credit	33,231	29,803	31,832

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 assists Peoples in managing its overall tax burden. At June 30, 2006, these commitments approximated $2.5 million, with approximately $0.7 million expected to be paid over the next twelve months. Management may make additional investments in various tax credit funds.

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

Peoples continues to lease certain banking facilities and equipment under noncancelable operating leases with terms providing for fixed monthly payments over periods 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.

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, 2006. 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 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 are effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q to ensure that material information relating to Peoples Bancorp and its consolidated subsidiaries is made known to them, particularly during the period in which Peoples Bancorp's periodic reports, including this Quarterly Report on Form 10-Q, are being prepared.

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, 2006, that have materially affected, or are reasonably likely to materially affect, Peoples Bancorp's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

In the ordinary course of business or operations, Peoples Bancorp and its subsidiaries may be named as plaintiff, defendant, or a party or any of their respective subsidiaries' property may be subject to various pending and threatened legal proceedings. 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.

ITEM 1A: RISK FACTORS

There have been no material changes from those risk factors previously disclosed in "ITEM 1A. RISK FACTORS" of Part I of Peoples' 2005 Form 10-K.

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 is being 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 is 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 is five trading days prior to the applicable anniversary of the closing date. On April 29, 2006, 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. As part of the Putnam Agency Acquisition, Peoples Bancorp agreed to file a registration statement with the SEC to register for resale common shares issued to the Agency Interim Members. The Registration

Statement on Form S-3 filed by Peoples Bancorp for this purpose (Registration No. 333-116683) became effective on July 2, 2004.

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 14, 2006, 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, 2006 (the "2006 Earn-Out Period"). The "earn out consideration" paid to each former Barengo Insurance Agency shareholder was in the form of $196,742 in cash and $204,758 in Peoples Bancorp common shares, representing 7,032 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 15, 2006 (i.e., July 8, 2006). Accordingly, an aggregate of 14,064 Peoples Bancorp common shares were issued as "earn out consideration" for the 2006 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. As part of the Barengo Insurance Agency Merger, Peoples Bancorp agreed to file a registration statement with the SEC to register for resale common shares issued to the former Barengo Insurance Agency shareholders as "earn out consideration" in respect of the Barengo Insurance Agency Merger. The Registration Statement on Form S-3 filed by Peoples Bancorp for this purpose (Registration No. 333-116683) became effective on July 2, 2004.

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, 2006;

Period	(a) Total Number of Common Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Common Shares that May Yet Be Under the Plans o Programs (1)(2)
April 1 - 30, 2006	-	-	-	425,000
May 1 - 31, 2006	1,102(3)	$30.47(3)	-	425,000
June 1 - 30, 2006	15,215(4)	$28.10(4)	14,000	411,000
Total	16,317	$28.26	14,000	411,000

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5: OTHER INFORMATION

On June 8, 2006, the Board of Directors of Peoples Bancorp amended Section 12.1 of the Peoples Bancorp Inc. 2006 Equity Plan in order to provide that the adjustments contemplated by that section are mandatory, rather than permissive, in the event of any reorganization, recapitalization, reclassification, stock split, stock dividend, distribution, combination of shares, merger, consolidation, rights offering or other change in the corporate structure or shares of Peoples Bancorp.

ITEM 6: EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description	Exhibit Lo
3(a)	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 he reference to Ex Peoples Bancorp Report on Form April 14, 2006
3(b)	Code of Regulations (reflects amendments through April 13, 2006) [For SEC reporting compliance purposes only]	Incorporated he reference to Ex Peoples Bancorp Report on Form quarterly perio 2006 (File No.
10(a)	Peoples Bancorp Inc. 2006 Equity Plan as adopted by Board of Directors of Peoples Bancorp Inc. on February 9, 2006 and approved by shareholders of Peoples Bancorp Inc. on April 13, 2006.	Filed herewith
10(b)	Certificate regarding adoption of Amendment to Peoples Bancorp Inc. 2006 Equity Plan by Board of Directors of Peoples Bancorp Inc. on June 8, 2006	Filed herewith
10(c)	Form of Peoples Bancorp Inc. 2006 Equity Plan Nonqualified Stock Option Agreement evidencing grant of	Filed herewith

	nonqualified stock option to director of Peoples Bancorp Inc.	
10(d)	Summary of Cash Compensation Payable to Directors of Peoples Bancorp Inc. Effective May 1, 2006	Incorporated her Exhibit 3(b) to Quarterly Report quarterly period (File No. 0-1677
10(e)	Form of Change in Control Agreement, adopted August 11, 2004, applicable to Larry E. Holdren and Carol A. Schneeberger	Filed herewith
10(f)	Form of Change in Control Agreement, adopted January 1, 2006, applicable to David T. Wesel	Filed herewith
10(g)	Form of Change in Control Agreement, adopted August 1, 2006, applicable to Donald J. Landers, Jr.	Filed herewith
10(h)	Summary of Base Salaries for Executive Officers of Peoples Bancorp Inc.	Filed herewith
11	Computation of Earnings Per Share	Filed herewith
12	Computation of Ratios	Filed herewith
31(a)	Certification Pursuant to Rule 13a-14(a)/15d-14(a) [President and Chief Executive Officer]	Filed herewith
31(b)	Certification Pursuant to Rule 13a-14(a)/15d-14(a) [Chief Financial Officer and Treasurer]	Filed herewith
32	Section 1350 Certifications	Filed herewith

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 7, 2006 By: /s/ MARK F. BRADLEY

Mark F. Bradley
President and Chief Executive Officer

Date: August 7, 2006 By: /S/ DONALD J. LANDERS, JR.

Donald J. Landers, Jr.
Chief Financial Officer and Treasurer

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PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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