

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-07-27** | Period of Report: **1999-06-30**
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FILER

PEOPLES BANCORP

CIK: **869004** | IRS No.: **351811284** | State of Incorporation: **IN** | Fiscal Year End: **0930**
Type: **10-Q** | Act: **34** | File No.: **000-18991** | Film No.: **99671237**
SIC: **6022** State commercial banks

Mailing Address
212 WEST SEVENTH ST
AUBURN IN 46706

Business Address
212 WEST 7TH ST
AUBURN IN 46706
2199252500

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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

June 30, 1999

Commission
File Number 000-18991

PEOPLES BANCORP
212 WEST SEVENTH STREET
AUBURN, IN 46706

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1811284
(IRS Employer
Identification Number)

Registrant's telephone number, including area code: (219) 925-2500

Indicate by a 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 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 the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Common stock, par value \$1 per share 3,183,717 shares

(Title of class) (Outstanding at July 27, 1999)

PEOPLES BANCORP
AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION

PEOPLES BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

| ASSETS | June 30, | September 30, |
|---|----------------|----------------|
| | 1999 | 1998 |
| Cash | \$ 3,327,736 | \$ 3,567,625 |
| Short-term interest-bearing deposits | 3,012,442 | - |
| Total cash and cash equivalents | 6,340,178 | 3,567,625 |
| Interest-bearing deposits | - | 718,000 |
| Securities available for sale | 15,186,850 | 21,877,758 |
| Securities held to maturity (approximate market value \$615,297 and \$4,716,777) | 606,288 | 4,695,993 |
| Mortgage-backed securities | 280,858 | 372,282 |
| Loans: | | |
| Loans | 294,275,552 | 267,605,591 |
| Less: Allowance for loan losses | 991,466 | 947,008 |
| Net loans | 293,284,086 | 266,658,583 |
| Premises and equipment | 2,254,625 | 2,396,878 |
| Federal Home Loan Bank of Indianapolis stock, at cost | 473,500 | 2,217,700 |
| Other assets | 2,614,463 | 2,431,962 |
| Total assets | \$ 323,040,848 | \$ 304,936,781 |

| LIABILITIES | | |
|---|-------------|--------------|
| Bank overdraft | \$ - | \$ 1,171,306 |
| NOW and savings deposits | 90,625,850 | 75,428,503 |
| Certificates of deposit | 177,475,052 | 173,116,777 |
| Reverse Repurchase Agreements | 3,080,638 | 4,202,653 |
| Federal Home Loan Bank advances | 6,000,000 | 5,000,000 |
| Advances by borrowers for taxes and insurance | 1,253 | 998 |
| Other liabilities | 1,105,881 | 1,345,917 |
| Total liabilities | 278,288,674 | 260,266,154 |

| STOCKHOLDERS' EQUITY | | |
|--|----------------|----------------|
| Preferred stock, par value \$1; Authorized and unissued -- 5,000,000 shares | - | - |
| Common stock, par value \$1; Authorized--7,000,000 shares: Issued and outstanding--3,183,717 and 3,280,684 shares | 3,183,717 | 3,280,684 |
| Additional paid-in capital | 1,203,696 | 3,020,798 |
| Retained earnings--substantially restricted | 40,449,011 | 38,272,422 |
| Accumulated other comprehensive income | (84,250) | 96,723 |
| Total stockholders' equity | 44,752,174 | 44,670,627 |
| Total liabilities and stockholders' equity | \$ 323,040,848 | \$ 304,936,781 |

See notes to consolidated financial statements.

PEOPLES BANCORP
AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

| | Three months ended | | Nine months ended | |
|------------------------------------|--------------------|-------------|-------------------|--------------|
| | June 30, | June 30, | June 30, | June 30, |
| | 1999 | 1998 | 1999 | 1998 |
| Interest Income: | | | | |
| Loans | \$5,620,605 | \$5,076,684 | \$16,370,774 | \$15,019,915 |
| Securities | 260,296 | 588,997 | 898,333 | 1,544,826 |
| Mortgage-backed securities | 5,447 | 10,387 | 22,946 | 33,154 |
| Other interest and dividend income | 161,127 | 102,596 | 466,604 | 549,867 |
| | 6,047,475 | 5,778,664 | 17,758,657 | 17,147,762 |
| Interest Expense: | | | | |
| Now and savings deposits | 620,251 | 541,666 | 1,753,636 | 1,568,533 |

| | | | | |
|--|-------------|-------------|-------------|-------------|
| Certificates of deposit | 2,289,151 | 2,409,587 | 6,956,191 | 7,261,826 |
| Short-term borrowings | 32,330 | 54,910 | 107,781 | 147,583 |
| Federal Home Loan Bank Advances | 75,277 | 28,886 | 198,683 | 28,886 |
| | ----- | ----- | ----- | ----- |
| | 3,017,009 | 3,035,049 | 9,016,291 | 9,006,828 |
| | ----- | ----- | ----- | ----- |
| Net Interest Income | 3,030,466 | 2,743,615 | 8,742,366 | 8,140,934 |
| Provision for losses on loans | 24,896 | 34,253 | 66,113 | 41,916 |
| | ----- | ----- | ----- | ----- |
| Net Interest Income After Provision for Losses on Loans | 3,005,570 | 2,709,362 | 8,676,253 | 8,099,018 |
| | ----- | ----- | ----- | ----- |
| Other Income: | | | | |
| Trust income | 30,408 | 20,044 | 73,436 | 65,799 |
| Fees and service charges | 157,090 | 121,532 | 447,025 | 339,628 |
| Other income | 26,320 | 25,899 | 95,769 | 97,811 |
| | ----- | ----- | ----- | ----- |
| | 213,818 | 167,475 | 616,230 | 503,238 |
| | ----- | ----- | ----- | ----- |
| Other Expense: | | | | |
| Salaries and employee benefits | 668,041 | 650,514 | 1,998,661 | 1,844,225 |
| Net occupancy expenses | 83,762 | 80,927 | 286,247 | 232,167 |
| Equipment expenses | 120,224 | 103,733 | 336,905 | 252,048 |
| Data processing expense | 104,071 | 131,946 | 301,538 | 292,922 |
| Deposit insurance expense | 38,063 | 37,463 | 111,373 | 112,658 |
| Other expenses | 274,499 | 248,490 | 839,492 | 769,474 |
| | ----- | ----- | ----- | ----- |
| | 1,288,660 | 1,253,073 | 3,874,216 | 3,503,494 |
| | ----- | ----- | ----- | ----- |
| Income Before Income Tax | 1,930,728 | 1,623,764 | 5,418,267 | 5,098,762 |
| | ----- | ----- | ----- | ----- |
| Income tax expense | 744,450 | 618,080 | 2,079,100 | 1,947,625 |
| | ----- | ----- | ----- | ----- |
| Net Income | \$1,186,278 | \$1,005,684 | \$3,339,167 | \$3,151,137 |
| | ===== | ===== | ===== | ===== |
| Basic Income Per Common Share | \$0.37 | \$0.30 | \$1.03 | \$0.92 |
| Diluted Income Per Common Share | \$0.37 | \$0.30 | \$1.03 | \$0.92 |
| Average Common Shares Outstanding | 3,202,623 | 3,368,281 | 3,242,344 | 3,424,951 |

See notes to consolidated financial statements.

PEOPLES BANCORP
AND SUBSIDIARY

<TABLE>

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

| <S> | Common Stock | | Additional Paid-in Capital | Retained Earnings (Substantially Restricted) | Comprehensive Income | Accumulated Other Comprehensive Income Net of Tax | Total |
|---|---------------------|-------------|----------------------------------|---|-------------------------|---|--------------|
| | Number of Shares | Amount | | | | | |
| <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Balances, September 30, 1998 | 3,280,684 | \$3,280,684 | \$3,020,798 | \$38,272,422 | \$ - | \$ 96,723 | \$44,670,627 |
| Unrealized gains (losses) on securities available for sale | - | - | - | - | (180,973) | (180,973) | (180,973) |
| Cash dividends (\$0.36 per share) | - | - | - | (1,162,578) | - | - | (1,162,578) |
| Repurchase of stock | (96,967) | (96,967) | (1,817,102) | - | - | - | (1,914,069) |
| Net income for the nine months ended June 30, 1999 | - | - | - | 3,339,167 | 3,339,167 | - | 3,339,167 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Balances, June 30, 1999 | 3,183,717 | \$3,183,717 | \$1,203,696 | \$40,449,011 | \$3,158,194 | \$ (84,250) | \$44,752,174 |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

See notes to consolidated financial statements.

PEOPLES BANCORP
AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Nine months ended June 30, | |
|---|-------------------------------|--------------|
| | 1999 | 1998 |
| Operating Activities: | | |
| Net income | \$3,339,167 | \$3,151,137 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 66,113 | 41,916 |
| Depreciation and amortization | 313,780 | 311,359 |
| Amortization of premiums and discounts on investment securities | (51,746) | (104,055) |
| Amortization of deferred loan fees | (321,368) | (283,496) |
| Change in: | | |
| Interest receivable | 28,815 | 31,891 |
| Interest payable | 157,072 | 57,736 |
| Other adjustments: | (1,135,313) | 38,726 |
| Net cash provided by operating activities | 2,396,520 | 3,245,214 |
| Investing Activities: | | |
| Net change in interest-bearing deposits | 718,000 | (1,499,041) |
| Purchases of securities-held to maturity | - | - |
| Purchases of investment securities-available for sale | (3,589,167) | (5,064,539) |
| Proceeds from maturities of investment securities-held to maturity | 4,193,233 | 97,945 |
| Proceeds from maturities of securities-available for sale | 10,040,000 | 9,685,000 |
| Net change in mutual funds | (329,549) | (1,943,010) |
| Net change in loans | (26,492,142) | (19,497,275) |
| Purchases of premises and equipment | (171,527) | (1,041,308) |
| Proceeds from sales of real estate owned | 79,830 | 115,026 |
| Purchase of Federal Home Loan Bank stock | (255,800) | (155,500) |
| Net cash used by investing activities | (15,807,122) | (19,302,702) |
| Financing Activities: | | |
| Net change in: | | |
| NOW and savings accounts | 15,186,400 | 6,363,806 |
| Certificates of deposit | 4,206,740 | 855,238 |
| Short-term borrowings | (1,122,015) | 1,152,607 |
| FHLB advances | 1,000,000 | 4,000,000 |
| Net change in advances by borrowers for taxes and insurance | 255 | 186 |
| Cash dividends | (1,174,156) | (1,106,469) |
| Repurchase of common stock | (1,914,069) | (782,922) |
| Net cash provided by financing activities | 16,183,155 | 10,482,446 |
| Net Change in Cash and Cash Equivalents | 2,772,553 | (5,575,042) |
| Cash and Cash Equivalents, Beginning of Period | 3,567,625 | 10,732,144 |
| Cash and Cash Equivalents, End of Period | \$6,340,178 | \$5,157,102 |
| Additional Cash Flows and Supplementary Information: | | |
| Interest paid | \$8,859,219 | \$8,949,092 |
| Income tax paid | 2,183,891 | 1,930,382 |

See notes to consolidated financial statements.

PEOPLES BANCORP
AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information with respect to the three and nine months ended June 30, 1999 and 1998, and at June 30, 1999 and 1998, is unaudited.)

1. BASIS OF PRESENTATION

The significant accounting policies followed by Peoples Bancorp (the Company) and its wholly owned subsidiary, Peoples Federal Savings Bank of DeKalb County, (the Bank), for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported, consisting only of normal recurring adjustments, have been included in the accompanying unaudited consolidated condensed financial

statements. The results of operations for the three and nine months ended June 30, 1999, are not necessarily indicative of those expected for the remainder of the year.

2. CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

The Consolidated Statement of Financial Condition at September 30, 1998, has been taken from the audited consolidated financial statements at that date.

3. CASH DIVIDEND

A cash dividend of \$.12 per common share was declared on June 22, 1999, payable on July 22, 1999, to stockholders of record as of July 2, 1999.

4. EARNINGS PER COMMON SHARE

Basic earnings per share have been computed based on the average common shares outstanding during, and the earnings for, the periods presented. Diluted earnings per share were calculated as if outstanding stock options at June 30, 1999 and 1998 had been exercised, and the exercise price used to repurchase stock at the then current market price. The resulting number of shares was used to calculate the diluted earnings per share, which did not differ from the basic earnings per share number.

PEOPLES BANCORP
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information with respect to the three and nine months ended June 30, 1999 and 1998, and at June 30, 1999 and 1998, is unaudited.)

5. COMMITMENTS TO FUND LOANS

Commitments to fund mortgage loans are as follows:

| | June 30, 1999 | | September 30, 1998 | |
|-----------------|--------------------|-------|--------------------|-------|
| | Amount | Rate | Amount | Rate |
| Adjustable rate | \$1,595,700 | | \$2,776,050 | |
| Fixed rate | 2,438,698 | 7.23% | 3,970,570 | 7.22% |
| | <u>\$4,034,398</u> | | <u>\$6,746,620</u> | |

6. STOCK REPURCHASE PLAN

On May 17, 1997, the Company's board of directors authorized the repurchase of up to 240,000 of the Company's outstanding shares of common stock. Such purchases will be made subject to market conditions in the open market or privately negotiated transactions. At June 30, 1999, the Company has repurchased 233,925 shares of its outstanding stock under this plan.

7. RECLASSIFICATIONS

Certain amounts in the 1998 consolidated financial statements have been reclassified to conform to the 1999 presentation.

8. COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income for the fiscal year beginning October 1, 1998. The only comprehensive income item affecting the company is the net unrealized gain on available for sale securities. This item is presented, net of tax, as part of the Consolidated Statement of Changes in Stockholders' Equity.

PEOPLES BANCORP
AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION

Total assets at June 30, 1999 were \$323,040,848, an increase of \$18,104,067 from September 30, 1998. The increase is attributable primarily to loans, which increased \$26,625,503 to \$293,284,086, and cash and cash equivalents, which increased \$2,772,553 to \$6,340,178. These increases were partially offset by decreases in investment securities.

Total deposits were \$268,100,902 at June 30, 1999, an increase of \$19,555,622 since September 30, 1998.

LIQUIDITY

As calculated for regulatory purposes, liquidity was 7.65% at June 30, 1999 as compared to 9.42% at September 30, 1998. Liquidity and loan repayments may need to be supplemented with borrowings from the Federal Home Loan Bank to meet loan fundings and other obligations and expenditures.

CAPITAL RESOURCES

The following table presents Peoples Federal Savings Bank's current estimates of its regulatory capital position as a dollar amount and as a percentage of assets as of June 30, 1999.

<TABLE>

| | At June 30, 1999 | | | | | |
|---|------------------|-------|----------------------------------|------|----------------------------|-------|
| | Actual | | Required for Adequate Capital(1) | | To Be Well Capitalized (1) | |
| | Amount | % | Amount | % | Amount | % |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Total risk-based capital (1) (to risk-weighted assets) | \$39,107 | 21.8% | \$14,368 | 8.0% | \$17,961 | 10.0% |
| Tier 1 Capital (1) (to adjusted tangible assets) | \$38,148 | 12.0% | \$12,695 | 4.0% | \$19,036 | 6.0% |
| Tier 1 Capital (1) (to adjusted total assets) | \$38,148 | 12.0% | \$12,695 | 4.0% | \$15,864 | 5.0% |

(1) as defined by regulatory agencies

</TABLE>

PEOPLES BANCORP
AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

SUMMARY OF RESULTS OF OPERATIONS

Peoples Bancorp and subsidiary had net income of \$1,186,278 or \$0.37 per share and \$3,339,167 or \$1.03 per share for the three and nine months ended June 30, 1999 as compared to \$1,005,684 or \$0.30 per share and \$3,151,137 or \$.92 per share for the same periods ended 1998. The increase was primarily due to higher net interest income.

NET INTEREST INCOME

Net interest income was \$3,005,570 and \$8,676,253, for the three and nine months ended June 30, 1999 as compared to \$2,709,362 and \$8,099,018 for the same periods ended 1998. Interest income increased \$610,895 to \$17,758,657 for the nine months primarily due to higher volumes of loans. Interest expense was substantially unchanged at \$9,016,291 due to a combination of lower rates and higher volumes of deposit accounts, and higher volumes of borrowings. Provision for loan loss increased \$24,197 to \$66,113 for the nine months ended June 30, 1999, reflecting management's continued review of the loan portfolio.

The following table presents average balances and associated rates earned and paid for all interest earning assets and interest bearing liabilities for the nine months ended June 30, 1999 and 1998. (dollars in thousands)

| | 1999 | | | 1998 | | |
|----------------------------|-----------------|----------------|----------------|-----------------|----------------|----------------|
| | Average Balance | Interest Yield | Effective Rate | Average Balance | Interest Yield | Effective Rate |
| Loans | \$282,211 | \$16,371 | 7.73% | \$247,627 | \$15,020 | 8.09% |
| Securities | 18,692 | 898 | 6.41% | 35,319 | 1,545 | 5.83% |
| Mortgage-backed securities | 330 | 23 | 9.29% | 456 | 33 | 9.65% |
| Other | 9,739 | 467 | 6.39% | 10,895 | 550 | 6.73% |

| | | | | | | |
|--|-----------|--------|-------|-----------|--------|-------|
| Combined | 310,972 | 17,759 | 7.61% | 294,297 | 17,148 | 7.77% |
| NOW and savings deposits | 83,680 | 1,754 | 2.79% | 73,673 | 1,569 | 2.84% |
| Certificates of deposit | 177,336 | 6,956 | 5.23% | 172,031 | 7,262 | 5.63% |
| Borrowings | 9,382 | 307 | 4.36% | 4,686 | 176 | 5.01% |
| Combined | \$270,398 | 9,017 | 4.45% | \$250,390 | 9,007 | 4.80% |
| Net interest income/ interest rate spread | \$ 8,742 | 3.16% | | \$8,141 | 2.97% | |

PEOPLES BANCORP
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

The following table illustrates the change in net interest income due to changes in rates and average volumes. (dollars in thousands)

| | Nine months ended June 30, 1999 vs. 1998 | | |
|----------------------------|--|---------|---------|
| | Rate | Volume | Total |
| Loans | \$(694) | \$2,045 | \$1,351 |
| Securities | 138 | (785) | (647) |
| Mortgage-backed securities | - | (10) | (10) |
| Other | (27) | (56) | (83) |
| Total | (583) | 1,194 | 611 |
| NOW and savings deposits | (28) | 213 | 185 |
| Certificates of deposit | (524) | 218 | (306) |
| Short-term borrowings | - | (40) | (40) |
| FHLB advances | - | 171 | 171 |
| Total | (552) | 562 | 10 |
| Net interest income | \$ (31) | \$ 632 | \$ 601 |

NON-PERFORMING ASSETS AND SUMMARY OF LOAN LOSS EXPERIENCE

Non-performing assets at June 30, 1999 and September 30, 1998 are as follows:
(dollars in thousands)

| | June 30, 1999 | September 30, 1998 |
|---|---------------|--------------------|
| Non-accruing loans | \$ 246 | \$ 729 |
| Loans contractually past due 90 days or more other than nonaccruing | 49 | 23 |
| Real estate owned | 53 | - |
| | \$ 348 | \$ 752 |

PEOPLES BANCORP
AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

NON-PERFORMING ASSETS AND SUMMARY OF LOAN LOSS EXPERIENCE (CONT'D)

The following table analyzes the allowance for loan and REO losses for the nine months ended June 30, 1999 and 1998. (dollars in thousands)

| | Loans | | REO | |
|--|-------|-------|------|------|
| | 1999 | 1998 | 1999 | 1998 |
| Balance at 9/30 | \$947 | \$887 | \$ - | \$ - |
| Provision adjustment charged (credited) to expense | 66 | 42 | - | 6 |
| Chargeoffs | (37) | (32) | - | (6) |

| | | | | |
|-----------------|-------|-------|-------|-------|
| Recoveries | 15 | 25 | - | - |
| | ----- | ----- | ----- | ----- |
| Balance at 6/30 | \$991 | \$922 | \$ - | \$ - |
| | ===== | ===== | ===== | ===== |

It is the Bank's policy to carry REO at net realizable value. After repossession, appraised value is reduced for estimated repair and selling costs, and the net amount is the carrying value of the property. Any changes in estimated realizable value after the initial repossession, are charged to a specific loss reserve account for REO. At present, all REO is carried at the Bank's estimated realizable value.

Management continually reviews the mix and delinquency status of its loan portfolio and classifies those loans, which it deems appropriate. As of June 30, 1999, asset balances and the corresponding allocations of the provision for loan losses were as follows: (dollars in thousands)

| | Asset Balance | Allocation of Reserve |
|--------------|------------------|--------------------------|
| | ----- | ----- |
| Loss | \$ 32 | \$ 32 |
| Doubtful | - | - |
| Substandard | 563 | 113 |
| Unclassified | 322,446 | 846 |
| | ----- | ----- |
| | \$ 323,041 | \$991 |
| | ===== | ===== |

PEOPLES BANCORP
AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

NON-PERFORMING ASSETS AND SUMMARY OF LOAN LOSS EXPERIENCE (CONT'D)

The allowances for loan and real estate owned losses represent amounts available to absorb future losses. Such allowances are based on management's continuing review of the portfolios, historical charge-offs, current economic conditions, and such other factors, which in management's judgment deserve recognition in estimating possible losses. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses. Such agencies may require additions to the allowances based on their judgment about the information available to them at the time of their examination. Provisions for losses are charged to earnings to bring the allowances to levels considered necessary by management. Losses are charged to the allowances when considered probable, or in the case of REO, at the time of repossession. Management believes that the allowances are adequate to absorb known and inherent losses in the portfolio. No assurance can be given, however, that economic conditions which may adversely affect the Bank's markets or other circumstances will not result in future losses in the portfolio.

The following table presents an allocation of the Bank's allowance for loan losses at the dates indicated and the percentage of loans in each category to total loans. (dollars in thousands)

| Balance at end of period applicable to: | June 30, | | | |
|--|----------|--------|-------|--------|
| | 1999 | | 1998 | |
| | ----- | ----- | ----- | ----- |
| Residential Mortgage Loans | \$761 | 89.3% | \$717 | 92.8% |
| Commercial Real Estate Loans | 24 | 3.6% | 13 | 2.1% |
| Commercial and Other Loans | 8 | 1.1% | - | - |
| Consumer Loans | 55 | 6.0% | 53 | 5.1% |
| Unallocated | 151 | | 139 | |
| | ----- | ----- | ----- | ----- |
| Total | \$991 | 100.0% | \$922 | 100.0% |
| | ===== | ===== | ===== | ===== |

PEOPLES BANCORP
AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

NON-INTEREST INCOME

The Company's non-interest income increased to \$616,230 as compared to \$503,238 for the same period one year ago. The increase was attributable to higher fee income.

NON-INTEREST EXPENSE

Total non-interest expense for the three and nine months ended June 30, 1999 was \$1,288,660 and \$3,874,216 as compared to \$1,253,073 and \$3,503,494 for 1998. The increase was due to increased equipment expenses due to the addition of new mortgage loan processing software, ATM machines and other computer upgrades being undertaken in anticipation of the year 2000, and increases in trust expense and NOW department expense due to software upgrades which necessitate higher support fees. Salaries and employee benefits increased \$154,436 to \$1,998,661 due to the addition of a seventh branch office in April, 1998 and the addition of extra loan officers to deal with a very high loan demand.

INCOME TAXES

Income taxes for the nine months ended June 30, 1999 increased to \$2,079,100 from \$1,947,625 for the same period last year due to higher pretax income.

YEAR 2000

The Bank began working on its Year 2000 conversion process in 1997 as part of a project to update our information systems to a level that would allow us to compete in the 21st century. As a result, the Bank began a comprehensive review to identify all systems that would be affected, estimate cost projections, and compile a schedule or plan of action. The Bank is on schedule by having all internal & external mission critical systems tested and/or certified Year 2000 compliant.

The Bank's plan of action follows the FFIEC's suggested steps of Awareness, Assessment, Renovation, Validation, and Implementation. The Bank's progress toward completion of each step is as follows:

Awareness Phase

Starting in 1997, the Board of Directors assigned Year 2000 responsibility to the Director of Information Services who developed a strategy to address all internal and external systems. Routine periodic reports were furnished to the board of directors and requests to purchase the

PEOPLES BANCORP AND SUBSIDIARY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

necessary hardware and software to completely upgrade all systems were approved by the Board of Directors. In early 1998 the Board of Directors appointed a Y2K Steering Committee composed of senior managers to monitor the Bank's Year 2000 efforts. The Steering Committee meets quarterly, or more often if necessary. The Bank has completed this step.

Assessment Phase

By July of 1997, management believed that all business processes and elements of the Bank's internal information systems and embedded chip systems had been identified and priorities set. Resource needs were identified, time frames established, and contingency plans were reviewed. The Bank has completed this step.

Renovation Phase

This phase includes hardware and software upgrades, system replacements, vendor certification and associated changes. This phase also encompasses discussions with and monitoring of outside servicers and third party software providers.

In 1997, the Bank began replacing all internal hardware and software as necessary to upgrade to a Windows NT based operating system that would be Year 2000 compliant and meet the perceived technological challenges of the future. In 1997 the Bank also started to actively monitor our primary critical systems provider's efforts to renovate their systems to be Year 2000 compliant. The Bank has also made efforts to monitor other third party non-missions critical vendors' progress in attaining Year 2000 compliance.

Internal Hardware - Since 1997, the Bank has replaced or scheduled to replace its internal hardware. Management feels that all internal hardware will be Year 2000 compliant by October 30, 1999.

Internal Software - The Bank has received certification by the appropriate

vendors that all critical software utilized by our Wide Area Network as well as the consumer lending, tellering, general ledger, trust, and FedLine areas are Year 2000 compliant. The Bank has upgraded the consumer loan application software, trust department software and our mortgage lending application software. Vendor certified Year 2000 software to operate the check processing system has been installed and tested. Management feels that all internal software is Year 2000 compliant.

Any additional hardware or software acquisitions or replacements will be vendor certified Year 2000 compliant before purchase.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

As is our practice with all mission critical system upgrades we will test the upgrades prior to replacement of current Year 2000 compliant hardware or software. Management considers this phase complete.

Validation/Testing Phase

Since June of 1998, the Bank has been conducting a systematic testing of all internal computer hardware and software. Testing is completed by performing extensive testing with the computer dates converted to potentially troublesome dates such as January 1, 2000 or February 29, 2000. Internal testing of upgrades will continue through June 30, 1999. This testing schedule allows time to correct any discovered deficiencies before the end of 1999. This phase is approximately 99% complete as of March 31, 1999.

Implementation Phase

Systems successfully tested will be certified as Year 2000 compliant. For any system failing validation testing, the business impact must be assessed and a contingency plan implemented. This phase is scheduled for completion by June 30, 1999.

Third Party Providers - BISYS provides the Bank with mainframe services in its teller, general ledger, and commercial lending areas. BISYS has certified that its systems are Year 2000 compliant. The Bank is 99% complete with the testing of the interface between BISYS and the Bank and the software's performance when encountering potentially troublesome dates such as January 3, 2000 and February 29, 2000. The Bank has reviewed the test results for all deposit and loan transactions and additional testing will be conducted if necessary. All testing will be completed by June 30, 1999.

Cost - The Bank believes that the Year 2000 issue will not pose significant operational problems and is not anticipated to be material to its financial position or results of operations in any given year. Year 2000 costs are not always easy to separate from upgrades or changes in hardware/software for other reasons. The Bank currently believes that all major expenditures relating to year 2000 have been made and therefore, estimates that only \$60,000 in Year 2000 cost will be incurred over the remaining 6 months.

Customer Awareness - The Bank has developed a customer awareness plan utilizing statement stuffers, individualized responses to customer inquiries and lobby information. The Bank has maintained a positive approach in responding to inquiries.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Continued)

Contingency Planning - A formal Year 2000 contingency plan has been developed and approved by the board of directors. However, the plan will be reviewed and its focus narrowed to more definitively address worse case scenarios based upon the results of mock disaster testing.

The costs and completion dates for testing and corrections of Year 2000 problems are based on management's best estimates, which were derived utilizing numerous forward assumptions. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from these estimates. Specific factors that might cause such material differences include, but are not limited to, the ability to locate and correct all relevant computer programs, failure of a key third parties to meet expectations, and availability

and cost of key personnel.

PART II. OTHER INFORMATION

PEOPLES BANCORP
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Item 6. Reports on Form 8-K

No reports on Form 8-K were filed during the three months ended June 30, 1999.

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SIGNATURES

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

PEOPLES BANCORP
(REGISTRANT)

Date: July 27, 1999

Maurice F. Winkler III
President and Chief Operating Officer

Date: July 27, 1999

Deborah K. Stanger
Vice President and Chief Financial Officer

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