

PEOPLES BANCORP INC  
Form 10-Q  
October 27, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

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 31-0987416

(State

or

other (I.R.S.

jurisdiction Employer

of Identification

incorporation No.)

or

organization)

138

Putnam

Street,

P.

O. 45750

Box

738,

Marietta,

Ohio

(Address

of

principal (Zip Code)

executive

offices)

Registrant's (740)

telephone 373-3155

number,  
including  
area  
code:

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 18,195,658 common shares, without par value, at October 26, 2016.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (Unaudited)

|                                                                                                                                                                                          | September 30, 2016 | December 31, 2015 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|-------------------|
| (Dollars in thousands)                                                                                                                                                                   |                    |                   |
| Assets                                                                                                                                                                                   |                    |                   |
| Cash and due from banks                                                                                                                                                                  | \$ 54,745          | \$ 53,663         |
| Interest-bearing deposits in other banks                                                                                                                                                 | 13,090             | 17,452            |
| Total cash and cash equivalents                                                                                                                                                          | 67,835             | 71,115            |
| Available-for-sale investment securities, at fair value (amortized cost of \$743,878 at September 30, 2016 and \$780,304 at December 31, 2015)                                           | 762,143            | 784,701           |
| Held-to-maturity investment securities, at amortized cost (fair value of \$45,145 at September 30, 2016 and \$45,853 at December 31, 2015)                                               | 43,662             | 45,728            |
| Other investment securities, at cost                                                                                                                                                     | 38,443             | 38,401            |
| Total investment securities                                                                                                                                                              | 844,248            | 868,830           |
| Loans, net of deferred fees and costs                                                                                                                                                    | 2,169,208          | 2,072,440         |
| Allowance for loan losses                                                                                                                                                                | (18,219)           | (16,779)          |
| Net loans                                                                                                                                                                                | 2,150,989          | 2,055,661         |
| Loans held for sale                                                                                                                                                                      | 4,715              | 1,953             |
| Bank premises and equipment, net                                                                                                                                                         | 54,854             | 53,487            |
| Goodwill                                                                                                                                                                                 | 132,631            | 132,631           |
| Other intangible assets                                                                                                                                                                  | 14,374             | 16,986            |
| Other assets                                                                                                                                                                             | 93,939             | 58,307            |
| Total assets                                                                                                                                                                             | \$ 3,363,585       | \$ 3,258,970      |
| Liabilities                                                                                                                                                                              |                    |                   |
| Non-interest-bearing deposits                                                                                                                                                            | \$ 745,468         | \$ 717,939        |
| Interest-bearing deposits                                                                                                                                                                | 1,829,989          | 1,818,005         |
| Total deposits                                                                                                                                                                           | 2,575,457          | 2,535,944         |
| Short-term borrowings                                                                                                                                                                    | 162,807            | 160,386           |
| Long-term borrowings                                                                                                                                                                     | 147,563            | 113,670           |
| Accrued expenses and other liabilities                                                                                                                                                   | 37,121             | 29,181            |
| Total liabilities                                                                                                                                                                        | 2,922,948          | 2,839,181         |
| Stockholders' equity                                                                                                                                                                     |                    |                   |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2016 and December 31, 2015                                                                    | —                  | —                 |
| Common stock, no par value, 24,000,000 shares authorized, 18,936,214 shares issued at September 30, 2016 and 18,931,200 shares issued at December 31, 2015, including shares in treasury | 343,954            | 343,948           |
| Retained earnings                                                                                                                                                                        | 105,975            | 90,790            |
| Accumulated other comprehensive income (loss), net of deferred income taxes                                                                                                              | 8,547              | (359)             |
| Treasury stock, at cost, 794,857 shares at September 30, 2016 and 586,686 shares at December 31, 2015                                                                                    | (17,839)           | (14,590)          |
| Total stockholders' equity                                                                                                                                                               | 440,637            | 419,789           |
| Total liabilities and stockholders' equity                                                                                                                                               | \$ 3,363,585       | \$ 3,258,970      |

See Notes to the Unaudited Consolidated Financial Statements



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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

|                                                         | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                         | 2016                                | 2015     | 2016                               | 2015     |
| (Dollars in thousands, except per share data)           |                                     |          |                                    |          |
| Interest income:                                        |                                     |          |                                    |          |
| Interest and fees on loans                              | \$23,493                            | \$22,870 | \$69,850                           | \$64,176 |
| Interest and dividends on taxable investment securities | 4,456                               | 4,484    | 13,875                             | 13,400   |
| Interest on tax-exempt investment securities            | 771                                 | 800      | 2,332                              | 2,202    |
| Other interest income                                   | 10                                  | 24       | 37                                 | 125      |
| Total interest income                                   | 28,730                              | 28,178   | 86,094                             | 79,903   |
| Interest expense:                                       |                                     |          |                                    |          |
| Interest on deposits                                    | 1,427                               | 1,539    | 4,531                              | 4,716    |
| Interest on short-term borrowings                       | 109                                 | 42       | 301                                | 108      |
| Interest on long-term borrowings                        | 1,071                               | 1,061    | 3,064                              | 3,331    |
| Total interest expense                                  | 2,607                               | 2,642    | 7,896                              | 8,155    |
| Net interest income                                     | 26,123                              | 25,536   | 78,198                             | 71,748   |
| Provision for loan losses                               | 1,146                               | 5,837    | 2,828                              | 6,859    |
| Net interest income after provision for loan losses     | 24,977                              | 19,699   | 75,370                             | 64,889   |
| Other income:                                           |                                     |          |                                    |          |
| Insurance income                                        | 3,137                               | 3,275    | 10,934                             | 10,870   |
| Deposit account service charges                         | 2,833                               | 2,922    | 7,999                              | 8,065    |
| Electronic banking income                               | 2,765                               | 2,241    | 7,867                              | 6,533    |
| Trust and investment income                             | 2,692                               | 2,497    | 7,850                              | 7,088    |
| Commercial loan swap fee income                         | 569                                 | 135      | 997                                | 284      |
| Bank owned life insurance income                        | 491                                 | 174      | 911                                | 428      |
| Mortgage banking income                                 | 427                                 | 212      | 852                                | 927      |
| Net loss on asset disposals and other transactions      | (224)                               | (51)     | (1,024)                            | (1,290)  |
| Net (loss) gain on investment securities                | (1)                                 | 62       | 862                                | 673      |
| Other non-interest income                               | 624                                 | 450      | 1,549                              | 1,145    |
| Total other income                                      | 13,313                              | 11,917   | 38,797                             | 34,723   |
| Other expenses:                                         |                                     |          |                                    |          |
| Salaries and employee benefit costs                     | 14,584                              | 13,572   | 42,881                             | 45,493   |
| Net occupancy and equipment expense                     | 2,768                               | 2,840    | 8,155                              | 8,273    |
| Professional fees                                       | 1,661                               | 1,287    | 5,243                              | 5,542    |
| Electronic banking expense                              | 1,650                               | 1,408    | 4,568                              | 3,852    |
| Amortization of other intangible assets                 | 1,008                               | 1,127    | 3,023                              | 2,944    |
| Data processing and software expense                    | 741                                 | 910      | 2,503                              | 2,670    |
| FDIC insurance expense                                  | 549                                 | 562      | 1,706                              | 1,516    |
| Franchise tax expense                                   | 529                                 | 502      | 1,550                              | 1,552    |
| Communication expense                                   | 518                                 | 628      | 1,730                              | 1,722    |
| Foreclosed real estate and other loan expenses          | 189                                 | 159      | 540                                | 1,031    |
| Marketing expense                                       | 380                                 | 459      | 1,192                              | 2,175    |
| Other non-interest expense                              | 2,265                               | 2,658    | 6,538                              | 11,034   |
| Total other expenses                                    | 26,842                              | 26,112   | 79,629                             | 87,804   |
| Income before income taxes                              | 11,448                              | 5,504    | 34,538                             | 11,808   |
| Income tax expense                                      | 3,656                               | 1,370    | 10,789                             | 3,450    |
| Net income                                              | \$7,792                             | \$4,134  | \$23,749                           | \$8,358  |
| Earnings per common share - basic                       | \$0.43                              | \$0.23   | \$1.31                             | \$0.48   |

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|                                                                |            |            |            |            |
|----------------------------------------------------------------|------------|------------|------------|------------|
| Earnings per common share - diluted                            | \$0.43     | \$ 0.22    | \$1.31     | \$ 0.47    |
| Weighted-average number of common shares outstanding - basic   | 17,993,448 | 18,127,131 | 18,015,249 | 17,357,034 |
| Weighted-average number of common shares outstanding - diluted | 18,110,711 | 18,271,979 | 18,123,660 | 17,487,642 |
| Cash dividends declared                                        | \$2,912    | \$ 2,759   | \$8,564    | \$ 7,789   |
| Cash dividends declared per common share                       | \$0.16     | \$ 0.15    | \$0.47     | \$ 0.45    |

See Notes to the Unaudited Consolidated Financial Statements

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## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

|                                                                              | Three Months<br>Ended<br>September 30,<br>2016 |          | Nine Months<br>Ended<br>September 30,<br>2016 |          |
|------------------------------------------------------------------------------|------------------------------------------------|----------|-----------------------------------------------|----------|
|                                                                              | 2015                                           |          | 2015                                          |          |
| (Dollars in thousands)                                                       |                                                |          |                                               |          |
| Net income                                                                   | \$7,792                                        | \$4,134  | \$23,749                                      | \$8,358  |
| Other comprehensive (loss) income:                                           |                                                |          |                                               |          |
| Available-for-sale investment securities:                                    |                                                |          |                                               |          |
| Gross unrealized holding (loss) gain arising in the period                   | (4,068 )                                       | 7,171    | 14,681                                        | 9,458    |
| Related tax benefit (expense)                                                | 1,424                                          | (2,509 ) | (5,139 )                                      | (3,309 ) |
| Less: reclassification adjustment for net (loss) gain included in net income | (1                                             | )62      | 862                                           | 673      |
| Related tax expense                                                          | —                                              | (22      | ) (302                                        | )(236 )  |
| Net effect on other comprehensive (loss) income                              | (2,643 )                                       | 4,622    | 8,982                                         | 5,712    |
| Defined benefit plans:                                                       |                                                |          |                                               |          |
| Net (loss) gain arising during the period                                    | —                                              | (167     | ) —                                           | 340      |
| Related tax benefit (expense)                                                | —                                              | 58       | —                                             | (119 )   |
| Amortization of unrecognized loss and service cost on benefit plans          | 21                                             | 26       | 66                                            | 88       |
| Related tax expense                                                          | (9                                             | )(9      | ) (22                                         | )(30 )   |
| Recognition of loss due to settlement and curtailment                        | —                                              | 82       | —                                             | 454      |
| Related tax expense                                                          | —                                              | (29      | ) —                                           | (159 )   |
| Net effect on other comprehensive income (loss)                              | 12                                             | (39      | ) 44                                          | 574      |
| Cash flow hedges:                                                            |                                                |          |                                               |          |
| Net gain (loss) arising during the period                                    | 68                                             | —        | (184                                          | )—       |
| Related tax (expense) benefit                                                | (24                                            | )—       | 64                                            | —        |
| Net effect on other comprehensive income (loss)                              | 44                                             | —        | (120                                          | )—       |
| Total other comprehensive (loss) income, net of tax expense                  | (2,587 )                                       | 4,583    | 8,906                                         | 6,286    |
| Total comprehensive income                                                   | \$5,205                                        | \$8,717  | \$32,655                                      | \$14,644 |
| See Notes to the Unaudited Consolidated Financial Statements                 |                                                |          |                                               |          |

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## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands)                                                                            | Common<br>Shares | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|---------------------------------------------------------------------------------------------------|------------------|----------------------|--------------------------------------------------------|-------------------|----------------------------------|
| Balance, December 31, 2015                                                                        | \$343,948        | \$90,790             | \$ (359 )                                              | \$(14,590)        | \$ 419,789                       |
| Net income                                                                                        | —                | 23,749               | —                                                      | —                 | 23,749                           |
| Other comprehensive income, net of tax                                                            | —                | —                    | 8,906                                                  | —                 | 8,906                            |
| Cash dividends declared                                                                           | —                | (8,564 )             | —                                                      | —                 | (8,564 )                         |
| Reissuance of treasury stock for common share awards                                              | (1,297 )         | —                    | —                                                      | 1,297             | —                                |
| Tax expense from exercise of stock options                                                        | (3 )             | —                    | —                                                      | —                 | (3 )                             |
| Reissuance of treasury stock for deferred compensation plan for Boards of Directors               | —                | —                    | —                                                      | 232               | 232                              |
| Repurchase of common shares in connection with employee incentive and director compensation plans | —                | —                    | —                                                      | (369 )            | (369 )                           |
| Common shares repurchased under share repurchase program                                          | —                | —                    | —                                                      | (4,965 )          | (4,965 )                         |
| Common shares issued under dividend reinvestment plan                                             | 326              | —                    | —                                                      | —                 | 326                              |
| Common shares issued under compensation plan for Boards of Directors                              | (18 )            | —                    | —                                                      | 263               | 245                              |
| Common shares issued under employee stock purchase plan                                           | (11 )            | —                    | —                                                      | 293               | 282                              |
| Stock-based compensation expense                                                                  | 1,009            | —                    | —                                                      | —                 | 1,009                            |
| Balance, September 30, 2016                                                                       | \$343,954        | \$105,975            | \$ 8,547                                               | \$(17,839)        | \$ 440,637                       |

See Notes to the Unaudited Consolidated Financial Statements

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|                                                                                                                                | Nine Months<br>Ended<br>September 30, |            |
|--------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|------------|
|                                                                                                                                | 2016                                  | 2015       |
| (Dollars in thousands)                                                                                                         |                                       |            |
| Net cash provided by operating activities                                                                                      | \$42,195                              | \$31,096   |
| Investing activities:                                                                                                          |                                       |            |
| Available-for-sale investment securities:                                                                                      |                                       |            |
| Purchases                                                                                                                      | (95,481 )                             | (155,043 ) |
| Proceeds from sales                                                                                                            | 30,622                                | 49,918     |
| Proceeds from principal payments, calls and prepayments                                                                        | 93,172                                | 95,107     |
| Held-to-maturity investment securities:                                                                                        |                                       |            |
| Proceeds from principal payments                                                                                               | 1,747                                 | 1,712      |
| Net increase in loans                                                                                                          | (94,149 )                             | (43,102 )  |
| Net expenditures for premises and equipment                                                                                    | (4,893 )                              | (7,049 )   |
| Proceeds from sales of other real estate owned                                                                                 | 148                                   | 509        |
| Investment in bank owned life insurance                                                                                        | (35,000 )                             | —          |
| Business acquisitions, net of cash received                                                                                    | (244 )                                | 97,277     |
| Investment in limited partnership and tax credit funds                                                                         | (2,954 )                              | (108 )     |
| Net cash (used in) provided by investing activities                                                                            | (107,032)                             | 39,221     |
| Financing activities:                                                                                                          |                                       |            |
| Net increase in non-interest-bearing deposits                                                                                  | 27,529                                | 92,628     |
| Net increase (decrease) in interest-bearing deposits                                                                           | 12,040                                | (123,889)  |
| Net increase in short-term borrowings                                                                                          | 2,421                                 | 40,888     |
| Proceeds from long-term borrowings                                                                                             | 55,000                                | —          |
| Payments on long-term borrowings                                                                                               | (21,899 )                             | (69,666 )  |
| Cash dividends paid                                                                                                            | (8,215 )                              | (7,426 )   |
| Purchase of treasury stock under share repurchase program                                                                      | (4,965 )                              | —          |
| Repurchase of common shares in connection with employee incentive and director compensation plans to be held as treasury stock | (369 )                                | (628 )     |
| Proceeds from issuance of common shares                                                                                        | 15                                    | —          |
| Excess tax benefit from share-based payment awards                                                                             | —                                     | 63         |
| Net cash provided by (used in) financing activities                                                                            | 61,557                                | (68,030 )  |
| Net (decrease) increase in cash and cash equivalents                                                                           | (3,280 )                              | 2,287      |
| Cash and cash equivalents at beginning of period                                                                               | 71,115                                | 61,454     |
| Cash and cash equivalents at end of period                                                                                     | \$67,835                              | \$63,741   |

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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**Basis of Presentation:** The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2015 ("2015 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2015 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2016 for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and dates indicated. Such adjustments are normal and recurring in nature. All significant intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2015, contained herein, has been derived from the audited Consolidated Balance Sheet included in Peoples' 2015 Form 10-K.

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Results of operations for interim periods are not necessarily indicative of the results to be expected for the full year, due in part to seasonal variations and unusual or infrequently occurring items.

**New Accounting Pronouncements:** From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by Peoples as of the required effective dates. Unless otherwise discussed, management believes the impact of any recently issued standards, including those issued but not yet effective, will not have a material impact on Peoples' financial statements taken as a whole.

In August 2016, the FASB issued Accounting Standards Update ("ASU") 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020, for Peoples). The adoption of the new accounting guidance is not expected to have a material effect on Peoples' statement of cash flow.

In June 2016, the FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The revised accounting guidance will remove all recognition thresholds and will require a company to recognize an allowance for credit losses for the difference between the amortized cost basis of a financial instrument and the amount of amortized cost that the company expects to collect over the instrument's contractual life. It also amends the credit loss measurement guidance for available-for-sale debt securities and beneficial interests in securitized financial assets. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020, for Peoples). Peoples is currently evaluating the impact of adopting the new accounting guidance on Peoples' consolidated financial statements.

In May 2016, the FASB issued ASU 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. This accounting guidance provides clarification of the collectibility criterion and when revenue would be recognized for certain contracts. This new accounting guidance will be effective for

interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for Peoples). Management's preliminary analysis suggests that the adoption of the new accounting guidance is not expected to have a material effect on Peoples' financial condition or results of operations. There are many aspects of the new accounting guidance that are still being interpreted, and the FASB has recently issued and proposed updates to certain aspects of the guidance. Therefore, the results of Peoples' preliminary analysis of the materiality of the adoption of the new accounting guidance may change based on the conclusions reached as to the application of the new accounting guidance.

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In March 2016, the FASB issued ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value are to be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the accounting guidance is adopted. For public entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Peoples will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' results of operations.

In March 2016, the FASB issued ASU 2016-08 - Revenue from Contracts with Customers (Topic 606) which amended the accounting guidance issued by the FASB in May 2014 that revised the criteria for determining when to recognize revenue from contracts with customers and expanded disclosure requirements. The amendment defers the effective date by one year (reflected below). This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for Peoples). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. Peoples has elected to implement the new accounting guidance using a cumulative-effect approach and will adopt this new accounting guidance as required. Management's preliminary analysis suggests that the adoption of the new accounting guidance is not expected to have a material effect on Peoples' financial condition or results of operations. There are many aspects of the new accounting guidance that are still being interpreted, and the FASB has recently issued and proposed updates to certain aspects of the accounting guidance. Therefore, the results of Peoples' preliminary analysis of the materiality of the adoption of the new accounting guidance may change based on the conclusions reached as to the application of the new accounting guidance.

In March 2016, the FASB issued ASU 2016-06 - Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendment is intended to resolve the diversity in practice by assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to the debt instrument hosts, which is one of the criteria for bifurcating an embedded derivative. When a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise the call (put) option is related to interest rates or credit risks. For public entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Peoples is currently evaluating the impact of adopting the new accounting guidance on Peoples' consolidated financial statements, but it is not expected to have a material impact.

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The amendment was issued to improve the financial reporting of leasing activities and provide a faithful representation of leasing transactions and improve understanding and comparability of a lessee's financial statements. Under the new accounting guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The ASU will require both finance and operating leases to be recognized on the balance sheet. The ASU will affect all companies and organizations that lease real estate. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (effective January 1, 2019, for Peoples). Peoples will adopt this new accounting guidance as required, but it is not expected to have a material impact on Peoples' consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendment is intended to enhance the reporting model for financial instruments to provide users of financial statements with more useful information. The new ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income. However, a reporting organization may choose to measure equity investments that do not have readily determinable

fair values at cost minus impairment (if any), from observable price changes in orderly transactions for similar investments of the same issuer. The ASU is effective for fiscal years beginning after December 15, 2019 (effective January 1, 2020, for Peoples). Peoples is currently evaluating the impact of adopting the new accounting guidance on Peoples' consolidated financial statements which may result in an impact to the income statement on a quarterly and annual basis, as market rates fluctuate. Peoples will adopt this accounting guidance as required.

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## Note 2. Fair Value of Financial Instruments

Available-for-sale securities measured at fair value on a recurring basis comprised the following:

| (Dollars in thousands)                 | Fair Value | Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1) |            |    |  | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|----------------------------------------|------------|----------------------------------------------------------------------------------------------------------------|------------|----|--|-----------------------------------------------|-------------------------------------------|
|                                        |            |                                                                                                                |            |    |  |                                               |                                           |
| September 30, 2016                     |            |                                                                                                                |            |    |  |                                               |                                           |
| Obligations of:                        |            |                                                                                                                |            |    |  |                                               |                                           |
| U.S. government sponsored agencies     | \$1,001    | \$—                                                                                                            | \$ 1,001   | \$ |  |                                               | —                                         |
| States and political subdivisions      | 117,839    | —                                                                                                              | 117,839    | —  |  |                                               |                                           |
| Residential mortgage-backed securities | 607,452    | —                                                                                                              | 607,452    | —  |  |                                               |                                           |
| Commercial mortgage-backed securities  | 23,283     | —                                                                                                              | 23,283     | —  |  |                                               |                                           |
| Bank-issued trust preferred securities | 4,783      | —                                                                                                              | 4,783      | —  |  |                                               |                                           |
| Equity securities                      | 7,785      | 7,569                                                                                                          | 216        | —  |  |                                               |                                           |
| Total available-for-sale securities    | \$762,143  | \$7,569                                                                                                        | \$ 754,574 | \$ |  |                                               | —                                         |

December 31, 2015

|                                        |           |         |            |    |   |
|----------------------------------------|-----------|---------|------------|----|---|
| Obligations of:                        |           |         |            |    |   |
| U.S. government sponsored agencies     | \$2,966   | \$—     | \$ 2,966   | \$ | — |
| States and political subdivisions      | 114,726   | —       | 114,726    | —  |   |
| Residential mortgage-backed securities | 632,293   | —       | 632,293    | —  |   |
| Commercial mortgage-backed securities  | 23,845    | —       | 23,845     | —  |   |
| Bank-issued trust preferred securities | 4,635     | —       | 4,635      | —  |   |
| Equity securities                      | 6,236     | 6,024   | 212        | —  |   |
| Total available-for-sale securities    | \$784,701 | \$6,024 | \$ 778,677 | \$ | — |

Held-to-maturity securities reported at fair value comprised the following:

| (Dollars in thousands)            | Fair Value | Fair Value at Reporting Date Using                                         |                                               |                                           |
|-----------------------------------|------------|----------------------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                   |            | Quoted Prices in Significant Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Obligations of:                   |            |                                                                            |                                               |                                           |
| States and political subdivisions | \$4,285    | \$4,285                                                                    | \$                                            | —                                         |

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|                                        |          |                     |    |   |
|----------------------------------------|----------|---------------------|----|---|
| Residential mortgage-backed securities | 35,205   | <del>35,205</del>   | —  |   |
| Commercial mortgage-backed securities  | 5,655    | <del>5,655</del>    | —  |   |
| Total held-to-maturity securities      | \$45,145 | <del>\$45,145</del> | \$ | — |

December 31, 2015

Obligations of:

|                                        |          |                     |    |   |
|----------------------------------------|----------|---------------------|----|---|
| States and political subdivisions      | \$4,221  | <del>\$4,221</del>  | \$ | — |
| Residential mortgage-backed securities | 35,196   | <del>35,196</del>   | —  |   |
| Commercial mortgage-backed securities  | 6,436    | <del>6,436</del>    | —  |   |
| Total held-to-maturity securities      | \$45,853 | <del>\$45,853</del> | \$ | — |

The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1 inputs) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatility, LIBOR yield curves, credit spreads and prices from market makers and live trading systems (Level 2). Management reviews the valuation methodology and quality controls utilized by the pricing services in management's overall assessment of the reasonableness of the fair values provided, and challenges prices when management believes a material discrepancy in pricing exists.

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

**Impaired Loans:** Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2016, impaired loans with an aggregate outstanding principal balance of \$44.7 million were measured and reported at a fair value of \$36.8 million. For the three and nine months ended September 30, 2016, Peoples recognized \$58,000 and \$63,000 of losses on impaired loans, respectively, through the allowance for loan losses.

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

|                               | September 30, 2016 |             | December 31, 2015 |             |
|-------------------------------|--------------------|-------------|-------------------|-------------|
| (Dollars in thousands)        | Carrying Amount    | Fair Value  | Carrying Amount   | Fair Value  |
| <b>Financial assets:</b>      |                    |             |                   |             |
| Cash and cash equivalents     | \$67,835           | \$67,835    | \$71,115          | \$71,115    |
| Investment securities         | 844,248            | 845,731     | 868,830           | 868,955     |
| Loans (1)                     | 2,155,704          | 2,127,828   | 2,057,614         | 2,018,482   |
| <b>Financial liabilities:</b> |                    |             |                   |             |
| Deposits                      | \$2,575,457        | \$2,579,379 | \$2,535,944       | \$2,540,131 |
| Short-term borrowings         | 162,807            | 162,807     | 160,386           | 160,386     |
| Long-term borrowings          | 147,563            | 151,912     | 113,670           | 117,299     |
| Cash flow hedges (2)          | 219                | 219         | —                 | —           |

(1) Includes loans held for sale

(2) For additional information, see Note 10. Financial Instruments with Off-Balance Sheet Risk

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

**Loans:** The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 3 inputs). In the current whole loan market, financial investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the lack of market liquidity. This divergence accounts for the majority of the difference in carrying amount over fair value.

**Deposits:** The fair value of fixed maturity certificates of deposit is estimated using a discounted cash flow calculation based on current rates offered for deposits of similar remaining maturities (Level 2 inputs).

**Long-term Borrowings:** The fair value of long-term borrowings is estimated using a discounted cash flow analysis based on rates currently available to Peoples for borrowings with similar terms (Level 2 inputs).

**Cash flow hedges:** The fair value of cash flow hedges is recognized in the Unaudited Consolidated Balance Sheets at their fair value. The fair value for derivative instruments is determined based on market prices, broker-dealer quotations on similar products, or other related input parameters (Level 2 inputs).

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

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## Note 3. Investment Securities

## Available-for-sale

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

| (Dollars in thousands)                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|----------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2016                     |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| U.S. government sponsored agencies     | \$ 998            | \$ 3                         | \$ —                          | \$ 1,001      |
| States and political subdivisions      | 113,530           | 4,309                        | —                             | 117,839       |
| Residential mortgage-backed securities | 599,589           | 10,037                       | (2,174                        | ) 607,452     |
| Commercial mortgage-backed securities  | 22,658            | 625                          | —                             | 23,283        |
| Bank-issued trust preferred securities | 5,163             | 47                           | (427                          | ) 4,783       |
| Equity securities                      | 1,940             | 5,914                        | (69                           | ) 7,785       |
| Total available-for-sale securities    | \$ 743,878        | \$ 20,935                    | \$ (2,670                     | ) \$ 762,143  |
| December 31, 2015                      |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| U.S. government sponsored agencies     | \$ 2,908          | \$ 58                        | \$ —                          | \$ 2,966      |
| States and political subdivisions      | 111,283           | 3,487                        | (44                           | ) 114,726     |
| Residential mortgage-backed securities | 635,504           | 4,905                        | (8,116                        | ) 632,293     |
| Commercial mortgage-backed securities  | 23,770            | 119                          | (44                           | ) 23,845      |
| Bank-issued trust preferred securities | 5,146             | —                            | (511                          | ) 4,635       |
| Equity securities                      | 1,693             | 4,627                        | (84                           | ) 6,236       |
| Total available-for-sale securities    | \$ 780,304        | \$ 13,196                    | \$ (8,799                     | ) \$ 784,701  |

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both September 30, 2016 and December 31, 2015. At September 30, 2016, there were no securities of a single issuer that exceeded 10% of stockholders' equity.

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

|                          | Three Months<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |        |
|--------------------------|----------------------------------------|---------|---------------------------------------|--------|
| (Dollars in thousands)   | 2016                                   | 2015    | 2016                                  | 2015   |
| Gross gains realized     | \$ —                                   | \$ 94   | \$ 863                                | \$ 726 |
| Gross losses realized    | 1                                      | 32      | 1                                     | 53     |
| Net (loss)/gain realized | \$ (1                                  | ) \$ 62 | \$ 862                                | \$ 673 |

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

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

| (Dollars in thousands)                 | Less than 12 Months |                 |                   | 12 Months or More |                 |                   | Total      |                 |
|----------------------------------------|---------------------|-----------------|-------------------|-------------------|-----------------|-------------------|------------|-----------------|
|                                        | Fair Value          | Unrealized Loss | No. of Securities | Fair Value        | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| September 30, 2016                     |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| Residential mortgage-backed securities | \$119,144           | \$ 693          | 29                | \$47,071          | \$ 1,481        | 21                | \$166,215  | \$ 2,174        |
| Bank-issued trust preferred securities | —                   | —               | —                 | 2,571             | 427             | 3                 | 2,571      | 427             |
| Equity securities                      | —                   | —               | —                 | 107               | 69              | 1                 | 107        | 69              |
| Total                                  | \$119,144           | \$ 693          | 29                | \$49,749          | \$ 1,977        | 25                | \$168,893  | \$ 2,670        |
| December 31, 2015                      |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$7,662             | \$ 38           | 8                 | \$213             | \$ 6            | 1                 | \$7,875    | \$ 44           |
| Residential mortgage-backed securities | 303,549             | 3,902           | 76                | 102,090           | 4,214           | 33                | 405,639    | 8,116           |
| Commercial mortgage-backed securities  | 6,682               | 44              | 3                 | —                 | —               | —                 | 6,682      | 44              |
| Bank-issued trust preferred securities | 2,129               | 19              | 1                 | 2,506             | 492             | 3                 | 4,635      | 511             |
| Equity securities                      | 438                 | 15              | 2                 | 106               | 69              | 1                 | 544        | 84              |
| Total                                  | \$320,460           | \$ 4,018        | 90                | \$104,915         | \$ 4,781        | 38                | \$425,375  | \$ 8,799        |

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2016, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell, nor was it more likely than not that Peoples would be required to sell any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2016 and December 31, 2015 were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2016, approximately 99% of the mortgage-backed securities market value that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 1%, or two positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Both of these two positions had a fair value less than 90% of their book value, with an aggregate book and fair value of \$0.7 million and \$0.5 million, respectively. Management analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, the three bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at September 30, 2016 were primarily attributable to the floating-rate nature of those investments, the current interest rate environment and spreads within that sector.

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The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at September 30, 2016. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

| (Dollars in thousands)                 | Within 1<br>Year | 1 to 5<br>Years | 5 to 10<br>Years | Over 10<br>Years | Total     |   |
|----------------------------------------|------------------|-----------------|------------------|------------------|-----------|---|
| Amortized cost                         |                  |                 |                  |                  |           |   |
| Obligations of:                        |                  |                 |                  |                  |           |   |
| U.S. government sponsored agencies     | \$998            | \$—             | \$—              | \$—              | \$998     |   |
| States and political subdivisions      | 675              | 14,577          | 29,022           | 69,256           | 113,530   |   |
| Residential mortgage-backed securities | 3                | 14,449          | 35,568           | 549,569          | 599,589   |   |
| Commercial mortgage-backed securities  | —                | 3,257           | 16,035           | 3,366            | 22,658    |   |
| Bank-issued trust preferred securities | —                | —               | —                | 5,163            | 5,163     |   |
| Equity securities                      |                  |                 |                  |                  | 1,940     |   |
| Total available-for-sale securities    | \$1,676          | \$32,283        | \$80,625         | \$627,354        | \$743,878 |   |
| Fair value                             |                  |                 |                  |                  |           |   |
| Obligations of:                        |                  |                 |                  |                  |           |   |
| U.S. government sponsored agencies     | \$1,001          | \$—             | \$—              | \$—              | \$1,001   |   |
| States and political subdivisions      | 679              | 14,923          | 29,954           | 72,283           | 117,839   |   |
| Residential mortgage-backed securities | 4                | 14,449          | 36,254           | 556,745          | 607,452   |   |
| Commercial mortgage-backed securities  | —                | 3,372           | 16,524           | 3,387            | 23,283    |   |
| Bank-issued trust preferred securities | —                | —               | —                | 4,783            | 4,783     |   |
| Equity securities                      |                  |                 |                  |                  | 7,785     |   |
| Total available-for-sale securities    | \$1,684          | \$32,744        | \$82,732         | \$637,198        | \$762,143 |   |
| Total weighted-average yield           | 2.98             | % 3.17          | % 2.95           | % 2.65           | % 2.72    | % |

Held-to-Maturity

The following table summarizes Peoples' held-to-maturity investment securities:

| (Dollars in thousands)                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|----------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
| September 30, 2016                     |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| States and political subdivisions      | \$ 3,823          | \$ 462                       | \$ —                          | \$4,285       |
| Residential mortgage-backed securities | 34,203            | 1,030                        | (28                           | ) 35,205      |
| Commercial mortgage-backed securities  | 5,636             | 19                           | —                             | 5,655         |
| Total held-to-maturity securities      | \$ 43,662         | \$ 1,511                     | \$ (28                        | ) \$45,145    |
| December 31, 2015                      |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| States and political subdivisions      | \$ 3,831          | \$ 394                       | \$ (4                         | ) \$4,221     |
| Residential mortgage-backed securities | 35,367            | 363                          | (534                          | ) 35,196      |
| Commercial mortgage-backed securities  | 6,530             | —                            | (94                           | ) 6,436       |
| Total held-to-maturity securities      | \$ 45,728         | \$ 757                       | \$ (632                       | ) \$45,853    |

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three or nine months ended September 30, 2016 and 2015.

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The following table presents a summary of held-to-maturity investment securities that had an unrealized loss:

| (Dollars in thousands)                 | Less than 12 Months |                 |                   | 12 Months or More |                 |                   | Total      |                 |
|----------------------------------------|---------------------|-----------------|-------------------|-------------------|-----------------|-------------------|------------|-----------------|
|                                        | Fair Value          | Unrealized Loss | No. of Securities | Fair Value        | Unrealized Loss | No. of Securities | Fair Value | Unrealized Loss |
| September 30, 2016                     |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| Residential mortgage-backed securities | \$9,053             | \$ 7            | 1                 | \$1,001           | \$ 21           | 1                 | \$10,054   | \$ 28           |
| Total                                  | \$9,053             | \$ 7            | 1                 | \$1,001           | \$ 21           | 1                 | \$10,054   | \$ 28           |
| December 31, 2015                      |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$—                 | \$ —            | —                 | \$319             | \$ 4            | 1                 | \$319      | \$ 4            |
| Residential mortgage-backed securities | 3,706               | 89              | 2                 | 10,040            | 445             | 2                 | 13,746     | 534             |
| Commercial mortgage-backed securities  | 540                 | 4               | 1                 | 5,895             | 90              | 1                 | 6,435      | 94              |
| Total                                  | \$4,246             | \$ 93           | 3                 | \$16,254          | \$ 539          | 4                 | \$20,500   | \$ 632          |

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at September 30, 2016. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

| (Dollars in thousands)                 | Within 1 Year | 1 to 5 Years | 5 to 10 Years | Over 10 Years | Total    |
|----------------------------------------|---------------|--------------|---------------|---------------|----------|
| Amortized cost                         |               |              |               |               |          |
| Obligations of:                        |               |              |               |               |          |
| States and political subdivisions      | \$ —          | \$320        | \$977         | \$2,526       | \$3,823  |
| Residential mortgage-backed securities | —             | —            | 4,638         | 29,565        | 34,203   |
| Commercial mortgage-backed securities  | —             | —            | —             | 5,636         | 5,636    |
| Total held-to-maturity securities      | \$ —          | \$320        | \$5,615       | \$37,727      | \$43,662 |
| Fair value                             |               |              |               |               |          |
| Obligations of:                        |               |              |               |               |          |
| States and political subdivisions      | \$ —          | \$328        | \$1,123       | \$2,834       | \$4,285  |
| Residential mortgage-backed securities | —             | —            | 4,824         | 30,381        | 35,205   |
| Commercial mortgage-backed securities  | —             | —            | —             | 5,655         | 5,655    |
| Total held-to-maturity securities      | \$ —          | \$328        | \$5,947       | \$38,870      | \$45,145 |
| Total weighted-average yield           | — %           | 3.14 %       | 2.24 %        | 2.86 %        | 2.78 %   |

## Other Securities

Peoples' other investment securities on the Unaudited Consolidated Balance Sheet consist largely of shares of the Federal Home Loan Bank of Cincinnati (the "FHLB") and the Federal Reserve Bank of Cleveland (the "FRB").

## Pledged Securities

Peoples had pledged available-for-sale investment securities with carrying values of \$529.0 million and \$495.5 million at September 30, 2016 and December 31, 2015, respectively, and held-to-maturity investment securities with carrying values of \$20.2 million and \$21.4 million at September 30, 2016 and December 31, 2015, respectively, to secure public and trust department deposits, and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of \$9.8 million and \$11.1 million at September 30, 2016 and December 31, 2015, respectively, and held-to-maturity securities with carrying values of \$22.5 million and \$23.3 million at September 30, 2016 and December 31, 2015, respectively, to secure additional borrowing capacity at the FHLB and the FRB.



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## Note 4. Loans

Peoples' loan portfolio consists of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of northeastern, central, southwestern and southeastern Ohio, west central West Virginia, and northeastern Kentucky. Acquired loans consist of loans purchased in 2012 or thereafter in a business combination. The major classifications of loan balances, excluding loans held for sale, were as follows:

| (Dollars in thousands)                | September 30, 2016 | December 31, 2015 |
|---------------------------------------|--------------------|-------------------|
| Originated loans:                     |                    |                   |
| Commercial real estate, construction  | \$ 70,838          | \$ 63,785         |
| Commercial real estate, other         | 507,842            | 471,184           |
| Commercial real estate                | 578,680            | 534,969           |
| Commercial and industrial             | 351,340            | 288,130           |
| Residential real estate               | 306,374            | 288,783           |
| Home equity lines of credit           | 83,412             | 74,176            |
| Consumer, indirect                    | 229,334            | 165,320           |
| Consumer, other                       | 67,973             | 61,813            |
| Consumer                              | 297,307            | 227,133           |
| Deposit account overdrafts            | 1,074              | 1,448             |
| Total originated loans                | \$ 1,618,187       | \$ 1,414,639      |
| Acquired loans:                       |                    |                   |
| Commercial real estate, construction  | \$ 10,242          | \$ 12,114         |
| Commercial real estate, other         | 221,036            | 265,092           |
| Commercial real estate                | 231,278            | 277,206           |
| Commercial and industrial             | 48,702             | 63,589            |
| Residential real estate               | 238,787            | 276,772           |
| Home equity lines of credit           | 27,784             | 32,253            |
| Consumer, indirect                    | 952                | 1,776             |
| Consumer, other                       | 3,518              | 6,205             |
| Consumer                              | 4,470              | 7,981             |
| Total acquired loans                  | \$ 551,021         | \$ 657,801        |
| Loans, net of deferred fees and costs | \$ 2,169,208       | \$ 2,072,440      |

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

| (Dollars in thousands)        | September 30, 2016 | December 31, 2015 |
|-------------------------------|--------------------|-------------------|
| Commercial real estate, other | \$ 11,391          | \$ 16,893         |
| Commercial and industrial     | 2,567              | 3,040             |
| Residential real estate       | 24,212             | 27,155            |
| Consumer                      | 94                 | 193               |
| Total outstanding balance     | \$ 38,264          | \$ 47,281         |
| Net carrying amount           | \$ 28,292          | \$ 35,064         |

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Changes in the accretable yield for purchased credit impaired loans for the nine months ended September 30, 2016 were as follows:

| (Dollars in thousands)                            | Accretable<br>Yield |
|---------------------------------------------------|---------------------|
| Balance, December 31, 2015                        | \$ 7,042            |
| Reclassification from nonaccretable to accretable | 2,014               |
| Accretion                                         | (1,430 )            |
| Balance, September 30, 2016                       | \$ 7,626            |

Peoples completed semi-annual re-estimations of cash flows on acquired purchased credit impaired loans in February and August of 2016. The above reclassification from nonaccretable to accretable was related to the re-estimation of cash flows on the acquired purchased credit impaired loan portfolios, coupled with the loans performing better than expected. The majority of the reclassification related to prepayment speeds decreasing in the residential portfolio, resulting in higher total expected cash flows. In 2017, Peoples will complete the re-estimation of cash flows on acquired purchased credit impaired loans on an as needed basis and, in any event, at least annually in August. Cash flows expected to be collected on acquired purchased credit impaired loans are estimated by incorporating several key assumptions similar to the initial estimate of fair value. These key assumptions include probability of default, and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income, and possibly the principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary.

Peoples pledges certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$538.7 million and \$554.8 million at September 30, 2016 and December 31, 2015, respectively. Peoples also pledges commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$159.9 million and \$195.5 million at September 30, 2016 and December 31, 2015, respectively.

#### Nonaccrual and Past Due Loans

A loan is considered past due if any required principal and interest payments have not been received as of the date such payments were required to be made under the terms of the loan agreement. A loan may be placed on nonaccrual status regardless of whether or not such loan is considered past due.

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The recorded investments in loans on nonaccrual status and loans delinquent for 90 days or more and accruing were as follows:

| (Dollars in thousands)               | Nonaccrual Loans   |                   | Loans 90+ Days Past Due and Accruing |                   |
|--------------------------------------|--------------------|-------------------|--------------------------------------|-------------------|
|                                      | September 30, 2016 | December 31, 2015 | September 30, 2016                   | December 31, 2015 |
| Originated loans:                    |                    |                   |                                      |                   |
| Commercial real estate, construction | \$855              | \$ 921            | \$—                                  | \$ —              |
| Commercial real estate, other        | 9,982              | 7,041             | —                                    | —                 |
| Commercial real estate               | \$10,837           | \$ 7,962          | \$—                                  | \$ —              |
| Commercial and industrial            | 1,468              | 480               | —                                    | 680               |
| Residential real estate              | 3,722              | 3,057             | 34                                   | 169               |
| Home equity lines of credit          | 273                | 321               | 199                                  | —                 |
| Consumer, indirect                   | 30                 | 34                | 82                                   | —                 |
| Consumer, other                      | 5                  | 58                | —                                    | 1                 |
| Consumer                             | \$35               | \$ 92             | \$82                                 | \$ 1              |
| Total originated loans               | \$16,335           | \$ 11,912         | \$315                                | \$ 850            |
| Acquired loans:                      |                    |                   |                                      |                   |
| Commercial real estate, other        | 780                | 469               | 1,636                                | 2,425             |
| Commercial and industrial            | 281                | 247               | 452                                  | 1,306             |
| Residential real estate              | 1,713              | 798               | 1,758                                | 1,353             |
| Home equity lines of credit          | 232                | 98                | —                                    | 35                |
| Consumer, other                      | 5                  | 7                 | —                                    | —                 |
| Total acquired loans                 | \$3,011            | \$ 1,619          | \$3,846                              | \$ 5,119          |
| Total loans                          | \$19,346           | \$ 13,531         | \$4,161                              | \$ 5,969          |

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The following table presents the aging of the recorded investment in past due loans:

|                                      | Loans Past Due |         |          |          | Current     | Total       |
|--------------------------------------|----------------|---------|----------|----------|-------------|-------------|
| (Dollars in thousands)               | 30 - 59        | 60 - 89 | 90 +     | Total    | Loans       | Loans       |
|                                      | days           | days    | Days     |          |             |             |
| September 30, 2016                   |                |         |          |          |             |             |
| Originated loans:                    |                |         |          |          |             |             |
| Commercial real estate, construction | \$—            | \$—     | \$855    | \$855    | \$69,983    | \$70,838    |
| Commercial real estate, other        | 726            | 1,032   | 9,381    | 11,139   | 496,703     | 507,842     |
| Commercial real estate               | \$726          | \$1,032 | \$10,236 | \$11,994 | \$566,686   | \$578,680   |
| Commercial and industrial            | 1,083          | 412     | 1,415    | 2,910    | 348,430     | 351,340     |
| Residential real estate              | 2,043          | 1,094   | 1,694    | 4,831    | 301,543     | 306,374     |
| Home equity lines of credit          | 153            | 46      | 318      | 517      | 82,895      | 83,412      |
| Consumer, indirect                   | 945            | 184     | 82       | 1,211    | 228,123     | 229,334     |
| Consumer, other                      | 291            | 96      | —        | 387      | 67,586      | 67,973      |
| Consumer                             | \$1,236        | \$280   | \$82     | \$1,598  | \$295,709   | \$297,307   |
| Deposit account overdrafts           | —              | —       | —        | —        | 1,074       | 1,074       |
| Total originated loans               | \$5,241        | \$2,864 | \$13,745 | \$21,850 | \$1,596,337 | \$1,618,187 |
| Acquired loans:                      |                |         |          |          |             |             |
| Commercial real estate, construction | \$—            | \$—     | \$—      | \$—      | \$10,242    | \$10,242    |
| Commercial real estate, other        | 623            | 294     | 2,293    | 3,210    | 217,826     | 221,036     |
| Commercial real estate               | \$623          | \$294   | \$2,293  | \$3,210  | \$228,068   | \$231,278   |
| Commercial and industrial            | 188            | 59      | 733      | 980      | 47,722      | 48,702      |
| Residential real estate              | 1,269          | 1,804   | 2,511    | 5,584    | 233,203     | 238,787     |
| Home equity lines of credit          | 54             | 156     | 178      | 388      | 27,396      | 27,784      |
| Consumer, indirect                   | 27             | —       | —        | 27       | 925         | 952         |
| Consumer, other                      | 32             | 14      | —        | 46       | 3,472       | 3,518       |
| Consumer                             | \$59           | \$14    | \$—      | \$73     | \$4,397     | \$4,470     |
| Total acquired loans                 | \$2,193        | \$2,327 | \$5,715  | \$10,235 | \$540,786   | \$551,021   |
| Total loans                          | \$7,434        | \$5,191 | \$19,460 | \$32,085 | \$2,137,123 | \$2,169,208 |

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|                                      | Loans Past Due |         |         |          | Current     | Total       |
|--------------------------------------|----------------|---------|---------|----------|-------------|-------------|
| (Dollars in thousands)               | 30 - 59        | 60 - 89 | 90 +    | Total    | Loans       | Loans       |
|                                      | days           | days    | Days    |          |             |             |
| December 31, 2015                    |                |         |         |          |             |             |
| Originated loans:                    |                |         |         |          |             |             |
| Commercial real estate, construction | \$913          | \$—     | \$8     | \$921    | \$62,864    | \$63,785    |
| Commercial real estate, other        | 7,260          | 1,258   | 379     | 8,897    | 462,287     | 471,184     |
| Commercial real estate               | \$8,173        | \$1,258 | \$387   | \$9,818  | \$525,151   | \$534,969   |
| Commercial and industrial            | 1,437          | 215     | 767     | 2,419    | 285,711     | 288,130     |
| Residential real estate              | 3,124          | 1,105   | 1,263   | 5,492    | 283,291     | 288,783     |
| Home equity lines of credit          | 161            | 7       | 104     | 272      | 73,904      | 74,176      |
| Consumer, indirect                   | 790            | 168     | —       | 958      | 164,362     | 165,320     |
| Consumer, other                      | 597            | 82      | 32      | 711      | 61,102      | 61,813      |
| Consumer                             | \$1,387        | \$250   | \$32    | \$1,669  | \$225,464   | \$227,133   |
| Deposit account overdrafts           | —              | —       | —       | —        | 1,448       | 1,448       |
| Total originated loans               | \$14,282       | \$2,835 | \$2,553 | \$19,670 | \$1,394,969 | \$1,414,639 |
| Acquired loans:                      |                |         |         |          |             |             |
| Commercial real estate, construction | \$—            | \$—     | \$40    | \$40     | \$12,074    | \$12,114    |
| Commercial real estate, other        | 1,592          | 352     | 2,730   | 4,674    | 260,418     | 265,092     |
| Commercial real estate               | \$1,592        | \$352   | \$2,770 | \$4,714  | \$272,492   | \$277,206   |
| Commercial and industrial            | 177            | 232     | 1,553   | 1,962    | 61,627      | 63,589      |
| Residential real estate              | 4,910          | 2,480   | 1,745   | 9,135    | 267,637     | 276,772     |
| Home equity lines of credit          | 318            | 20      | 95      | 433      | 31,820      | 32,253      |
| Consumer, indirect                   | 23             | —       | —       | 23       | 1,753       | 1,776       |
| Consumer, other                      | 67             | 31      | —       | 98       | 6,107       | 6,205       |
| Consumer                             | \$90           | \$31    | \$—     | \$121    | \$7,860     | \$7,981     |
| Total acquired loans                 | \$7,087        | \$3,115 | \$6,163 | \$16,365 | \$641,436   | \$657,801   |
| Total loans                          | \$21,369       | \$5,950 | \$8,716 | \$36,035 | \$2,036,405 | \$2,072,440 |

## Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2015 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

“Pass” (grades 1 through 4): Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the loan if required, for any weakness that may exist.

“Watch” (grade 5): Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and/or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the loan or in Peoples' credit position.

“Substandard” (grade 6): Loans in this risk grade are inadequately protected by the borrower's current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have one or more well-defined weaknesses that jeopardize the orderly repayment of the loan. They are characterized by the distinct possibility that Peoples will sustain some loss if the deficiencies are not corrected.

“Doubtful” (grade 7): Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the

exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

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

The following table summarizes the risk category of Peoples' loan portfolio based upon the most recent analysis performed:

| (Dollars in thousands)               | Pass Rated<br>(Grades 1 -<br>4) | Watch<br>(Grade<br>5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade<br>7) | Not<br>Rated | Total<br>Loans |
|--------------------------------------|---------------------------------|-----------------------|--------------------------|--------------------------|--------------|----------------|
| September 30, 2016                   |                                 |                       |                          |                          |              |                |
| Originated loans:                    |                                 |                       |                          |                          |              |                |
| Commercial real estate, construction | \$69,517                        | \$—                   | \$ 855                   | \$ —                     | \$466        | \$70,838       |
| Commercial real estate, other        | 483,190                         | 9,242                 | 15,410                   | —                        | —            | 507,842        |
| Commercial real estate               | \$552,707                       | \$9,242               | \$ 16,265                | \$ —                     | \$466        | \$578,680      |
| Commercial and industrial            | 319,634                         | 24,178                | 7,512                    | —                        | 16           | 351,340        |
| Residential real estate              | 20,577                          | 1,066                 | 12,975                   | 359                      | 271,397      | 306,374        |
| Home equity lines of credit          | 545                             | —                     | 138                      | —                        | 82,729       | 83,412         |
| Consumer, indirect                   | 141                             | —                     | —                        | —                        | 229,193      | 229,334        |
| Consumer, other                      | 141                             | —                     | —                        | —                        | 67,832       | 67,973         |
| Consumer                             | \$282                           | \$—                   | \$ —                     | \$ —                     | \$297,025    | \$297,307      |
| Deposit account overdrafts           | —                               | —                     | —                        | —                        | 1,074        | 1,074          |
| Total originated loans               | \$893,745                       | \$34,486              | \$ 36,890                | \$ 359                   | \$652,707    | \$1,618,187    |
| Acquired loans:                      |                                 |                       |                          |                          |              |                |
| Commercial real estate, construction | \$10,242                        | \$—                   | \$ —                     | \$ —                     | \$—          | \$10,242       |
| Commercial real estate, other        | 197,552                         | 10,086                | 13,328                   | 69                       | 1            | 221,036        |
| Commercial real estate               | \$207,794                       | \$10,086              | \$ 13,328                | \$ 69                    | \$1          | \$231,278      |
| Commercial and industrial            | 46,650                          | 318                   | 1,538                    | 196                      | —            | 48,702         |
| Residential real estate              | 17,023                          | 649                   | 1,375                    | —                        | 219,740      | 238,787        |
| Home equity lines of credit          | 245                             | —                     | —                        | —                        | 27,539       | 27,784         |
| Consumer, indirect                   | 72                              | —                     | —                        | —                        | 880          | 952            |
| Consumer, other                      | \$59                            | \$—                   | \$ —                     | \$ —                     | \$3,459      | \$3,518        |
| Consumer                             | \$131                           | \$—                   | \$ —                     | \$ —                     | \$4,339      | \$4,470        |
| Total acquired loans                 | \$271,843                       | \$11,053              | \$ 16,241                | \$ 265                   | \$251,619    | \$551,021      |
| Total loans                          | \$1,165,588                     | \$45,539              | \$ 53,131                | \$ 624                   | \$904,326    | \$2,169,208    |

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| (Dollars in thousands)               | Pass Rated<br>(Grades 1 -<br>4) | Watch<br>(Grade<br>5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade<br>7) | Not<br>Rated | Total<br>Loans |
|--------------------------------------|---------------------------------|-----------------------|--------------------------|--------------------------|--------------|----------------|
| December 31, 2015                    |                                 |                       |                          |                          |              |                |
| Originated loans:                    |                                 |                       |                          |                          |              |                |
| Commercial real estate, construction | \$62,225                        | \$—                   | \$ 913                   | \$ —                     | \$647        | \$63,785       |
| Commercial real estate, other        | 434,868                         | 18,710                | 17,595                   | —                        | 11           | 471,184        |
| Commercial real estate               | \$497,093                       | \$18,710              | \$ 18,508                | \$ —                     | \$658        | \$534,969      |
| Commercial and industrial            | 259,183                         | 23,601                | 5,344                    | —                        | 2            | 288,130        |
| Residential real estate              | 21,903                          | 1,168                 | 12,282                   | 187                      | 253,243      | 288,783        |
| Home equity lines of credit          | 785                             | —                     | 175                      | —                        | 73,216       | 74,176         |
| Consumer, indirect                   | 94                              | —                     | 3                        | —                        | 165,223      | 165,320        |
| Consumer, other                      | 114                             | —                     | —                        | —                        | 61,699       | 61,813         |
| Consumer                             | \$208                           | \$—                   | \$ 3                     | \$ —                     | \$226,922    | \$227,133      |
| Deposit account overdrafts           | —                               | —                     | —                        | —                        | 1,448        | 1,448          |
| Total originated loans               | \$779,172                       | \$43,479              | \$ 36,312                | \$ 187                   | \$555,489    | \$1,414,639    |
| Acquired loans:                      |                                 |                       |                          |                          |              |                |
| Commercial real estate, construction | \$12,114                        | \$—                   | \$ —                     | \$ —                     | \$—          | \$12,114       |
| Commercial real estate, other        | 233,630                         | 13,866                | 17,521                   | 75                       | —            | 265,092        |
| Commercial real estate               | \$245,744                       | \$13,866              | \$ 17,521                | \$ 75                    | \$—          | \$277,206      |
| Commercial and industrial            | 56,077                          | 3,078                 | 4,238                    | 196                      | —            | 63,589         |
| Residential real estate              | 18,027                          | 1,409                 | 1,786                    | —                        | 255,550      | 276,772        |
| Home equity lines of credit          | 316                             | —                     | —                        | —                        | 31,937       | 32,253         |
| Consumer, indirect                   | 130                             | —                     | —                        | —                        | 1,646        | 1,776          |
| Consumer, other                      | 126                             | —                     | —                        | —                        | 6,079        | 6,205          |
| Consumer                             | \$256                           | \$—                   | \$ —                     | \$ —                     | \$7,725      | \$7,981        |
| Total acquired loans                 | \$320,420                       | \$18,353              | \$ 23,545                | \$ 271                   | \$295,212    | \$657,801      |
| Total loans                          | \$1,099,592                     | \$61,832              | \$ 59,857                | \$ 458                   | \$850,701    | \$2,072,440    |

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## Impaired Loans

The following table summarizes loans classified as impaired:

| (Dollars in thousands)               | Unpaid<br>Principal<br>Balance | Recorded<br>Investment<br>With<br>Allowance | Recorded<br>Investment<br>Without<br>Allowance | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|--------------------------------------|--------------------------------|---------------------------------------------|------------------------------------------------|---------------------------------|----------------------|-----------------------------------|----------------------------------|
| September 30, 2016                   |                                |                                             |                                                |                                 |                      |                                   |                                  |
| Commercial real estate, construction | \$ 925                         | \$ —                                        | \$ 898                                         | \$ 898                          | \$ —                 | \$ 927                            | \$ 1                             |
| Commercial real estate, other        | 21,497                         | 7,878                                       | 13,370                                         | 21,248                          | 1,164                | 18,950                            | 530                              |
| Commercial real estate               | \$ 22,422                      | \$ 7,878                                    | \$ 14,268                                      | \$ 22,146                       | \$ 1,164             | \$ 19,877                         | \$ 531                           |
| Commercial and industrial            | 4,064                          | 2,832                                       | 1,075                                          | 3,907                           | 506                  | 3,722                             | 164                              |
| Residential real estate              | 30,087                         | 428                                         | 28,770                                         | 29,198                          | 122                  | 28,745                            | 978                              |
| Home equity lines of credit          | 1,248                          | —                                           | 1,241                                          | 1,241                           | —                    | 1,002                             | 59                               |
| Consumer, indirect                   | 209                            | —                                           | 199                                            | 199                             | —                    | 126                               | 17                               |
| Consumer, other                      | 295                            | —                                           | 291                                            | 291                             | —                    | 244                               | 38                               |
| Consumer                             | \$ 504                         | \$ —                                        | \$ 490                                         | \$ 490                          | \$ —                 | \$ 370                            | \$ 55                            |
| Total                                | \$ 58,325                      | \$ 11,138                                   | \$ 45,844                                      | \$ 56,982                       | \$ 1,792             | \$ 53,716                         | \$ 1,787                         |
| December 31, 2015                    |                                |                                             |                                                |                                 |                      |                                   |                                  |
| Commercial real estate, construction | \$ 957                         | \$ —                                        | \$ 957                                         | \$ 957                          | \$ —                 | \$ 227                            | \$ 3                             |
| Commercial real estate, other        | 23,430                         | 6,396                                       | 12,772                                         | 19,168                          | 1,363                | 13,070                            | 815                              |
| Commercial real estate               | \$ 24,387                      | \$ 6,396                                    | \$ 13,729                                      | \$ 20,125                       | \$ 1,363             | \$ 13,297                         | \$ 818                           |
| Commercial and industrial            | 5,670                          | 1,224                                       | 4,130                                          | 5,354                           | 351                  | 4,049                             | 246                              |
| Residential real estate              | 31,304                         | 370                                         | 28,834                                         | 29,204                          | 106                  | 26,785                            | 1,354                            |
| Home equity lines of credit          | 425                            | —                                           | 419                                            | 419                             | —                    | 325                               | 18                               |
| Consumer, indirect                   | 118                            | —                                           | 103                                            | 103                             | —                    | 84                                | —                                |
| Consumer, other                      | 265                            | —                                           | 195                                            | 195                             | —                    | 210                               | 28                               |
| Consumer                             | \$ 383                         | \$ —                                        | \$ 298                                         | \$ 298                          | \$ —                 | \$ 294                            | \$ 28                            |
| Total                                | \$ 62,169                      | \$ 7,990                                    | \$ 47,410                                      | \$ 55,400                       | \$ 1,820             | \$ 44,750                         | \$ 2,464                         |

At September 30, 2016, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDRs").

In assessing whether or not a borrower is experiencing financial difficulties, Peoples considers information currently available regarding the financial condition of the borrower. This information includes, but is not limited to, whether (i) the borrower is currently in payment default on any of the borrower's debt; (ii) a payment default is probable in the foreseeable future without the modification; (iii) the borrower has declared or is in the process of declaring bankruptcy; and (iv) the borrower's projected cash flow is insufficient to satisfy contractual payments due under the original terms of the loan without a modification.

Peoples considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by Peoples include the borrower's ability to access funds at a market rate for debt with similar risk characteristics, the significance of the modification relative to the unpaid principal balance or collateral value of the debt, and the significance of a delay in the timing of payments relative to the original contractual terms of the loan. The most common concessions granted by Peoples generally include one or more modifications to the terms of the loan, such as (i) a reduction in the interest rate for the remaining life of the loan, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new loans with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or the remaining term of the loan.



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The following table summarizes the loans that were modified as a TDR during the three and nine months ended September 30:

| (Dollars in thousands)        | Number<br>of<br>Contracts | Three Months Ended<br>Recorded Investment (1) |                   | Remaining<br>Recorded<br>Investment |
|-------------------------------|---------------------------|-----------------------------------------------|-------------------|-------------------------------------|
|                               |                           | Pre-Modification                              | Post-Modification |                                     |
| September 30, 2016            |                           |                                               |                   |                                     |
| Originated loans:             |                           |                                               |                   |                                     |
| Residential real estate       | 2                         | \$75                                          | \$ 75             | \$ 75                               |
| Home equity lines of credit   | 3                         | 23                                            | 23                | 23                                  |
| Consumer, indirect            | 7                         | 78                                            | 78                | 78                                  |
| Consumer, other               | 3                         | 34                                            | 34                | 34                                  |
| Consumer                      | 10                        | \$112                                         | \$ 112            | \$ 112                              |
| Total originated loans        | 15                        | \$210                                         | \$ 210            | \$ 210                              |
| Acquired loans:               |                           |                                               |                   |                                     |
| Commercial real estate, other | 1                         | \$224                                         | \$ 224            | \$ 224                              |
| Residential real estate       | 2                         | 141                                           | 141               | 141                                 |
| Total acquired loans          | 3                         | \$365                                         | \$ 365            | \$ 365                              |
| September 30, 2015            |                           |                                               |                   |                                     |
| Originated loans:             |                           |                                               |                   |                                     |
| Commercial real estate, other | 2                         | \$128                                         | \$ 128            | \$ 128                              |
| Commercial and industrial     | 4                         | 13,670                                        | 13,670            | 13,658                              |
| Residential real estate       | 2                         | 73                                            | 73                | 73                                  |
| Home equity lines of credit   | 2                         | 78                                            | 78                | 77                                  |
| Consumer, indirect            | 2                         | 31                                            | 31                | 31                                  |
| Total originated loans        | 12                        | \$13,980                                      | \$ 13,980         | \$ 13,967                           |
| Acquired loans:               |                           |                                               |                   |                                     |
| Commercial real estate, other | 1                         | \$24                                          | \$ 24             | \$ 24                               |
| Residential real estate       | 1                         | 34                                            | 33                | 33                                  |
| Home equity lines of credit   | 1                         | 8                                             | 8                 | 8                                   |
| Total acquired loans          | 3                         | \$66                                          | \$ 65             | \$ 65                               |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs. Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

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| (Dollars in thousands)        | Number<br>of<br>Contracts | Nine Months Ended<br>Recorded Investment (1) |                   |                                     |
|-------------------------------|---------------------------|----------------------------------------------|-------------------|-------------------------------------|
|                               |                           | Pre-Modification                             | Post-Modification | Remaining<br>Recorded<br>Investment |
| September 30, 2016            |                           |                                              |                   |                                     |
| Originated loans:             |                           |                                              |                   |                                     |
| Commercial real estate, other | 1                         | \$57                                         | \$ 57             | \$ 56                               |
| Commercial and industrial     | 6                         | 716                                          | 724               | 685                                 |
| Residential real estate       | 5                         | 173                                          | 173               | 173                                 |
| Home equity lines of credit   | 3                         | 23                                           | 23                | 23                                  |
| Consumer, indirect            | 9                         | 107                                          | 107               | 107                                 |
| Consumer, other               | 5                         | 46                                           | 46                | 46                                  |
| Consumer                      | 14                        | \$153                                        | \$ 153            | \$ 153                              |
| Total originated loans        | 29                        | \$1,122                                      | \$ 1,130          | \$ 1,090                            |
| Acquired loans:               |                           |                                              |                   |                                     |
| Commercial real estate, other | 1                         | \$223                                        | \$ 223            | \$ 223                              |
| Residential real estate       | 11                        | 927                                          | 929               | 923                                 |
| Home equity lines of credit   | 3                         | 179                                          | 179               | 173                                 |
| Consumer, indirect            | 2                         | 8                                            | 8                 | 8                                   |
| Consumer, other               | 3                         | 17                                           | 17                | 17                                  |
| Consumer                      | 5                         | \$25                                         | \$ 25             | \$ 25                               |
| Total acquired loans          | 20                        | \$1,354                                      | \$ 1,356          | \$ 1,344                            |
| September 30, 2015            |                           |                                              |                   |                                     |
| Originated loans:             |                           |                                              |                   |                                     |
| Commercial real estate, other | 2                         | \$128                                        | \$ 128            | \$ 128                              |
| Commercial and industrial     | 4                         | 13,670                                       | 13,670            | 13,658                              |
| Residential real estate       | 4                         | 257                                          | 256               | 167                                 |
| Home equity lines of credit   | 11                        | 387                                          | 387               | 378                                 |
| Consumer, indirect            | 4                         | 45                                           | 42                | 41                                  |
| Total originated loans        | 25                        | \$14,487                                     | \$ 14,483         | \$ 14,372                           |
| Acquired loans:               |                           |                                              |                   |                                     |
| Commercial real estate, other | 1                         | \$24                                         | \$ 24             | \$ 24                               |
| Residential real estate       | 1                         | 34                                           | 33                | 33                                  |
| Home equity lines of credit   | 1                         | 8                                            | 8                 | 8                                   |
| Total acquired loans          | 3                         | \$66                                         | \$ 65             | \$ 65                               |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs. Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

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The following table presents those loans for the nine months ended September 30 that were modified as a TDR during the last twelve months that subsequently defaulted (i.e., 90 days or more past due following a modification.)

| (Dollars in thousands)        | September 30, 2016  |                                                             | September 30, 2015  |                                                             |
|-------------------------------|---------------------|-------------------------------------------------------------|---------------------|-------------------------------------------------------------|
|                               | Number of Contracts | Recorded Impact on the Investment Allowance for Loan Losses | Number of Contracts | Recorded Impact on the Investment Allowance for Loan Losses |
| Originated loans:             |                     |                                                             |                     |                                                             |
| Commercial real estate, other | 1 243               | \$ —                                                        | —                   | —                                                           |
| Commercial and industrial     | 1 173               | \$ —                                                        | —                   | —                                                           |
| Total                         | 2 416               | —                                                           | —\$ —               | \$ —                                                        |
| Acquired loans:               |                     |                                                             |                     |                                                             |
| Commercial and industrial     | — \$                | —\$                                                         | —2 196              | —                                                           |
| Total                         | — \$                | —\$                                                         | —2 \$ 196           | \$ —                                                        |

(1) The amounts shown are inclusive of all partial paydowns and charge-offs.

Loans modified in a TDR that were fully paid down, charged-off or foreclosed upon by period end are not reported.

Peoples did not have any acquired loans that were modified as a TDR during the last twelve months that subsequently defaulted. Peoples had no additional commitments to lend additional funds to the related debtors whose terms have been modified in a TDR.

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## Allowance for Originated Loan Losses

Changes in the allowance for originated loan losses for the nine months ended September 30 were as follows:

| (Dollars in thousands)                  | Commercial<br>Real Estate | Commercial<br>and<br>Industrial | Residential<br>Real<br>Estate | Home<br>Equity<br>Lines<br>of<br>Credit | Consumer | Deposit<br>Account<br>Overdrafts | Total    |
|-----------------------------------------|---------------------------|---------------------------------|-------------------------------|-----------------------------------------|----------|----------------------------------|----------|
| Balance, January 1, 2016                | \$ 7,076                  | \$ 5,382                        | \$ 1,257                      | \$ 732                                  | \$ 1,971 | \$ 121                           | \$16,539 |
| Charge-offs                             | (12)                      | (1,017)                         | (524)                         | (58)                                    | (1,899)  | (544)                            | (4,054)  |
| Recoveries                              | 1,199                     | 250                             | 193                           | 33                                      | 910      | 148                              | 2,733    |
| Net recoveries (charge-offs)            | 1,187                     | (767)                           | (331)                         | (25)                                    | (989)    | (396)                            | (1,321)  |
| (Recovery of) provision for loan losses | (773)                     | 1,075                           | 194                           | (21)                                    | 1,850    | 418                              | 2,743    |
| Balance, September 30, 2016             | \$ 7,490                  | \$ 5,690                        | \$ 1,120                      | \$ 686                                  | \$ 2,832 | \$ 143                           | \$17,961 |

## Period-end amount allocated to:

|                                             |          |          |          |        |          |        |          |
|---------------------------------------------|----------|----------|----------|--------|----------|--------|----------|
| Loans individually evaluated for impairment | \$ 1,164 | \$ 506   | \$ 122   | \$ —   | \$ —     | \$ —   | \$1,792  |
| Loans collectively evaluated for impairment | 6,326    | 5,184    | 998      | 686    | 2,832    | 143    | 16,169   |
| Ending balance                              | \$ 7,490 | \$ 5,690 | \$ 1,120 | \$ 686 | \$ 2,832 | \$ 143 | \$17,961 |

|                                         |          |           |          |        |          |        |          |
|-----------------------------------------|----------|-----------|----------|--------|----------|--------|----------|
| Balance, January 1, 2015                | \$ 9,825 | \$ 4,036  | \$ 1,627 | \$ 694 | \$ 1,587 | \$ 112 | \$17,881 |
| Charge-offs                             | (181)    | (426)     | (537)    | (116)  | (869)    | (566)  | (2,695)  |
| Recoveries                              | 90       | 94        | 206      | 107    | 567      | 134    | 1,198    |
| Net charge-offs                         | (91)     | (332)     | (331)    | (9)    | (302)    | (432)  | (1,497)  |
| (Recovery of) provision for loan losses | (2,297)  | 7,783     | (117)    | 92     | 518      | 474    | 6,453    |
| Balance, September 30, 2015             | \$ 7,437 | \$ 11,487 | \$ 1,179 | \$ 777 | \$ 1,803 | \$ 154 | \$22,837 |

## Period-end amount allocated to:

|                                             |          |           |          |        |          |        |          |
|---------------------------------------------|----------|-----------|----------|--------|----------|--------|----------|
| Loans individually evaluated for impairment | \$ 7     | \$ 7,193  | \$ 4     | \$ —   | \$ —     | \$ —   | \$7,204  |
| Loans collectively evaluated for impairment | 7,430    | 4,294     | 1,175    | 777    | 1,803    | 154    | 15,633   |
| Ending balance                              | \$ 7,437 | \$ 11,487 | \$ 1,179 | \$ 777 | \$ 1,803 | \$ 154 | \$22,837 |

The reduction in the allowance for loan losses allocated to commercial and industrial recorded during the first nine months of 2016 compared to the same period of 2015 was driven by a decrease in the allowance needed for loans individually evaluated for impairment which was offset partially by loan growth. The changes in the residential real estate, home equity lines of credit and consumer categories of the allowance for originated loan losses and the related provision for originated loan losses recorded during the nine months of 2016 compared to the same period in 2015 were driven by net charge-off activity and increases in the size of the respective loan portfolios.

## Allowance for Acquired Loan Losses

Acquired loans are recorded at their fair value as of the acquisition date with no valuation allowance, and monitored for changes in credit quality and subsequent increases or decreases in expected cash flows. Decreases in expected cash flows of acquired credit impaired loans are recognized as an impairment, with the amount of the expected loss included in management's evaluation of the appropriateness of the allowance for loan losses. The methods utilized to estimate the required allowance for loan losses for nonimpaired acquired loans are similar to those utilized for originated loans; however, Peoples records a provision for loan losses only when the computed allowance exceeds the remaining fair value adjustment. As of September 30, 2016, the expected cash flows for acquired credit impaired loans had decreased from those as of the respective acquisition dates, resulting in Peoples recording provision for loan losses with respect to those acquired loans.



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The following table presents activity in the allowance for loan losses for acquired loans for the nine months ended September 30:

| (Dollars in thousands)           | Three Months Ended |                    | Nine Months Ended  |                    |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                  | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Purchased credit impaired loans: |                    |                    |                    |                    |
| Balance, beginning of period     | \$ 197             | \$ —               | \$ 240             | \$ —               |
| Charge-offs                      | (16)               | ) —                | (67)               | ) —                |
| Recoveries                       | —                  | —                  | —                  | —                  |
| Net charge-offs (recoveries)     | (16)               | ) —                | (67)               | ) —                |
| Provision for loan losses        | 77                 | 303                | 85                 | 303                |
| Balance, September 30            | \$ 258             | \$ 303             | \$ 258             | \$ 303             |

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Note 5. Goodwill and Other Intangible Assets

Prior to 2016, Peoples performed its annual goodwill impairment test as of June 30. During 2016, Peoples changed its method in applying the accounting principle and will be completing the annual goodwill impairment test as of October 1 in 2016 and annually on that date thereafter. This voluntary change is preferable as it aligns the goodwill impairment testing with the preparation of the underlying data used in the annual test, including financial and strategic information that is prepared late in the year. This change is not intended to delay, accelerate or avoid any impairment charges. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require application of significant estimates and assumptions with the use of hindsight. Accordingly the change will be applied prospectively.

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Note 6. Long-Term Borrowings

The following table summarizes Peoples' long-term borrowings:

| (Dollars in thousands)                            | September 30, 2016 |                       |  | December 31, 2015 |                       |  |
|---------------------------------------------------|--------------------|-----------------------|--|-------------------|-----------------------|--|
|                                                   | Balance            | Weighted-Average Rate |  | Balance           | Weighted-Average Rate |  |
| FHLB putable, non-amortizing, fixed-rate advances | \$70,000           | 2.49 %                |  | \$50,000          | 3.32 %                |  |
| Callable national market repurchase agreements    | 40,000             | 3.63 %                |  | 40,000            | 3.63 %                |  |
| FHLB amortizing, fixed-rate advances              | 30,743             | 2.02 %                |  | 16,934            | 2.69 %                |  |
| Junior subordinated debt securities               | 6,877              | 2.34 %                |  | 6,736             | 1.83 %                |  |
| Unamortized debt issuance costs                   | (57)               | ) — %                 |  | —                 | — %                   |  |
| Total long-term borrowings                        | \$147,563          | 2.69 %                |  | \$113,670         | 3.25 %                |  |

The putable, non-amortizing, fixed-rate FHLB advances have original maturities ranging from two to eleven years that may be repaid prior to maturity, subject to termination fees. The FHLB has the option, solely at its discretion, to terminate the advances after the initial fixed rate periods ranging from three months to five years, requiring full repayment of the advances by Peoples, prior to the stated maturity. If an advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then offered by the FHLB, subject to normal FHLB credit and collateral requirements. These advances require monthly interest payments, with no repayment of principal until the earlier of either an option exercise by the FHLB or the stated maturity. The amortizing, fixed-rate FHLB advances have a fixed rate for the term of the loan, with maturities ranging from two to fifteen years. These advances require monthly principal and interest payments, with some having a constant prepayment rate requiring an additional principal payment annually. These advances are not eligible for optional prepayment prior to maturity.

Peoples continually evaluates the overall balance sheet position given the interest rate environment. During the second quarter of 2016, Peoples executed transactions to take advantage of the low interest rates, which included: Peoples restructured \$20.0 million of borrowings that had a weighted-average rate of 2.97%, resulting in a \$700,000 loss. Peoples replaced these borrowings with a long-term FHLB advance, which has an interest rate of 2.17% and matures in 2026.

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Peoples borrowed an additional \$35.0 million of long-term FHLB amortizing advances, which had interest rates ranging from 1.08% to 1.40%, and mature between 2019 and 2031.

Peoples entered into three forward starting interest rate swaps during the second quarter of 2016 to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.56%, which become effective in 2018 and mature between 2023 and 2025. These swaps will replace \$30.0 million in borrowings that mature in 2018, which have interest rates ranging from 3.65% to 3.92%.

Additional information regarding Peoples' interest rate swaps can be found in Note 10 of the Notes to the Unaudited Consolidated Financial Statements.

Peoples' national market repurchase agreements consist of agreements with unrelated financial service companies and have original maturities ranging from five to ten years. In general, these agreements may not be terminated by Peoples prior to maturity without incurring additional costs.

On March 6, 2015, Peoples acquired NB&T Financial Group, Inc. ("NB&T"), which included the assumption of Fixed/Floating Rate Junior Subordinated Debt Securities due in 2037 (the "junior subordinated debt securities"). At the acquisition date, junior subordinated debt securities with a fair value of \$6.6 million were held in a statutory trust whose common securities were wholly-owned by NB&T. The sole assets of the statutory trust are the junior subordinated debt securities and related payments. The junior subordinated debt securities and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee of the obligations of the statutory trust under the Capital Securities held by third-party investors. Distributions on the Capital Securities are payable at the annual rate of 1.50% over the 3-month LIBOR. Distributions on the Capital Securities are included in interest expense in the Unaudited Consolidated Financial Statements. These securities are considered Tier I capital (with certain limitations applicable) under current regulatory guidelines. The junior subordinated debt securities are subject to mandatory redemption, in whole or in part, upon repayment of the Capital Securities at maturity or their earlier redemption at the liquidation amount. Subject to prior approval of the Federal Reserve, the Capital Securities are redeemable prior to the maturity date of September 6, 2037, and are redeemable at par. Since September 6, 2012, the Capital Securities have been redeemable at par. Distributions on the Capital Securities can be deferred from time to time for a period not to exceed 20 consecutive semi-annual periods.

On March 4, 2016, Peoples entered into a Credit Agreement (the "RJB Credit Agreement"), with Raymond James Bank, N.A. ("Raymond James") which provides Peoples with a revolving line of credit in the maximum aggregate principal amount of \$15 million (the "RJB Loan Commitment") for the purpose of: (i) to the extent that any amounts remained outstanding, paying off the then outstanding \$15 million revolving credit loan to Peoples, (ii) making acquisitions; (iii) making stock repurchases; (iv) working capital needs; and (v) other general corporate purposes. On March 4, 2016, Peoples paid fees of \$70,600, representing 0.47% of the RJB Loan Commitment.

The RJB Credit Agreement is unsecured. However, the RJB Credit Agreement contains negative covenants which preclude Peoples from: (i) taking any action which could, directly or indirectly, decrease Peoples' ownership (alone or together with any of Peoples' subsidiaries) interest in Peoples Bank (Peoples' Ohio state-chartered subsidiary bank) or any of Peoples Bank's subsidiaries to a level below the percentage of equity interests held as of March 4, 2016; (ii) taking any action to or allowing Peoples Bank or any of Peoples Bank's subsidiaries to take any action to directly or indirectly create, assume, incur, suffer or permit to exist any pledge, encumbrance, security interest, assignment, lien or charge of any kind or character on the equity interests of Peoples Bank or any of Peoples Bank's subsidiaries; or (iii) taking any action to or allow Peoples Bank or any of Peoples Bank's subsidiaries to sell, transfer, issue, reissue or exchange, or grant any option with respect to, any equity interest of Peoples Bank or any of Peoples Bank's subsidiaries. There are also negative covenants limiting the actions which may be taken with respect to the authorization or issuance of additional shares of any class of equity interests of Peoples Bank or any of Peoples Bank's subsidiaries or the grant to any person other than Raymond James Bank of any proxy for existing equity interests of Peoples Bank or any of Peoples Bank's subsidiaries.

The RJB Credit Agreement contains covenants which are usual and customary for comparable transactions. In addition to the negative covenants affecting the equity interests of Peoples Bank and Peoples Bank's subsidiaries discussed above, under the RJB Credit Agreement, the following covenants must be complied with:

(a)

neither Peoples nor any of its subsidiaries may create, incur or suffer to exist additional indebtedness with an aggregate principal amount which exceeds \$10 million at any time outstanding, subject to specific negotiated carve-outs;

neither Peoples nor any of its subsidiaries may be a party to certain material transactions (such as mergers or (b) consolidations with third parties, liquidations or dissolutions, sales of assets, acquisitions, investments and sale/leaseback transactions), subject to transactions in the ordinary course of the banking business of

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Peoples Bank and new investments in an aggregate amount not exceeding \$10 million being permitted as well as specific negotiated carve-outs;

neither Peoples nor any of its subsidiaries may voluntarily prepay, defease, purchase, redeem, retire or otherwise (c) acquire any subordinated indebtedness issued by them; subject to specific negotiated carve-outs and the consent of Raymond James Bank; and

neither Peoples nor any of its subsidiaries may make any Restricted Payments (as defined in the RJB Credit Agreement), except that, to the extent legally permissible, (i) any subsidiary may declare and pay dividends to Peoples or a wholly-owned subsidiary of Peoples and (ii) Peoples may declare and pay dividends on its common (d) shares provided that no event of default exists before or after giving effect to the dividend and Peoples is in compliance (on a pro forma basis) with the financial covenants specified in the RJB Credit Agreement, after giving effect to the dividend.

Peoples and Peoples Bank are also required to satisfy certain financial covenants including:

(i) Peoples (on a consolidated basis) and Peoples Bank must be “well capitalized” at all times, as defined and determined by the applicable governmental authority having jurisdiction over Peoples or Peoples Bank;

Peoples (on a consolidated basis) and Peoples Bank must maintain a Total risk-based capital ratio (as defined by (ii) the applicable governmental authority having regulatory authority over Peoples or Peoples Bank) of at least 12.50% as of the last day of any fiscal quarter;

(iii) Peoples Bank must maintain a ratio of “Non-Performing Assets” to “Tangible Primary Capital” of not more than 20% as of the last day of any fiscal quarter;

(iv) Peoples Bank must maintain a ratio of “Loan Loss Reserves” to “Non-Performing Loans” of not less than 70% at all times; and

Peoples (on a consolidated basis) must maintain a “Fixed Charge Coverage Ratio” that equals or exceeds 1.25 to 1.00 (v) as of the end of each fiscal quarter, with the items used in this ratio being determined on a trailing four-fiscal quarter basis.

The aggregate minimum annual retirements of long-term borrowings in future periods are as follows:

| (Dollars in thousands)                | Balance   | Weighted-Average<br>Rate |   |
|---------------------------------------|-----------|--------------------------|---|
| Three months ending December 31, 2016 | \$2,408   | 2.08                     | % |
| Year ending December 31, 2017         | 5,545     | 1.77                     | % |
| Year ending December 31, 2018         | 64,970    | 3.54                     | % |
| Year ending December 31, 2019         | 13,508    | 1.27                     | % |
| Year ending December 31, 2020         | 10,564    | 2.03                     | % |
| Thereafter                            | 50,568    | 2.26                     | % |
| Total long-term borrowings            | \$147,563 | 2.69                     | % |

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## Note 7. Stockholders' Equity

The following table details the progression in Peoples' common shares and treasury stock during the nine months ended September 30, 2016:

|                                                                        | Common<br>Shares | Treasury<br>Stock |
|------------------------------------------------------------------------|------------------|-------------------|
| Shares at December 31, 2015                                            | 18,931,200       | 586,686           |
| Changes related to stock-based compensation awards:                    |                  |                   |
| Release of restricted common shares                                    | —                | 13,892            |
| Cancellation of restricted common shares                               | (10,654)         | ) 1,000           |
| Grant of restricted common shares                                      | —                | (56,000 )         |
| Grant of common shares                                                 | —                | (350 )            |
| Changes related to deferred compensation plan for Boards of Directors: |                  |                   |
| Purchase of treasury stock                                             | —                | 6,291             |
| Reissuance of treasury stock                                           | —                | (12,012 )         |
| Common shares repurchased under share repurchase program               | —                | 279,770           |
| Common shares issued under dividend reinvestment plan                  | 15,668           | —                 |
| Common shares issued under compensation plan for Boards of Directors   | —                | (11,450 )         |
| Common shares issued under employee stock purchase plan                | —                | (12,970 )         |
| Shares at September 30, 2016                                           | 18,936,214       | 794,857           |

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by Peoples' Board of Directors. At September 30, 2016, Peoples had no preferred shares issued or outstanding.

## Accumulated Other Comprehensive Income (Loss)

The following table details the change in the components of Peoples' accumulated other comprehensive income (loss) for the nine months ended September 30, 2016:

| (Dollars in thousands)                                              | Unrealized<br>Gain on<br>Securities | Unrecognized<br>Net Pension<br>and<br>Postretirement<br>Costs | Unrealized<br>Loss on<br>Cash<br>Flow<br>Hedge | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|---------------------------------------------------------------------|-------------------------------------|---------------------------------------------------------------|------------------------------------------------|--------------------------------------------------------|
| Balance, December 31, 2015                                          | \$ 2,869                            | \$ (3,228                                                     | ) \$ —                                         | \$ (359 )                                              |
| Reclassification adjustments to net income:                         |                                     |                                                               |                                                |                                                        |
| Realized gain on sale of securities, net of tax                     | (560                                | ) —                                                           | —                                              | (560 )                                                 |
| Other comprehensive income (loss), net of reclassifications and tax | 9,542                               | 44                                                            | (120 )                                         | 9,466                                                  |
| Balance, September 30, 2016                                         | \$ 11,851                           | \$ (3,184                                                     | ) \$ (120 )                                    | \$ 8,547                                               |

## Note 8. Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation plus accrued interest. Effective January

1, 2010, the pension plan was closed to new entrants. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who

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retired before January 27, 2012 were eligible for life insurance benefits. As of January 1, 2011, all retirees who desire to participate in the Peoples Bank medical plan do so by electing COBRA, which provides up to 18 months of coverage; retirees over the age of 65 also have the option to pay to participate in a group Medicare supplemental plan. Peoples' policy is to fund the cost of the health benefits as they arise.

The following tables detail the components of the net periodic cost for the plans:

|                                  | Pension Benefits        |       |                   |       |
|----------------------------------|-------------------------|-------|-------------------|-------|
|                                  | Three Months Ended      |       | Nine Months Ended |       |
|                                  | September 30,           |       | September 30,     |       |
|                                  | 2016                    | 2015  | 2016              | 2015  |
| (Dollars in thousands)           |                         |       |                   |       |
| Interest cost                    | \$110                   | \$111 | \$329             | \$335 |
| Expected return on plan assets   | (123)                   | (122) | (369)             | (373) |
| Amortization of net loss         | 23                      | 28    | 71                | 92    |
| Settlement of benefit obligation | —                       | 82    | —                 | 454   |
| Net periodic cost                | \$10                    | \$99  | \$31              | \$508 |
|                                  |                         |       |                   |       |
|                                  | Postretirement Benefits |       |                   |       |
|                                  | Three Months Ended      |       | Nine Months Ended |       |
|                                  | September 30,           |       | September 30,     |       |
|                                  | 2016                    | 2015  | 2016              | 2015  |
| (Dollars in thousands)           |                         |       |                   |       |
| Interest cost                    | \$1                     | \$2   | \$3               | \$4   |
| Amortization of net loss         | (2)                     | (2)   | (5)               | (4)   |
| Net periodic benefit             | \$(1)                   | \$—   | \$(2)             | \$—   |

There were no settlement charges recorded in the three or nine months ended September 30, 2016 under the noncontributory defined benefit pension plan.

#### Note 9. Earnings Per Common Share

The calculations of basic and diluted earnings per common share were as follows:

|                                                          | Three Months Ended |            | Nine Months Ended |            |
|----------------------------------------------------------|--------------------|------------|-------------------|------------|
|                                                          | September 30,      |            | September 30,     |            |
|                                                          | 2016               | 2015       | 2016              | 2015       |
|                                                          |                    |            |                   |            |
| (Dollars in thousands, except per share data)            |                    |            |                   |            |
| Distributed earnings allocated to common shareholders    | \$2,879            | \$ 2,727   | \$8,471           | \$ 7,696   |
| Undistributed earnings allocated to common shareholders  | 4,881              | 1,375      | 15,189            | 574        |
| Net earnings allocated to common shareholders            | \$7,760            | \$ 4,102   | \$23,660          | \$ 8,270   |
|                                                          |                    |            |                   |            |
| Weighted-average common shares outstanding               | 17,993,483         | 17,131,131 | 18,015,249        | 17,357,034 |
| Effect of potentially dilutive common shares             | 117,267            | 144,848    | 108,411           | 130,608    |
| Total weighted-average diluted common shares outstanding | 18,110,750         | 17,275,979 | 18,123,660        | 17,487,642 |
|                                                          |                    |            |                   |            |
| Earnings per common share:                               |                    |            |                   |            |
| Basic                                                    | \$0.43             | \$ 0.23    | \$1.31            | \$ 0.48    |
| Diluted                                                  | \$0.43             | \$ 0.22    | \$1.31            | \$ 0.47    |

Anti-dilutive shares excluded from calculation:

Restricted shares, stock options and stock appreciation rights 18,604 42,832 24,461 47,831

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## Note 10. Financial Instruments with Off-Balance Sheet Risk

**Derivatives and Hedging Activities - Risk Management Objective of Using Derivatives**

Peoples is exposed to certain risks arising from both its business operations and economic conditions. Peoples principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. Peoples manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, Peoples enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known or expected cash amounts, the value of which are determined by interest rates. Peoples' derivative financial instruments are used to manage differences in the amount, timing, and duration of Peoples' known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings. Peoples also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in Peoples' assets or liabilities. Peoples manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

**Fair Values of Derivative Instruments on the Balance Sheet**

Peoples' fair value of the derivative financial instrument was \$6.9 million in an asset position and \$7.1 million in a liability position at September 30, 2016, and there was \$3.1 million in an asset position and \$3.1 million in a liability position at December 31, 2015.

**Cash Flow Hedges of Interest Rate Risk**

Peoples' objectives in using interest rate derivatives are to add stability to interest income and expense, and to manage its exposure to interest rate movements. To accomplish this objective, in the second quarter of 2016, Peoples entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps were designated as cash flow hedges and involved the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. As of September 30, 2016, Peoples had three interest rate swaps with a notional value of \$30 million associated with Peoples' cash outflows for various FHLB advances.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in accumulated other comprehensive income ("AOCI") (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. Peoples assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transaction.

Peoples hedged its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 25 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments). Peoples entered into three interest rate swap contracts whereby Peoples will pay a fixed rate of interest for up to seven years while receiving a floating rate component of interest equal to the three-month LIBOR rate. The received floating rate component is intended to offset the rate on the rolling three-month FHLB advances that will be used to fund the transaction.

Amounts reported in AOCI related to derivatives will be reclassified to interest income or expense as interest payments are made or received on Peoples' variable-rate assets or liabilities. During the quarters ended September 30, 2016, and June 30, 2016, Peoples had no reclassifications to interest expense. During the next twelve months, Peoples estimates that no interest expense amount will be reclassified.

The amount of accumulated other comprehensive pre-tax income for Peoples' cash flow hedges was \$68,000 for the three months ended September 30, 2016 and the amount of accumulated other comprehensive pre-tax loss was \$184,000 for the nine months ended September 30, 2016. There were no pre-tax net losses recorded for the three and nine months ended September 30, 2015. Additionally, Peoples had no reclassifications to earnings in the three or nine months ended September 30, 2016 or September 30, 2015.

**Non-Designated Hedges**

Peoples maintains an interest rate protection program for commercial loan customers, which was established in 2010. Under this program, Peoples provides its customer with a fixed-rate loan while creating a variable-rate asset for Peoples by the customer entering into an interest rate swap with Peoples on terms that match the loan. Peoples offsets its risk exposure by entering into an offsetting interest rate swap with an unaffiliated institution. These interest rate swaps do not qualify as designated hedges; therefore, each swap is accounted for as a standalone derivative. Peoples had interest rate swaps associated with commercial loans with a notional value of \$238.6 million and fair value of \$6.9 million of equally offsetting assets and liabilities at September 30, 2016 and a notional value of \$144.4 million and fair value of \$3.1 million of equally

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offsetting assets and liabilities at December 31, 2015. These interest rate swaps did not have a material impact on Peoples' results of operation or financial condition.

## Note 11. Stock-Based Compensation

Under the Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan (the "2006 Equity Plan"), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights ("SARs") and unrestricted share awards to employees and non-employee directors. The total number of common shares available under the 2006 Equity Plan is 1,081,260. The maximum number of common shares that can be issued for incentive stock options is 800,000 common shares. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since 2009, Peoples has granted restricted common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

## Stock Options

Under the provisions of the 2006 Equity Plan and predecessor stock option plans, the exercise price per share of any stock option granted may not be less than the grant date fair market value of the underlying common shares. All stock options granted to both employees and non-employee directors expire ten years from the date of grant. The most recent stock option grants to employees and non-employee directors occurred in 2006. The stock options granted to employees vested three years after the grant date, while the stock options granted to non-employee directors vested six months after the grant date. The following table summarizes the changes to Peoples' stock options for the nine months ended September 30, 2016:

|                             | Number<br>of<br>Common<br>Shares<br>Subject<br>to<br>Options | Weighted-Average<br>Exercise Price | Weighted-Average<br>Life | Remaining Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|-----------------------------|--------------------------------------------------------------|------------------------------------|--------------------------|-------------------------------|---------------------------------|
| Outstanding at January 1    | 20,310                                                       | \$ 28.83                           |                          |                               |                                 |
| Expired                     | 20,310                                                       | 28.83                              |                          |                               |                                 |
| Outstanding at September 30 | —                                                            | \$ —                               | 0.0 years                |                               | \$ —                            |
| Exercisable at September 30 | —                                                            | \$ —                               | 0.0 years                |                               | \$ —                            |

## Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted to employees vested three years after the grant date and are to expire ten years from the date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes the changes to Peoples' SARs for the nine months ended September 30, 2016:

|                             | Number<br>of<br>Common<br>Shares<br>Subject to<br>SARs | Weighted-<br>Average<br>Exercise<br>Price | Weighted-Average<br>Life | Remaining Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|-----------------------------|--------------------------------------------------------|-------------------------------------------|--------------------------|-------------------------------|---------------------------------|
| Outstanding at January 1    | 17,748                                                 | \$ 25.86                                  |                          |                               |                                 |
| Forfeited                   | 3,194                                                  | 26.67                                     |                          |                               |                                 |
| Outstanding at September 30 | 14,554                                                 | \$ 25.60                                  | 0.8 years                |                               | \$ 8,817                        |

|                             |        |          |           |          |
|-----------------------------|--------|----------|-----------|----------|
| Exercisable at September 30 | 14,554 | \$ 25.60 | 0.8 years | \$ 8,817 |
|-----------------------------|--------|----------|-----------|----------|

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The following table summarizes Peoples' SARs outstanding at September 30, 2016:

| Exercise Price | Number of<br>Common<br>Shares<br>Subject to<br>SARs<br>Outstanding<br>&<br>Exercisable | Weighted-<br>Average Remaining Contractual<br>Life |
|----------------|----------------------------------------------------------------------------------------|----------------------------------------------------|
| \$23.26        | 2,000                                                                                  | 0.8 years                                          |
| \$23.77        | 7,508                                                                                  | 1.2 years                                          |
| \$29.25        | 5,046                                                                                  | 0.3 years                                          |
| Total          | 14,554                                                                                 | 0.8 years                                          |

**Restricted Common Shares**

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on restricted common shares awarded to non-employee directors expire after six months, while the restrictions on restricted common shares awarded to employees expire after periods ranging from one to three years. In the first quarter of 2016, Peoples granted an aggregate of 35,500 restricted common shares subject to performance-based vesting to officers and key employees with restrictions that will lapse three years after the grant date provided that in order for the restricted common shares to vest in full, Peoples must have reported positive net income and maintained a well capitalized status by regulatory standards for each of the three fiscal years preceding the vesting date. In the second quarter of 2016 and the third quarter of 2016, Peoples granted, to certain key employees, an aggregate of 20,500 restricted common shares subject to time-based vesting with restrictions that will lapse three years after the grant date.

The following table summarizes the changes to Peoples' restricted common shares for the nine months ended September 30, 2016:

|                             | Time-Based Vesting               |                                              | Performance-Based Vesting        |                                              |
|-----------------------------|----------------------------------|----------------------------------------------|----------------------------------|----------------------------------------------|
|                             | Number<br>of<br>Common<br>Shares | Weighted-Average<br>Grant Date Fair<br>Value | Number<br>of<br>Common<br>Shares | Weighted-Average<br>Grant Date Fair<br>Value |
| Outstanding at January 1    | 30,734                           | \$ 21.76                                     | 158,763                          | \$ 22.86                                     |
| Awarded                     | 20,500                           | 21.88                                        | 35,500                           | 17.86                                        |
| Released                    | 334                              | 21.52                                        | 41,028                           | 21.74                                        |
| Forfeited                   | 2,000                            | 21.92                                        | 9,654                            | 22.67                                        |
| Outstanding at September 30 | 48,900                           | \$ 21.81                                     | 143,581                          | \$ 21.95                                     |

For the nine months ended September 30, 2016, the total intrinsic value of restricted common shares released was \$0.7 million compared to \$1.7 million at September 30, 2015.

**Stock-Based Compensation**

Peoples recognizes stock-based compensation expense, which is included as a component of Peoples' salaries and employee benefit costs, based on the estimated fair value of the awards on the grant date. The following table summarizes the amount of stock-based compensation expense and related tax benefit recognized for each period:

|                                        | Three Months<br>Ended<br>September 30, |        | Nine Months<br>Ended<br>September 30, |          |
|----------------------------------------|----------------------------------------|--------|---------------------------------------|----------|
|                                        | 2016                                   | 2015   | 2016                                  | 2015     |
| (Dollars in thousands)                 |                                        |        |                                       |          |
| Total stock-based compensation expense | \$ 346                                 | \$ 405 | \$ 1,009                              | \$ 1,432 |

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|                        |        |        |        |        |
|------------------------|--------|--------|--------|--------|
| Recognized tax benefit | (121 ) | (142 ) | (353 ) | (501 ) |
|------------------------|--------|--------|--------|--------|

|                        |        |        |        |        |
|------------------------|--------|--------|--------|--------|
| Net expense recognized | \$ 225 | \$ 263 | \$ 656 | \$ 931 |
|------------------------|--------|--------|--------|--------|

Total unrecognized stock-based compensation expense related to unvested awards was \$1.8 million at September 30, 2016, which will be recognized over a weighted-average period of 1.7 years.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
 SELECTED FINANCIAL DATA

The following data should be read in conjunction with the Unaudited Consolidated Financial Statements and the Management's Discussion and Analysis that follows:

|                                                                                                | At or For the Three<br>Months Ended<br>September 30,<br>2016 |            |   | At or For the Nine<br>Months Ended<br>September 30,<br>2016 |            |   | At or For the Three<br>Months Ended<br>September 30,<br>2015 |  |  | At or For the Nine<br>Months Ended<br>September 30,<br>2015 |  |  |
|------------------------------------------------------------------------------------------------|--------------------------------------------------------------|------------|---|-------------------------------------------------------------|------------|---|--------------------------------------------------------------|--|--|-------------------------------------------------------------|--|--|
| SIGNIFICANT RATIOS (a)                                                                         |                                                              |            |   |                                                             |            |   |                                                              |  |  |                                                             |  |  |
| Return on average stockholders' equity                                                         | 7.07                                                         | %3.89      | % | 7.36                                                        | %2.78      | % |                                                              |  |  |                                                             |  |  |
| Return on average assets                                                                       | 0.93                                                         | %0.51      | % | 0.96                                                        | %0.36      | % |                                                              |  |  |                                                             |  |  |
| Net interest margin                                                                            | 3.54                                                         | %3.55      | % | 3.55                                                        | %3.49      | % |                                                              |  |  |                                                             |  |  |
| Efficiency ratio (b)                                                                           | 64.33                                                        | %65.81     | % | 64.56                                                       | %78.18     | % |                                                              |  |  |                                                             |  |  |
| Pre-provision net revenue to total average assets (c)                                          | 1.53                                                         | %1.40      | % | 1.52                                                        | %0.84      | % |                                                              |  |  |                                                             |  |  |
| Average stockholders' equity to average assets                                                 | 13.19                                                        | %13.12     | % | 13.05                                                       | %13.10     | % |                                                              |  |  |                                                             |  |  |
| Average loans to average deposits                                                              | 83.50                                                        | %79.70     | % | 82.39                                                       | %79.64     | % |                                                              |  |  |                                                             |  |  |
| Investment securities as percentage of total assets (d)                                        | 25.10                                                        | %27.20     | % | 25.10                                                       | %27.20     | % |                                                              |  |  |                                                             |  |  |
| Dividend payout ratio                                                                          | 37.37                                                        | %66.74     | % | 36.06                                                       | %93.19     | % |                                                              |  |  |                                                             |  |  |
| ASSET QUALITY RATIOS (a)                                                                       |                                                              |            |   |                                                             |            |   |                                                              |  |  |                                                             |  |  |
| Nonperforming loans as a percent of total loans (d)(e)                                         | 1.08                                                         | %1.21      | % | 1.08                                                        | %1.21      | % |                                                              |  |  |                                                             |  |  |
| Nonperforming assets as a percent of total assets (d)(e)                                       | 0.72                                                         | %0.82      | % | 0.72                                                        | %0.82      | % |                                                              |  |  |                                                             |  |  |
| Nonperforming assets as a percent of total loans and other real estate owned (d)(e)            | 1.11                                                         | %1.29      | % | 1.11                                                        | %1.29      | % |                                                              |  |  |                                                             |  |  |
| Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (d) | 1.13                                                         | %1.72      | % | 1.13                                                        | %1.72      | % |                                                              |  |  |                                                             |  |  |
| Allowance for loan losses as a percent of nonperforming loans (d)(e)                           | 77.50                                                        | %93.68     | % | 77.50                                                       | %93.68     | % |                                                              |  |  |                                                             |  |  |
| Provision for loan losses as a percent of average total loans                                  | 0.21                                                         | %1.14      | % | 0.18                                                        | %0.48      | % |                                                              |  |  |                                                             |  |  |
| Net charge-offs as a percentage of average total loans (annualized)                            | 0.14                                                         | %0.15      | % | 0.09                                                        | %0.09      | % |                                                              |  |  |                                                             |  |  |
| CAPITAL RATIOS (a)(d)                                                                          |                                                              |            |   |                                                             |            |   |                                                              |  |  |                                                             |  |  |
| Common Equity Tier 1 risk-based capital (f)                                                    | 13.04                                                        | %13.46     | % | 13.04                                                       | %13.46     | % |                                                              |  |  |                                                             |  |  |
| Tier 1                                                                                         | 13.34                                                        | %13.77     | % | 13.34                                                       | %13.77     | % |                                                              |  |  |                                                             |  |  |
| Total (Tier 1 and Tier 2)                                                                      | 14.24                                                        | %14.97     | % | 14.24                                                       | %14.97     | % |                                                              |  |  |                                                             |  |  |
| Tier 1 leverage                                                                                | 9.71                                                         | %9.57      | % | 9.71                                                        | %9.57      | % |                                                              |  |  |                                                             |  |  |
| Tangible equity to tangible assets (g)                                                         | 9.13                                                         | %8.88      | % | 9.13                                                        | %8.88      | % |                                                              |  |  |                                                             |  |  |
| PER COMMON SHARE DATA (a)                                                                      |                                                              |            |   |                                                             |            |   |                                                              |  |  |                                                             |  |  |
| Earnings per common share – basic                                                              | \$0.43                                                       | \$0.23     |   | \$1.31                                                      | \$0.48     |   |                                                              |  |  |                                                             |  |  |
| Earnings per common share – diluted                                                            | 0.43                                                         | 0.22       |   | 1.31                                                        | 0.47       |   |                                                              |  |  |                                                             |  |  |
| Cash dividends declared per common share                                                       | 0.16                                                         | 0.15       |   | 0.47                                                        | 0.45       |   |                                                              |  |  |                                                             |  |  |
| Book value per common share (d)                                                                | 24.22                                                        | 23.08      |   | 24.22                                                       | 23.08      |   |                                                              |  |  |                                                             |  |  |
| Tangible book value per common share (d)(g)                                                    | \$16.14                                                      | \$14.86    |   | \$16.14                                                     | \$14.86    |   |                                                              |  |  |                                                             |  |  |
| Weighted-average number of common shares outstanding – basic                                   | 17,993,448                                                   | 18,127,131 |   | 18,015,249                                                  | 17,357,034 |   |                                                              |  |  |                                                             |  |  |
| Weighted-average number of common shares outstanding – diluted                                 | 18,110,710                                                   | 18,271,979 |   | 18,123,660                                                  | 17,487,642 |   |                                                              |  |  |                                                             |  |  |
| Common shares outstanding at end of period                                                     | 18,195,986                                                   | 18,400,809 |   | 18,195,986                                                  | 18,400,809 |   |                                                              |  |  |                                                             |  |  |

(a) For the nine months ended September 30, 2015, the acquisition of NB&T is reflected beginning March 6, 2015.

Total other expense (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus non-interest income (which excludes gains or losses on investment securities, asset disposals and other transactions). Additional information regarding the calculation of these non-GAAP financial measures can be found under the caption "Efficiency Ratio".

These amounts represent non-GAAP financial measures since they exclude the provision for loan losses and all (c) gains and losses included in earnings. Additional information regarding the calculation of these measures can be found under the caption "Pre-Provision Net Revenue".

(d) Data presented as of the end of the period indicated.

(e) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans.

(e) Nonperforming assets include nonperforming loans and other real estate owned.

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- (f) Peoples' capital conservation buffer was 6.24% at September 30, 2016, compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019.

These amounts represent non-GAAP financial measures since they exclude other intangible assets and goodwill.

- (g) Additional information regarding the calculation of these measures can be found under the caption "Capital/Stockholders' Equity".

### 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, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995. Words such as "anticipates", "estimate", "may", "feel", "expect", "believes", "plans", "will", "would", "should", 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) Peoples' ability to complete the system upgrade and conversion of Peoples' core banking system (including the related operating systems, data systems and a majority of the products) without complications or difficulties that may otherwise result in the loss of customers, operational problems or one-time costs currently not anticipated to arise in connection with such conversion;
- (2) the success, impact, and timing of the implementation of Peoples' business strategies, including the successful integration of acquisitions and the expansion of consumer lending activity;
- (3) Peoples' ability to integrate any future acquisitions which may be unsuccessful, or may be more difficult, time-consuming or costly than expected;
- (4) Peoples may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to Peoples' current shareholders;
- (5) local, regional, national and international economic conditions and the impact these conditions may have on Peoples, its customers and its counterparties, and Peoples' assessment of the impact, which may be different than anticipated;
- (6) competitive pressures among financial institutions or from non-financial institutions which may increase significantly, including product and pricing pressures, third-party relationships and revenues, and Peoples' ability to attract, develop and retain qualified professionals;
- (7) changes in the interest rate environment due to economic conditions and/or the fiscal policies of the United States ("U.S.") government and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which may adversely impact interest rates, interest margins and interest rate sensitivity;
- (8) changes in prepayment speeds, loan originations, levels of nonperforming assets, delinquent loans and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;
- (9) adverse changes in the economic conditions and/or activities, including, but not limited to, continued economic uncertainty in the U.S., the European Union (including uncertainty created by the June 23, 2016 referendum by British voters to exit the European Union), Asia and other areas, which could decrease sales volumes, add volatility to the global stock markets and increase loan delinquencies and defaults;
- (10) legislative or regulatory changes or actions, promulgated and to be promulgated thereunder by governmental and regulatory agencies in the State of Ohio, the Federal Deposit Insurance Corporation (the "FDIC"), the Office of the Comptroller of the Currency, the Federal Reserve Board and the Consumer Financial Protection Bureau, which may subject Peoples, its subsidiaries, or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses, including in particular the rules and regulations promulgated and to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010;
- (11) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;
- (12) changes in accounting standards, policies, estimates or procedures which may adversely affect Peoples' reported financial condition or results of operations;
- (13)

Peoples' assumptions and estimates used in applying critical accounting policies, which may prove unreliable, inaccurate or not predictive of actual results;

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- adverse changes in the conditions and trends in the financial markets, including political developments, which
- (14) may adversely affect the fair value of securities within Peoples' investment portfolio, the interest rate sensitivity of Peoples' consolidated balance sheet, and the income generated by Peoples' trust and investment activities;
  - (15) Peoples' ability to receive dividends from its subsidiaries;
  - (16) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;
  - (17) the impact of minimum capital thresholds established as a part of the implementation of Basel III;
  - (18) the impact of larger or similar sized financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples' business generation and retention, funding and liquidity;
  - (19) the costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
  - Peoples' ability to secure confidential information through the use of computer systems and telecommunications
  - (20) networks, including those of Peoples' third-party vendors and other service providers, may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;
  - (21) the overall adequacy of Peoples' risk management program;
  - (22) the impact on Peoples' businesses, as well as on the risks described above, of various domestic or international widespread natural or other disasters, pandemics, cyberattacks, military or terrorist activities or conflicts; and other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples' reports filed
  - (23) with the Securities and Exchange Commission (the "SEC"), including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2015 ("Peoples' 2015 Form 10-K").

All forward-looking statements speak only as of the filing date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the filing date of this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) and/or from Peoples' website – [www.peoplesbancorp.com](http://www.peoplesbancorp.com) under the "Investor Relations" section. This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and Notes thereto, contained in Peoples' 2015 Form 10-K, as well as the Unaudited Consolidated Financial Statements, Notes to the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

### Business Overview

The following discussion and analysis of Peoples' Unaudited Consolidated Financial Statements is presented to provide insight into management's assessment of the financial condition and results of operations.

Peoples offers diversified financial products and services through 80 financial service locations, including 73 full-service bank branches, and 80 Automated Teller Machines ("ATMs") in northeastern, central, southwestern and southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank and Peoples Insurance Agency, LLC ("Peoples Insurance"), a subsidiary of Peoples Bank. Peoples Bank is subject to regulation and examination primarily by the Ohio Division of Financial Institutions (the "ODFI") and the Federal Reserve Bank of Cleveland. Peoples Bank is also subject to regulations of the Consumer Financial Protection Bureau and the FDIC. Peoples Insurance is subject to regulation by the Ohio Department of Insurance and the state insurance regulatory agencies of those states in which it may do business.

Peoples' products and services include traditional banking products, such as deposit accounts, lending products and trust services. Peoples provides services through traditional offices, ATMs, mobile banking for consumers and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored



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fiduciary, employee benefit plan and asset management services. Brokerage services are offered by Peoples exclusively through an unaffiliated registered broker-dealer.

### 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 understanding Peoples' Unaudited Consolidated Financial Statements, and Management's Discussion and Analysis at September 30, 2016, which were unchanged from the policies disclosed in Peoples' 2015 Form 10-K.

### Summary of Recent Transactions and Events

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

In the fourth quarter of 2016, Peoples will be upgrading its core banking system (including the related operating systems, data systems and products). Peoples anticipates one-time costs associated with the upgrade of approximately \$1.4 million. The costs recorded in the third quarter and second quarter of 2016 were \$423,000 and \$90,000, respectively, with the remaining costs expected to be recorded in the fourth quarter of 2016. The core banking system upgrade will support Peoples' future growth, and will provide efficiencies for the back-office areas.

Peoples continually evaluates the overall balance sheet position given the interest rate environment. During the second quarter of 2016, Peoples executed transactions to take advantage of the low interest rates, which included:

Peoples restructured \$20.0 million of borrowings that had a weighted-average rate of 2.97%, resulting in a \$700,000 loss. Peoples replaced these borrowings with a long-term FHLB advance, which has an interest rate of 2.17% and matures in 2026.

Peoples borrowed an additional \$35.0 million of long-term FHLB amortizing advances, which had interest rates ranging from 1.08% to 1.40%, and mature between 2019 and 2031.

Peoples entered into three forward starting interest rate swaps to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.56%, which become effective in 2018 and mature between 2023 and 2025.

These swaps will replace \$30.0 million in FHLB advances that mature in 2018, which have interest rates ranging from 3.65% to 3.92%.

On June 8, 2016, Peoples purchased \$35.0 million in bank owned life insurance ("BOLI").

During the second quarter of 2016, Peoples sold \$28.9 million of available-for-sale securities with a weighted average yield of 2.14%, for a gain of \$767,000.

Effective March 2, 2016, Peoples terminated the loan agreement with U.S. Bank National Association dated as of December 18, 2012, as amended (the "U.S. Bank Loan Agreement"). As of the termination date, Peoples had no outstanding borrowings under the U.S. Bank Loan Agreement. Peoples paid an immaterial non-usage fee in connection with the termination of the U.S. Bank Loan Agreement.

On March 4, 2016, Peoples entered into a Credit Agreement (the "RBJ Credit Agreement") with Raymond James Bank, N.A., which provides Peoples with a revolving line of credit in the maximum aggregate principal amount of \$15 million, for the purpose of: (i) to the extent that any amounts remained then outstanding, paying off the \$15 million revolving line of credit to Peoples pursuant to the U.S. Bank Loan Agreement; (ii) making acquisitions; (iii) making stock repurchases; (iv) working capital needs; and (v) other general corporate purposes. On March 4, 2016, Peoples paid fees of \$70,600, representing 0.47% of the loan commitment under the RJB Credit Agreement.

On January 6, 2016, Peoples Bank acquired a small financial advisory book of business in Marietta, Ohio for total cash consideration of \$0.5 million, and recorded \$0.5 million of customer relationship intangibles. The acquisition did not materially impact Peoples' financial position, results of operations or cash flows.

On July 24, 2015, Peoples repaid the \$12.0 million term loan then outstanding under the U.S. Bank Loan Agreement. There were no early termination fees associated with the repayment. The revolving credit loan commitment available under the U.S. Bank Loan Agreement remained outstanding until the March 2, 2016 termination date of the U.S. Bank Loan Agreement.



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At the close of business on March 6, 2015, Peoples completed the acquisition of NB&T and the 22 full-service offices of its wholly owned subsidiary, The National Bank and Trust Company, in southwestern Ohio. Under the terms of the merger agreement, Peoples paid 0.9319 in Peoples' common shares and \$7.75 in cash for each common share of NB&T, or total consideration of \$102.7 million. The acquisition added \$384.6 million of loans and \$629.5 million of deposits at the acquisition date.

In the three and nine months ended September 30, 2015, Peoples recorded \$0.1 million and \$9.9 million of non-core acquisition expenses, respectively. For the nine months ended September 30, 2015, non-core acquisition charges included \$4.3 million of salaries and employee benefit costs, \$3.9 million of other non-interest expense, and \$1.7 million of professional fees, respectively.

Peoples' net interest income and net interest margin are impacted by changes in market interest rates based upon actions taken by the Federal Reserve Board, either directly or through its Open Market Committee. These actions include changing its target Federal Funds Rate (the interest rate at which banks lend money to each other), Discount Rate (the interest rate charged to banks for money borrowed from the Federal Reserve Bank) and longer-term market interest rates (primarily U.S. Treasury securities). Longer-term market interest rates also are affected by the demand for U.S. Treasury securities. The resulting changes in the yield curve slope have a direct impact on reinvestment rates for Peoples' earning assets.

Market participants have been speculating on when the Federal Reserve might follow up its December 2015 rate increase with more tightening of monetary policy. Additional rate increases were widely anticipated in early 2016. However, global developments have dampened these expectations. In June of 2016, Great Britain voters opted to exit the European Union which caused a spike in market volatility. Also, it is estimated that over \$10 trillion in sovereign debt is now trading at negative yields. Peoples is closely monitoring interest rates, both foreign and domestic, and potential impacts to Peoples' operations.

The impact of these transactions and events, where material, is discussed in the applicable sections of this Management's Discussion and Analysis.

### EXECUTIVE SUMMARY

Peoples recorded net income for the quarter ended September 30, 2016 of \$7.8 million, or \$0.43 per diluted common share, compared to \$4.1 million, or \$0.22 per diluted common share, a year ago and net income of \$8.0 million, or \$0.44 per diluted common share, in the second quarter of 2016. On a year-to-date basis, net income was \$23.7 million, or \$1.31 per diluted share, compared to \$8.4 million, or \$0.47 per diluted share, for the same period in 2015. The increases in earnings for all periods were related to the increases in net interest income and other income, and a decrease in expenses.

Net interest income was \$26.1 million for the third quarter of 2016, compared to \$25.5 million for the third quarter of 2015 and \$26.3 million for the second quarter of 2016, while net interest margin was 3.54%, 3.55% and 3.57%, respectively. For the nine months ended September 30, 2016, net interest income was \$78.2 million, compared to \$71.7 million for the same period in 2015, while net interest margin was 3.55% and 3.49%, respectively.

The slight decline in net interest margin from prior periods was driven primarily by decreases in the yield on investments and loans offset partially by decreases in the cost of funds. The accretion income, net of amortization expense, from acquisitions added 10 basis points to net interest margin in the third quarter of 2016, compared to 18 basis points for the third quarter of 2015 and 12 basis points for the linked quarter. On a year-to-date basis, accretion income, net of amortization expense, from acquisitions added 12 basis points to net interest margin for the first nine months of 2016 compared to 17 basis points for the first nine months of 2015. For the first nine months ended September 30, 2016, the higher net interest margin was the result of the sustained shift in the mix of the balance sheet, for both assets and liabilities, coupled with the restructuring of borrowings during the second quarter of 2016.

Peoples' provision for loan losses for the three months ended September 30, 2016 was \$1.1 million, compared to \$5.8 million for the third quarter of 2015 and \$0.7 million for the second quarter of 2016. For the first nine months of 2016, the provision for loan losses totaled \$2.8 million compared to \$6.9 million in the same period of 2015. Recent loan growth was the main driver of the provision for loan losses recorded during the third quarter and the nine months of 2016. The provision for loan losses recorded in the third quarter of 2015 was driven primarily by an increase to the specific reserve for a large commercial loan relationship that was charged-off in the fourth quarter of 2015. The ratio

of the allowance for loan losses as a percent of originated loans was 1.13% at September 30, 2016, down slightly from 1.16% at June 30, 2016. Asset quality metrics were relatively stable during the third quarter 2016. Annualized net charge-offs were 0.14% of average gross loans during the third quarter of 2016, compared to 0.15% in the third quarter of 2015 and 0.03% in the linked quarter. During the

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first nine months of 2016, annualized net charge-offs were 0.09% of average gross loans compared to 0.10% in the same period of 2015.

For the third quarter of 2016, total other income increased \$1.4 million, or 12%, compared to third quarter of 2015, and \$0.09 million, or 8%, from the linked quarter. The increases compared to the third quarter of 2015 and the linked quarter were due primarily to increases in commercial loan swap fee income, BOLI income and electronic banking income. Also contributing to the growth compared to the linked quarter was an increase in deposit account service charges. The increase compared to the third quarter of 2015 included the growth of mortgage banking income. For the nine months ended September 30, 2016, total other income increased \$4.1 million, or 12%, primarily due to increases in electronic banking income, trust and investment income, commercial loan swap fee income and BOLI income, with a portion of the growth attributable to the NB&T acquisition. The increase in BOLI income was the result of the additional \$35.0 million of BOLI policies that were purchased in the second quarter of 2016.

Total other expenses for the third quarter of 2016 were \$26.8 million, compared to \$26.1 million during the third quarter of 2015 and \$26.5 million for the second quarter of 2016. Total other expenses increased from the third quarter of 2015 due largely to increased salaries and employee benefit costs coupled with an increase in professional fees during the third quarter of 2016. Beginning in the second quarter of 2016, non-core charges included one-time costs associated with the system upgrade of Peoples core banking system (including the related operating systems, data systems and products). These costs are expected to be approximately \$1.4 million for the full year of 2016. During the second and third quarter of 2016, these non-core charges were \$90,000 and \$423,000, respectively.

During the third quarter of 2016, salaries and employee benefits increased compared to both the third quarter of 2015 and second quarter of 2016. The increase in salaries and employee benefits compared to the third quarter of 2015 was due primarily to increased sales-based and incentive compensation as a result of the corporate incentive plan. The increase in salaries and employee benefits compared to the second quarter of 2016 was due primarily to increased medical costs as a result of higher claims, and higher sales-based and incentive compensation as a result of performance.

For the first nine months ended September 30, 2016, other expense was \$79.6 million, a decrease of 9% from \$87.8 million for the first nine months of 2015. The decline was largely due to acquisition expenses from the NB&T acquisition recognized in the first nine months of 2015. Peoples' number of full-time equivalent employees declined to 799 at September 30, 2016, compared to 803 at June 30, 2016 and 821 at September 30, 2015.

Peoples' efficiency ratio, calculated as total other expense (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus non-interest income for the third quarter of 2016 was 64.33%, compared to 65.81% for the third quarter of 2015 and 65.08% for the linked quarter. The lower efficiency ratios in the periods reported were primarily due to continued revenue growth and the focus on expense management. Revenue grew 6% and core expenses grew 3% compared to the third quarter of 2015 and 3% and 2%, respectively, compared to the linked quarter of 2016. For the first nine months of 2016, the efficiency ratio was 64.56% compared to 78.18% for the first nine months of 2015. The improvement in the efficiency ratio during the first nine months of 2016 versus the same period in 2015 was primarily due to increased revenues coupled with decreases in expenses.

At September 30, 2016, total assets were \$3.4 billion, up \$104.6 million or 3%, from year-end 2015. The increase was primarily the result of increases in loan balances, net of deferred fees and costs, of \$96.8 million, or 5%, and an increase of \$35 million in BOLI, offset partially by a decrease in investment securities. The increase in loans was driven primarily by growth of \$66.7 million in consumer loan balances, coupled with a \$48.3 million increase in commercial and industrial loans. The decrease in investment securities was due primarily to the sale of \$28.9 million of available-for-sale securities for a gain of \$767,000 in the second quarter of 2016 coupled with the decrease in fair market value at September 30, 2016.

Quarterly average gross loan balances increased \$12.0 million, or 2% annualized, compared to the linked quarter, due primarily to indirect lending. The increase in commercial loan balances previously noted was largely recorded late in the quarter and did not have a significant impact on the quarterly average balances. Compared to the third quarter of 2015, average gross loans increased \$106.7 million, or 5%, largely due to growth in indirect lending and commercial and industrial loans. During the first nine months of 2016, average gross loan balances grew \$200.1 million, or 10%, compared to the first nine months of 2015, primarily due to the NB&T acquisition, and higher indirect lending and

commercial and industrial loan balances.

Total liabilities were \$2.9 billion at September 30, 2016, up \$83.8 million since year-end 2015. The increase in liabilities was primarily due to a 2% increase in deposits, or \$39.5 million, coupled with a 13%, or \$36.3 million, increase in total borrowed funds. Total non-interest-bearing deposits increased 4%, or \$27.5 million, and interest-bearing deposits increased 1%, or \$12.0 million, from December 31, 2015. The growth in interest-bearing deposits was the result of growth in all categories except for certificates of deposit, which decreased \$59.3 million.

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During the third quarter of 2016, period-end deposits increased \$42.5 million, attributable to an increase of \$45.8 million in non-interest-bearing deposits. The increase in non-interest-bearing deposits was primarily due to commercial non-interest-bearing deposit balances, which increased \$36.0 million, while individual non-interest-bearing deposit balances increased \$12.0 million during the quarter. Commercial non-interest-bearing deposit balances were impacted by one large customer maintaining a higher than normal balance on September 30, 2016.

Non-interest-bearing deposits comprised 29% of total deposits at September 30, 2016, compared to 28% at each of June 30, 2016, December 31, 2015 and September 30, 2015.

Average deposits for the third quarter of 2016 decreased \$24.2 million compared to the linked quarter, with a decline of \$16.6 million in non-interest-bearing deposits and \$7.6 million in interest-bearing deposits. Compared to the third quarter of 2015, average deposits increased \$12.1 million, with non-interest-bearing deposits increasing \$15.2 million and interest-bearing deposits declining \$3.1 million. For the first nine months of 2016, average deposits increased \$162.5 million, or 7% compared to the first nine months of 2015, mainly due to the NB&T acquisition.

At September 30, 2016, total stockholders' equity was \$440.6 million, up \$20.8 million since December 31, 2015. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' tier 1 common risk-based capital ratio was 13.04% at September 30, 2016, versus 13.03% at June 30, 2016, 13.36% at December 31, 2015 and 13.45% at September 30, 2015, while the tier 1 risk-based capital ratio was 13.34% at September 30, 2016, compared to 13.33% at June 30, 2016, 13.67% at December 31, 2015 and 13.77% at September 30, 2015. The total risk-based capital ratio was 14.24% at September 30, 2016, compared to 14.23% at June 30, 2016, 14.54% at December 31, 2015 and 14.97% at September 30, 2015. In addition, Peoples' tangible equity to tangible asset ratio was 9.13%, and tangible book value per common share was \$16.14 at September 30, 2016, versus 8.69% and \$14.68 at December 31, 2015, respectively. The slight decline in Peoples' capital ratios from December 31, 2015, was due primarily to an increase in risk-weighted assets, which was the result of growth in loan balances, BOLI and low income housing investments, coupled with stock repurchases in the first quarter of 2016, totaling \$5.0 million.

## RESULTS OF OPERATIONS

### Net Interest Income

Net interest income, the amount by which interest income exceeds interest expense, remains Peoples' largest source of revenue. The amount of net interest income earned by Peoples each quarter is affected by various factors, including changes in market interest rates due to the Federal Reserve Board's monetary policy, the level and degree of pricing competition for both loans and deposits in Peoples' markets, and the amount and composition of Peoples' earning assets and interest-bearing liabilities.

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The following tables detail Peoples' average balance sheets for the periods presented:

|                                      | For the Three Months Ended |                    |            |  |                    |                    |               |  |                    |                    |            |  |                    |                    |            |  |  |  |
|--------------------------------------|----------------------------|--------------------|------------|--|--------------------|--------------------|---------------|--|--------------------|--------------------|------------|--|--------------------|--------------------|------------|--|--|--|
|                                      | September 30, 2016         |                    |            |  |                    |                    | June 30, 2016 |  |                    |                    |            |  | September 30, 2015 |                    |            |  |  |  |
| (Dollars in thousands)               | Average<br>Balance         | Income/<br>Expense | Yield/Cost |  | Average<br>Balance | Income/<br>Expense | Yield/Cost    |  | Average<br>Balance | Income/<br>Expense | Yield/Cost |  | Average<br>Balance | Income/<br>Expense | Yield/Cost |  |  |  |
| Short-term investments               | \$8,663                    | \$10               | 0.46 %     |  | \$9,073            | \$11               | 0.49 %        |  | \$34,093           | \$21               | 0.24 %     |  |                    |                    |            |  |  |  |
| Long-term investments                | —                          | —                  | — %        |  | —                  | —                  | — %           |  | 1,261              | 3                  | 0.94 %     |  |                    |                    |            |  |  |  |
| Investment Securities (1):           |                            |                    |            |  |                    |                    |               |  |                    |                    |            |  |                    |                    |            |  |  |  |
| Taxable                              | 736,677                    | 4,500              | 2.44 %     |  | 765,153            | 4,783              | 2.50 %        |  | 742,486            | 4,530              | 2.44 %     |  |                    |                    |            |  |  |  |
| Nontaxable (2)                       | 112,589                    | 1,186              | 4.21 %     |  | 111,893            | 1,201              | 4.29 %        |  | 113,577            | 1,231              | 4.34 %     |  |                    |                    |            |  |  |  |
| Total investment securities          | 849,266                    | 5,686              | 2.68 %     |  | 877,046            | 5,984              | 2.73 %        |  | 856,063            | 5,761              | 2.69 %     |  |                    |                    |            |  |  |  |
| Loans (2)(3):                        |                            |                    |            |  |                    |                    |               |  |                    |                    |            |  |                    |                    |            |  |  |  |
| Commercial real estate, construction | 93,353                     | 915                | 3.84 %     |  | 91,510             | 871                | 3.77 %        |  | 70,264             | 762                | 4.24 %     |  |                    |                    |            |  |  |  |
| Commercial real estate, other        | 707,269                    | 8,362              | 4.63 %     |  | 721,714            | 8,341              | 4.57 %        |  | 719,679            | 8,478              | 4.61 %     |  |                    |                    |            |  |  |  |
| Commercial and industrial            | 378,053                    | 3,855              | 3.99 %     |  | 373,220            | 4,017              | 4.26 %        |  | 342,672            | 3,559              | 4.06 %     |  |                    |                    |            |  |  |  |
| Residential real estate (4)          | 554,039                    | 6,070              | 4.38 %     |  | 562,565            | 6,106              | 4.34 %        |  | 570,623            | 6,283              | 4.40 %     |  |                    |                    |            |  |  |  |
| Home equity lines of credit          | 110,232                    | 1,246              | 4.50 %     |  | 107,919            | 1,203              | 4.48 %        |  | 104,941            | 1,277              | 4.83 %     |  |                    |                    |            |  |  |  |
| Consumer                             | 291,047                    | 3,083              | 4.21 %     |  | 265,072            | 2,890              | 4.39 %        |  | 219,143            | 2,559              | 4.63 %     |  |                    |                    |            |  |  |  |
| Total loans                          | 2,133,993                  | 23,531             | 4.35 %     |  | 2,122,000          | 23,428             | 4.39 %        |  | 2,027,322          | 22,918             | 4.46 %     |  |                    |                    |            |  |  |  |
| Less: Allowance for loan losses      | (17,787 )                  |                    |            |  | (17,362 )          |                    |               |  | (17,982 )          |                    |            |  |                    |                    |            |  |  |  |
| Net loans                            | 2,116,206                  | 23,531             | 4.39 %     |  | 2,104,638          | 23,428             | 4.43 %        |  | 2,009,340          | 22,918             | 4.50 %     |  |                    |                    |            |  |  |  |
| Total earning assets                 | 2,974,135                  | 29,227             | 3.89 %     |  | 2,990,757          | 29,423             | 3.92 %        |  | 2,900,757          | 28,703             | 3.92 %     |  |                    |                    |            |  |  |  |
| Intangible assets                    | 147,466                    |                    |            |  | 148,464            |                    |               |  | 151,206            |                    |            |  |                    |                    |            |  |  |  |
| Other assets                         | 203,035                    |                    |            |  | 167,435            |                    |               |  | 157,730            |                    |            |  |                    |                    |            |  |  |  |
| Total assets                         | \$3,324,636                |                    |            |  | \$3,306,656        |                    |               |  | \$3,209,693        |                    |            |  |                    |                    |            |  |  |  |
| Deposits:                            |                            |                    |            |  |                    |                    |               |  |                    |                    |            |  |                    |                    |            |  |  |  |
| Savings accounts                     | \$439,464                  | \$59               | 0.05 %     |  | \$438,368          | \$58               | 0.05 %        |  | \$410,131          | \$56               | 0.05 %     |  |                    |                    |            |  |  |  |
| Governmental deposit accounts        | 311,650                    | 152                | 0.19 %     |  | 302,852            | 146                | 0.19 %        |  | 301,178            | 161                | 0.21 %     |  |                    |                    |            |  |  |  |
| Interest-bearing demand accounts     | 264,182                    | 61                 | 0.09 %     |  | 251,773            | 46                 | 0.07 %        |  | 235,145            | 47                 | 0.08 %     |  |                    |                    |            |  |  |  |
| Money market accounts                | 400,749                    | 175                | 0.17 %     |  | 400,286            | 165                | 0.17 %        |  | 395,547            | 158                | 0.16 %     |  |                    |                    |            |  |  |  |
| Brokered deposits                    | 17,832                     | 163                | 3.64 %     |  | 29,542             | 273                | 3.73 %        |  | 34,883             | 328                | 3.73 %     |  |                    |                    |            |  |  |  |
| Retail certificates of deposit       | 412,466                    | 817                | 0.79 %     |  | 431,075            | 815                | 0.76 %        |  | 472,516            | 789                | 0.66 %     |  |                    |                    |            |  |  |  |
| Total interest-bearing deposits      | 1,846,343                  | 1,427              | 0.31 %     |  | 1,853,896          | 1,503              | 0.33 %        |  | 1,849,400          | 1,539              | 0.33 %     |  |                    |                    |            |  |  |  |
| Borrowed Funds:                      |                            |                    |            |  |                    |                    |               |  |                    |                    |            |  |                    |                    |            |  |  |  |
| Short-term FHLB advances             | 73,413                     | 79                 | 0.43 %     |  | 71,165             | 75                 | 0.42 %        |  | 9,413              | 5                  | 0.21 %     |  |                    |                    |            |  |  |  |
| Retail repurchase agreements         | 70,401                     | 30                 | 0.17 %     |  | 71,723             | 30                 | 0.17 %        |  | 89,583             | 37                 | 0.17 %     |  |                    |                    |            |  |  |  |
|                                      | 143,814                    | 109                | 0.30 %     |  | 142,888            | 105                | 0.29 %        |  | 98,996             | 42                 | 0.17 %     |  |                    |                    |            |  |  |  |

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|                                            |             |          |        |             |          |        |             |          |        |  |  |
|--------------------------------------------|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|--|--|
| Total short-term borrowings                |             |          |        |             |          |        |             |          |        |  |  |
| Long-term FHLB advances                    | 100,938     | 594      | 2.34 % | 71,686      | 534      | 3.00 % | 69,821      | 548      | 3.11 % |  |  |
| Wholesale repurchase agreements            | 40,000      | 371      | 3.71 % | 40,000      | 367      | 3.67 % | 40,000      | 371      | 3.71 % |  |  |
| Other borrowings                           | 6,794       | 106      | 6.11 % | 6,741       | 104      | 6.10 % | 9,656       | 142      | 5.75 % |  |  |
| Total long-term borrowings                 | 147,732     | 1,071    | 2.89 % | 118,427     | 1,005    | 3.40 % | 119,477     | 1,061    | 3.54 % |  |  |
| Total borrowed funds                       | 291,546     | 1,180    | 1.61 % | 261,315     | 1,110    | 1.70 % | 218,473     | 1,103    | 2.01 % |  |  |
| Total interest-bearing liabilities         | 2,137,889   | 2,607    | 0.49 % | 2,115,211   | 2,613    | 0.50 % | 2,067,873   | 2,642    | 0.51 % |  |  |
| Non-interest-bearing deposits              | 709,432     |          |        | 726,066     |          |        | 694,277     |          |        |  |  |
| Other liabilities                          | 38,709      |          |        | 35,307      |          |        | 26,433      |          |        |  |  |
| Total liabilities                          | 2,886,030   |          |        | 2,876,584   |          |        | 2,788,583   |          |        |  |  |
| Total stockholders' equity                 | 438,606     |          |        | 430,072     |          |        | 421,110     |          |        |  |  |
| Total liabilities and stockholders' equity | \$3,324,636 |          |        | \$3,306,656 |          |        | \$3,209,693 |          |        |  |  |
| Interest rate spread                       |             | \$26,620 | 3.40 % |             | \$26,810 | 3.42 % |             | \$26,061 | 3.41 % |  |  |
| Net interest margin                        |             |          | 3.54 % |             |          | 3.57 % |             |          | 3.55 % |  |  |

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| (Dollars in thousands)                     | For the Nine Months Ended |                    |            |   |                    |                    |            |   |
|--------------------------------------------|---------------------------|--------------------|------------|---|--------------------|--------------------|------------|---|
|                                            | September 30, 2016        |                    |            |   | September 30, 2015 |                    |            |   |
|                                            | Average<br>Balance        | Income/<br>Expense | Yield/Cost |   | Average<br>Balance | Income/<br>Expense | Yield/Cost |   |
| Short-term investments                     | \$10,052                  | \$37               | 0.49       | % | \$63,670           | \$115              | 0.24       | % |
| Other long-term investments                | —                         | —                  | —          | % | 1,317              | 10                 | 1.02       | % |
| Investment Securities (1):                 |                           |                    |            |   |                    |                    |            |   |
| Taxable                                    | 754,922                   | 14,010             | 2.47       | % | 713,386            | 13,537             | 2.53       | % |
| Nontaxable (2)                             | 112,331                   | 3,588              | 4.26       | % | 104,474            | 3,389              | 4.33       | % |
| Total investment securities                | 867,253                   | 17,598             | 2.71       | % | 817,860            | 16,926             | 2.76       | % |
| Loans (2) (3):                             |                           |                    |            |   |                    |                    |            |   |
| Commercial real estate, construction       | 88,373                    | 2,566              | 3.81       | % | 58,353             | 1,887              | 4.26       | % |
| Commercial real estate, other              | 721,620                   | 25,195             | 4.59       | % | 685,543            | 23,666             | 4.55       | % |
| Commercial and industrial                  | 369,248                   | 11,568             | 4.12       | % | 320,793            | 10,140             | 4.17       | % |
| Residential real estate (4)                | 560,681                   | 18,341             | 4.36       | % | 549,582            | 18,234             | 4.42       | % |
| Home equity lines of credit                | 108,380                   | 3,639              | 4.49       | % | 97,881             | 3,367              | 4.60       | % |
| Consumer                                   | 267,673                   | 8,658              | 4.32       | % | 203,684            | 7,020              | 4.61       | % |
| Total loans                                | 2,115,975                 | 69,967             | 4.41       | % | 1,915,836          | 64,314             | 4.45       | % |
| Less: Allowance for loan losses            | (17,333)                  | )                  |            |   | (17,930)           | )                  |            |   |
| Net loans                                  | 2,098,642                 | 69,967             | 4.41       | % | 1,897,906          | 64,314             | 4.49       | % |
| Total earning assets                       | 2,975,947                 | 87,602             | 3.90       | % | 2,780,753          | 81,365             | 3.88       | % |
| Intangible assets                          | 148,482                   |                    |            |   | 141,754            |                    |            |   |
| Other assets                               | 175,909                   |                    |            |   | 145,957            |                    |            |   |
| Total assets                               | \$3,300,338               |                    |            |   | \$3,068,464        |                    |            |   |
| Deposits:                                  |                           |                    |            |   |                    |                    |            |   |
| Savings accounts                           | \$433,233                 | \$173              | 0.05       | % | \$381,717          | \$154              | 0.05       | % |
| Governmental deposit accounts              | 304,422                   | 444                | 0.19       | % | 273,768            | 450                | 0.22       | % |
| Interest-bearing demand accounts           | 255,796                   | 151                | 0.08       | % | 217,220            | 134                | 0.08       | % |
| Money market accounts                      | 399,853                   | 500                | 0.17       | % | 381,238            | 456                | 0.16       | % |
| Brokered deposits                          | 27,049                    | 751                | 3.71       | % | 37,130             | 1,034              | 3.72       | % |
| Retail certificates of deposit             | 432,515                   | 2,512              | 0.78       | % | 469,010            | 2,488              | 0.71       | % |
| Total interest-bearing deposits            | 1,852,868                 | 4,531              | 0.33       | % | 1,760,083          | 4,716              | 0.36       | % |
| Borrowed Funds:                            |                           |                    |            |   |                    |                    |            |   |
| Short-term FHLB advances                   | 67,533                    | 208                | 0.41       | % | 5,436              | 8                  | 0.20       | % |
| Retail repurchase agreements               | 73,275                    | 93                 | 0.17       | % | 81,304             | 100                | 0.16       | % |
| Total short-term borrowings                | 140,808                   | 301                | 0.29       | % | 86,740             | 108                | 0.17       | % |
| Long-term FHLB advances                    | 79,829                    | 1,653              | 2.77       | % | 87,154             | 1,718              | 2.64       | % |
| Wholesale repurchase agreements            | 40,000                    | 1,104              | 3.68       | % | 40,000             | 1,100              | 3.67       | % |
| Other borrowings                           | 6,758                     | 307                | 5.97       | % | 15,205             | 513                | 4.45       | % |
| Total long-term borrowings                 | 126,587                   | 3,064              | 3.23       | % | 142,359            | 3,331              | 3.13       | % |
| Total borrowed funds                       | 267,395                   | 3,365              | 1.68       | % | 229,099            | 3,439              | 2.00       | % |
| Total interest-bearing liabilities         | 2,120,263                 | 7,896              | 0.50       | % | 1,989,182          | 8,155              | 0.55       | % |
| Non-interest-bearing deposits              | 715,244                   |                    |            |   | 645,553            |                    |            |   |
| Other liabilities                          | 34,062                    |                    |            |   | 31,625             |                    |            |   |
| Total liabilities                          | 2,869,569                 |                    |            |   | 2,666,360          |                    |            |   |
| Total stockholders' equity                 | 430,769                   |                    |            |   | 402,104            |                    |            |   |
| Total liabilities and stockholders' equity | \$3,300,338               |                    |            |   | \$3,068,464        |                    |            |   |
| Interest rate spread                       |                           | \$79,706           | 3.40       | % |                    | \$73,210           | 3.33       | % |
| Net interest margin                        |                           |                    | 3.55       | % |                    |                    | 3.49       | % |

(1) Average balances are based on carrying value.

(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal tax rate.

Average balances include nonaccrual and impaired loans. Interest income includes interest earned and received on

(3) nonaccrual loans prior to the loans being placed on nonaccrual status. Loan fees included in interest income were immaterial for all periods presented.

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(4) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

The following table provides an analysis of the changes in FTE net interest income:

| (Dollars in thousands)               | Three Months Ended September 30, 2016<br>Compared to |          |              |                    |         |              | Nine Months Ended<br>September 30, 2016<br>Compared to |          |           |
|--------------------------------------|------------------------------------------------------|----------|--------------|--------------------|---------|--------------|--------------------------------------------------------|----------|-----------|
|                                      | June 30, 2016                                        |          |              | September 30, 2015 |         |              | September 30, 2015                                     |          |           |
| Increase (decrease) in:              | Rate                                                 | Volume   | Total<br>(1) | Rate               | Volume  | Total<br>(1) | Rate                                                   | Volume   | Total (1) |
| <b>INTEREST INCOME:</b>              |                                                      |          |              |                    |         |              |                                                        |          |           |
| Short-term investments               | \$—                                                  | \$(1 )   | \$(1 )       | \$61               | \$(72 ) | \$(11 )      | \$99                                                   | \$(177 ) | \$(78 )   |
| Other long-term investments          | —                                                    | —        | —            | (1 )               | (2 )    | (3 )         | (5 )                                                   | (5 )     | (10 )     |
| Investment Securities (2):           |                                                      |          |              |                    |         |              |                                                        |          |           |
| Taxable                              | (108)                                                | (175 )   | (283 )       | 34                 | (64 )   | (30 )        | 397                                                    | 76       | 473       |
| Nontaxable                           | (56)                                                 | 41       | (15 )        | (34 )              | (11 )   | (45 )        | 160                                                    | 39       | 199       |
| Total investment income              | (164)                                                | (134 )   | (298 )       | —                  | (75 )   | (75 )        | 557                                                    | 115      | 672       |
| Loans (2):                           |                                                      |          |              |                    |         |              |                                                        |          |           |
| Commercial real estate, construction | 21                                                   | 23       | 44           | (409 )             | 562     | 153          | (320 )                                                 | 999      | 679       |
| Commercial real estate, other        | 500                                                  | (479 )   | 21           | 179                | (295 )  | (116 )       | 195                                                    | 1,334    | 1,529     |
| Commercial and industrial            | (476)                                                | 314      | (162 )       | (387 )             | 683     | 296          | (199 )                                                 | 1,627    | 1,428     |
| Residential real estate              | 270                                                  | (306 )   | (36 )        | (31 )              | (182 )  | (213 )       | (359 )                                                 | 466      | 107       |
| Home equity lines of credit          | 5                                                    | 38       | 43           | (312 )             | 281     | (31 )        | (131 )                                                 | 403      | 272       |
| Consumer                             | (593)                                                | 786      | 193          | (1,326 )           | 1,850   | 524          | (705 )                                                 | 2,343    | 1,638     |
| Total loan income                    | (273)                                                | 376      | 103          | (2,286 )           | 2,899   | 613          | (1,519 )                                               | 7,172    | 5,653     |
| Total interest income                | (437)                                                | 241      | (196 )       | (2,226 )           | 2,750   | 524          | (868 )                                                 | 7,105    | 6,237     |
| <b>INTEREST EXPENSE:</b>             |                                                      |          |              |                    |         |              |                                                        |          |           |
| Deposits:                            |                                                      |          |              |                    |         |              |                                                        |          |           |
| Savings accounts                     | 1                                                    | —        | 1            | (5 )               | 8       | 3            | (2 )                                                   | 21       | 19        |
| Government deposit accounts          | —                                                    | 6        | 6            | (38 )              | 29      | (9 )         | (71 )                                                  | 65       | (6 )      |
| Interest-bearing demand accounts     | 13                                                   | 2        | 15           | 8                  | 6       | 14           | (9 )                                                   | 26       | 17        |
| Money market accounts                | 10                                                   | —        | 10           | 15                 | 2       | 17           | 21                                                     | 23       | 44        |
| Brokered certificates of deposit     | (6 )                                                 | (104 )   | (110 )       | (8 )               | (157 )  | (165 )       | (4 )                                                   | (279 )   | (283 )    |
| Retail certificates of deposit       | 131                                                  | (129 )   | 2            | 495                | (467 )  | 28           | 296                                                    | (272 )   | 24        |
| Total deposit cost                   | 149                                                  | (225 )   | (76 )        | 467                | (579 )  | (112 )       | 231                                                    | (416 )   | (185 )    |
| Borrowed funds:                      |                                                      |          |              |                    |         |              |                                                        |          |           |
| Short-term borrowings                | 3                                                    | 1        | 4            | 21                 | 46      | 67           | 18                                                     | 175      | 193       |
| Long-term borrowings                 | (586)                                                | 652      | 66           | (685 )             | 695     | 10           | 344                                                    | (611 )   | (267 )    |
| Total borrowed funds cost            | (583)                                                | 653      | 70           | (664 )             | 741     | 77           | 362                                                    | (436 )   | (74 )     |
| Total interest expense               | (434)                                                | 428      | (6 )         | (197 )             | 162     | (35 )        | 593                                                    | (852 )   | (259 )    |
| Net interest income                  | \$(3)                                                | \$(187 ) | \$(190 )     | \$(2,029 )         | \$2,588 | \$559        | \$(1,461 )                                             | \$7,957  | \$6,496   |

(1) The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the changes in each.

(2) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal tax rate.

Net interest margin, which is calculated by dividing fully tax-equivalent ("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 earning assets and interest-bearing liabilities. FTE net interest income is calculated by increasing interest income to convert tax-exempt income earned on obligations of states and political subdivisions to the pre-tax

equivalent of taxable income using a 35% federal tax rate.

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The following table details the calculation of FTE net interest income:

| (Dollars in thousands)                   | Three Months Ended |               |                    | Nine Months Ended  |                    |
|------------------------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
|                                          | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Net interest income, as reported         | \$26,123           | \$26,308      | \$ 25,536          | \$78,198           | \$71,748           |
| Taxable equivalent adjustments           | 497                | 502           | 525                | 1,508              | 1,462              |
| Fully tax-equivalent net interest income | \$26,620           | \$26,810      | \$ 26,061          | \$79,706           | \$73,210           |

Net interest income declined slightly in the third quarter of 2016, mostly due to lower income from investment securities. Net interest margin for the third quarter of 2016 was 3.54% compared to 3.55% for the third quarter of 2015 and 3.57% in the second quarter of 2016. During the third quarter of 2016, net interest income and net interest margin benefited from normal accretion income, net of amortization expense, of \$0.8 million related primarily to the acquired loans purchased in 2012 or thereafter in a business combination, which added 10 basis points to net interest margin, compared to \$0.9 million, or 12 basis points, during the linked quarter and \$1.4 million, or 18 basis points, during the prior year third quarter.

The net interest margin, excluding the impact of amortization and accretion from the acquisitions completed, decreased by 1 basis point compared to the linked quarter. Funding costs decreased 1 basis point compared to the linked quarter and 2 basis points from the third quarter of 2015. Peoples continues to execute its strategy of replacing higher-cost funding with low-cost deposits.

Additional information regarding changes in the Unaudited Consolidated Balance Sheets can be found under appropriate captions of the "FINANCIAL CONDITION" section of this discussion. Additional information regarding Peoples' interest rate risk and the potential impact of interest rate changes on Peoples' results of operations and financial condition can be found later in this discussion under the caption "Interest Rate Sensitivity and Liquidity".

#### Provision for Loan Losses

The following table details Peoples' provision for loan losses:

| (Dollars in thousands)                     | Three Months Ended |               |                    | Nine Months Ended  |                    |                    |
|--------------------------------------------|--------------------|---------------|--------------------|--------------------|--------------------|--------------------|
|                                            | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 | September 30, 2015 |
| Loan losses                                | 978                | 575           | 5,635              | 2,410              | 6,385              |                    |
| Checking account overdrafts                | \$168              | \$152         | \$ 202             | \$418              | \$474              |                    |
| Provision for loan losses                  | \$1,146            | \$727         | \$ 5,837           | \$2,828            | \$6,859            |                    |
| As a percentage of average total loans (a) | 0.21               | %0.14         | % 1.14             | % 0.18             | %0.48              | %                  |

(a) Presented on an annualized basis

The provision for loan losses recorded represents the amount needed to maintain the adequacy of the allowance for loan losses based on management's quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions. The provisions recorded in the current quarter and linked quarter were primarily due to loan growth. The provision for loan losses recorded during the third quarter of 2015 was primarily due to increased loan growth, an increase in criticized loans and an increase in a specific reserve related to one commercial relationship. During the first nine months of 2016, net charge-offs remained below the long-term historical average of 20 to 30 basis points.

Additional information regarding changes in the allowance for loan losses and loan credit quality can be found later in this discussion under the caption "Allowance for Loan Losses".

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## Net Loss on Asset Disposals and Other Transactions

The following table details the net loss on asset disposals and other transactions recognized by Peoples:

|                                                    | Three Months Ended |                    |                    | Nine Months Ended  |                    |
|----------------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                                    | September 30, 2016 | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| (Dollars in thousands)                             |                    |                    |                    |                    |                    |
| Net loss on other real estate owned                | \$—                | \$—                | \$ (50 )           | \$(1 )             | \$(131 )           |
| Net loss on debt extinguishment                    | —                  | (707 )             | —                  | (707 )             | (520 )             |
| Net gain (loss) on bank premises and equipment     | 1                  | (97 )              | (1 )               | (126 )             | (639 )             |
| Net (loss) gain on other                           | (225 )             | 35                 | —                  | (190 )             | —                  |
| Net loss on asset disposals and other transactions | \$(224)            | \$(769 )           | \$ (51 )           | \$(1,024)          | \$(1,290)          |

The net loss on other during the third quarter of 2016 was related to the write-down of a tax investment. The net loss on debt extinguishment during the second quarter of 2016 was related to the prepayment of \$20.0 million of FHLB advances. The net loss on bank premises and equipment during the second quarter of 2016 was due mainly to the closing of a leased office and related disposal of leasehold improvements. The net loss on other real estate owned ("OREO") during the third quarter of 2015 was due to the sale of one OREO property and the write-off of another OREO property. During the first nine months of 2015, the net loss on debt extinguishment was due to Peoples recognizing a loss from the prepayment of several FHLB advances and the loss on bank premises and equipment was due to asset write-offs associated with the NB&T acquisition, write-off of obsolete fixed assets and the write-down of a closed office location that was available for sale.

## Non-Interest Income

Insurance income comprised the largest portion of third quarter 2016 non-interest income. The following table details Peoples' insurance income:

|                                             | Three Months Ended |                    |                    | Nine Months Ended  |                    |
|---------------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                             | September 30, 2016 | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| (Dollars in thousands)                      |                    |                    |                    |                    |                    |
| Property and casualty insurance commissions | \$2,579            | \$2,672            | \$ 2,678           | \$7,699            | \$7,755            |
| Performance-based commissions               | 91                 | 49                 | 116                | 1,720              | 1,609              |
| Life and health insurance commissions       | 420                | 479                | 436                | 1,318              | 1,291              |
| Credit life and A&H insurance commissions   | 12                 | 9                  | 12                 | 30                 | 39                 |
| Other fees and charges                      | 35                 | 90                 | 33                 | 167                | 176                |
| Insurance income                            | \$3,137            | \$3,299            | \$ 3,275           | \$10,934           | \$10,870           |

The decrease in revenue for the third quarter of 2016 compared to the linked quarter was due mainly to a decline in the value of assets insured by Peoples' clients, which results in lower premiums to the clients and lower commission income to Peoples.

Deposit account service charges continued to comprise a sizable portion of Peoples' non-interest income. The following table details Peoples' deposit account service charges:

|                                         | Three Months Ended |                    |                    | Nine Months Ended  |                    |
|-----------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                                         | September 30, 2016 | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| (Dollars in thousands)                  |                    |                    |                    |                    |                    |
| Overdraft and non-sufficient funds fees | \$2,105            | \$1,895            | \$ 2,264           | \$5,806            | \$6,173            |
| Account maintenance fees                | 605                | 585                | 581                | 1,751              | 1,553              |
| Other fees and charges                  | 123                | 83                 | 77                 | 442                | 339                |
| Deposit account service charges         | \$2,833            | \$2,563            | \$ 2,922           | \$7,999            | \$8,065            |

The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Peoples typically experiences a lower volume of overdraft and



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non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season.

Peoples' electronic banking services include ATM and debit cards, direct deposit services, internet and mobile banking, and remote deposit capture, which serve as alternative delivery channels to traditional sales offices for providing services to clients. During the third quarter of 2016, compared to the prior year third quarter, electronic banking income grew 23% and has grown 20% in the nine months of 2016 compared to the nine months of 2015. The continued growth was primarily due to the increased volume of debit card transactions and ATM surcharges, due partly to the NB&T acquisition.

Peoples' trust and investment revenue continues to be based primarily upon the value of assets under management, with additional income generated from transaction commissions. The following tables detail Peoples' trust and investment income and related assets under management:

|                             | Three Months Ended |               |                    | Nine Months Ended  |                    |
|-----------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
|                             | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| (Dollars in thousands)      |                    |               |                    |                    |                    |
| Fiduciary                   | \$1,851            | \$1,989       | \$ 1,780           | \$5,501            | \$5,110            |
| Brokerage                   | 841                | 787           | 717                | 2,349              | 1,978              |
| Trust and investment income | \$2,692            | \$2,776       | \$ 2,497           | \$7,850            | \$7,088            |

|                                   | September 30, 2016 | June 30, 2016 | March 31, 2015 | December 31, 2015 | September 30, 2015 |
|-----------------------------------|--------------------|---------------|----------------|-------------------|--------------------|
| (Dollars in thousands)            |                    |               |                |                   |                    |
| Trust assets under management     | \$ 1,292,044       | \$ 1,280,004  | \$1,254,824    | \$1,275,253       | \$ 1,261,112       |
| Brokerage assets under management | 754,168            | 729,519       | 706,314        | 664,153           | 621,242            |
| Total managed assets              | \$ 2,046,212       | \$2,009,523   | \$1,961,138    | \$1,939,406       | \$ 1,882,354       |
| Quarterly average                 | \$ 2,031,378       | \$ 1,992,856  | \$1,935,108    | \$1,928,308       | \$ 1,926,070       |

Mortgage banking income increased 61% compared to the linked quarter, due to higher customer demand for long-term fixed-rate real estate loans which increased sales of loans in the secondary market. Peoples sold approximately \$22.9 million of loans to the secondary market in the third quarter of 2016, compared to \$8.5 million in the third quarter of 2015 and \$15.7 million in the linked quarter. In the first nine months of 2016, Peoples sold approximately \$44.6 million of loans to the secondary market compared to \$41.1 million in the first nine months of 2015.

**Non-Interest Expense**

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for over one-half of total non-interest expense. The following table details Peoples' salaries and employee benefit costs:

|                                          | Three Months Ended |               |                    | Nine Months Ended  |                    |
|------------------------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
|                                          | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| (Dollars in thousands)                   |                    |               |                    |                    |                    |
| Base salaries and wages                  | \$9,782            | \$9,820       | \$ 9,778           | \$29,439           | \$32,131           |
| Sales-based and incentive compensation   | 2,501              | 2,006         | 1,422              | 6,310              | 4,975              |
| Employee benefits                        | 1,492              | 1,347         | 1,471              | 4,387              | 4,686              |
| Stock-based compensation                 | 346                | 325           | 405                | 1,009              | 1,432              |
| Deferred personnel costs                 | (453)              | (519)         | (499)              | (1,397)            | (1,186)            |
| Payroll taxes and other employment costs | 916                | 993           | 995                | 3,133              | 3,455              |
| Salaries and employee benefit costs      | \$14,584           | \$13,972      | \$ 13,572          | \$42,881           | \$45,493           |
| Full-time equivalent employees:          |                    |               |                    |                    |                    |
| Actual at end of period                  | 799                | 803           | 821                | 799                | 821                |
| Average during the period                | 798                | 813           | 825                | 809                | 791                |



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For the three months ended September 30, 2016, salaries and employee benefit costs increased \$1.0 million compared to the prior year third quarter and \$612,000 from the linked quarter. The increases from the prior year third quarter and the linked quarter related to increases in sales-based and incentive compensation due largely to the corporate incentive plan. The decrease from the prior year-to-date period related to severance and retention payouts associated with the NB&T acquisition which were included in base salaries and wages in 2015.

Peoples' net occupancy and equipment expense was comprised of the following:

|                                           | Three Months Ended                        |          |          | Nine Months Ended           |          |
|-------------------------------------------|-------------------------------------------|----------|----------|-----------------------------|----------|
|                                           | September 30, September 30, September 30, |          |          | September 30, September 30, |          |
| (Dollars in thousands)                    | 2016                                      | 2016     | 2015     | 2016                        | 2015     |
| Depreciation                              | \$ 1,337                                  | \$ 1,197 | \$ 1,240 | \$ 3,773                    | \$ 3,341 |
| Repairs and maintenance costs             | 589                                       | 574      | 766      | 1,814                       | 2,195    |
| Net rent expense                          | 244                                       | 239      | 203      | 712                         | 636      |
| Property taxes, utilities and other costs | 598                                       | 571      | 631      | 1,856                       | 2,101    |
| Net occupancy and equipment expense       | \$ 2,768                                  | \$ 2,581 | \$ 2,840 | \$ 8,155                    | \$ 8,273 |

Professional fees increased \$374,000 during the third quarter of 2016 compared to the prior year third quarter but decreased \$462,000 from the linked quarter. The increase in professional fees during the third quarter of 2016 compared to the prior year third quarter was mostly due to higher legal expenses, while the decrease from the linked quarter was related to annual trust client tax preparation, fees for outsourced services and the completion of a consulting agreement in the second quarter of 2016. Professional fees decreased \$299,000 for the first nine months of 2016 compared to the prior year-to-date, as a result of acquisition-related activities in the first nine months of 2015 compared to no such activities in the first nine months of 2016.

Electronic banking expense, which is comprised of bankcard, internet and mobile banking costs, has increased from the prior year third quarter and the linked quarter, and from the prior year-to-date period. The increases from the prior periods were largely related to a higher volume of transactions completed by customers and additional services provided. The increase in the electronic banking expense was directionally consistent with the growth in electronic banking income.

Marketing expense decreased \$983,000 from the prior year-to-date period, which was related to the timing of the NB&T acquisition and additional marketing campaigns in the new market areas.

Foreclosed real estate and other loan expenses decreased \$491,000 from prior year-to-date, largely due to the timing of loan originations and the related deferral of the loan origination costs.

Other non-interest expense decreased \$4.5 million for the first nine months in 2016 compared to the first nine months in 2015. The decrease was driven by \$3.7 million of acquisition-related costs incurred in the 2015 period, compared to none in the 2016 period.

#### Income Tax Expense (Benefit)

For the nine months ended September 30, 2016, Peoples recorded income tax expense of \$10.8 million, for an effective tax rate of 31.2%. Peoples' current estimate of the effective tax rate for the entire year of 2016 is between 30.0% and 32.0%. In comparison, Peoples recorded an income tax expense of \$3.5 million for the same period in 2015, which included the tax impact of acquisition-related costs that are not tax deductible of approximately \$165,000, for an effective tax rate of 29.2%. The lower effective tax rate in 2015 was due primarily to lower book income in 2015 compared to 2016.

#### Pre-Provision Net Revenue

Pre-provision net revenue ("PPNR") has become a key financial measure used by state and federal bank regulatory agencies when assessing the capital adequacy of financial institutions. PPNR is defined as net interest income plus non-interest income minus total other expenses and, therefore, excludes the provision for loan losses and all gains and losses included in earnings. As a result, PPNR represents the earnings capacity that can be either retained in order to build capital or used to absorb unexpected losses and preserve existing capital.



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The following table provides a reconciliation of this non-GAAP financial measure to the amounts reported for income before taxes in Peoples' consolidated financial statements for the periods presented:

| (Dollars in thousands)                                | Three Months Ended |               | Nine Months Ended  |                    |                    |
|-------------------------------------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
|                                                       | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Pre-Provision Net Revenue:                            |                    |               |                    |                    |                    |
| Income before income taxes                            | \$ 11,448          | \$ 11,441     | \$ 5,504           | \$ 34,538          | \$ 11,808          |
| Add: provision for loan losses                        | 1,146              | 727           | 5,837              | 2,828              | 6,859              |
| Add: loss on debt extinguishment                      | —                  | 707           | —                  | 707                | 520                |
| Add: net loss on loans held-for-sale and OREO         | —                  | —             | 50                 | 1                  | 131                |
| Add: net loss on securities transactions              | 1                  | —             | —                  | 1                  | —                  |
| Add: net loss on other assets                         | 224                | 97            | 1                  | 351                | 639                |
| Less: net gain on securities transactions             | —                  | 767           | 62                 | 863                | 673                |
| Less: gain on other assets                            | —                  | 35            | —                  | 35                 | —                  |
| Pre-provision net revenue                             | \$ 12,819          | \$ 12,170     | \$ 11,330          | \$ 37,528          | \$ 19,284          |
| Total average assets                                  | \$ 3,324,636       | \$ 3,306,656  | \$ 3,209,693       | \$ 3,300,338       | \$ 3,068,464       |
| Pre-provision net revenue to total average assets (a) | 1.53               | % 1.48        | % 1.40             | % 1.52             | % 0.84             |

(a) Presented on an annualized basis.

PPNR for the third quarter of 2016 was higher than the linked quarter of 2016 and the third quarter of 2015 due largely to the increased revenue. PPNR for the first nine months of 2016 increased compared to the prior year-to-date period due largely to a reduction in acquisition-related costs and increased revenue.

Efficiency Ratio

The efficiency ratio is a key financial measure used to monitor performance. The efficiency ratio is calculated as total other expenses (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus non-interest income. This measure is non-GAAP since it excludes amortization of other intangible assets and all gains and/or losses included in earnings, and uses FTE net interest income.

The following table provides a reconciliation of this non-GAAP financial measure to the amounts reported in Peoples' consolidated financial statements for the periods presented:

| (in \$000's)                                            | Three Months Ended |               | Nine Months Ended  |                    |                    |
|---------------------------------------------------------|--------------------|---------------|--------------------|--------------------|--------------------|
|                                                         | September 30, 2016 | June 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Efficiency ratio:                                       |                    |               |                    |                    |                    |
| Total other expenses                                    | \$ 26,842          | \$ 26,505     | \$ 26,112          | \$ 79,629          | \$ 87,804          |
| Less: Amortization of intangible assets                 | \$ 1,008           | \$ 1,007      | \$ 1,127           | \$ 3,023           | \$ 2,944           |
| Adjusted total other expense                            | 25,834             | 25,498        | 24,985             | 76,606             | 84,860             |
| Total non-interest income                               | 13,538             | 12,367        | 11,906             | 38,959             | 35,340             |
| Net interest income                                     | 26,123             | 26,308        | 25,536             | 78,198             | 71,748             |
| Add: Fully tax-equivalent adjustment                    | \$ 497             | \$ 502        | \$ 525             | \$ 1,508           | \$ 1,462           |
| Net interest income on a fully taxable-equivalent basis | \$ 26,620          | \$ 26,810     | \$ 26,061          | \$ 79,706          | \$ 73,210          |
| Adjusted revenue                                        | \$ 40,158          | \$ 39,177     | \$ 37,967          | \$ 118,665         | \$ 108,550         |
| Efficiency ratio                                        | 64.33              | % 65.08       | % 65.81            | % 64.56            | % 78.18            |

The decreases in the efficiency ratio in the periods disclosed above were primarily due to increased revenues and the continued focus on expense management. Management continues to target an efficiency ratio of 65% absent acquisition-related costs and other non-core charges, such as pension settlement charges.



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## FINANCIAL CONDITION

## Cash and Cash Equivalents

At September 30, 2016, Peoples' interest-bearing deposits in other banks decreased from December 31, 2015, as excess cash was utilized to fund loan growth. These balances included \$6.0 million of excess cash reserves being maintained at the Federal Reserve Bank at September 30, 2016, compared to \$5.0 million at June 30, 2016 and \$8.7 million at December 31, 2015. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

Through the first nine months of 2016, Peoples' total cash and cash equivalents decreased \$3.3 million, as cash used in investing activities of \$107.0 million exceeded cash provided by financing and operating activities of \$61.6 million and \$42.2 million, respectively. Peoples' investing activities reflected a \$94.1 million net increase in loans and \$35.0 million in BOLI, offset partially by \$30.1 million in net proceeds from investment activities. The net proceeds from the investment portfolio reflected sales and principal payments, which outpaced purchases. Financing activities included a net increase in borrowings of \$35.5 million and an increase of \$39.6 million in deposits which were offset partially by cash dividends paid of \$8.2 million and the purchase of \$5.0 million of treasury stock.

Through the first nine months of 2015, Peoples' total cash and cash equivalents increased \$2.3 million, as cash provided by operating and investing activities of \$31.1 million and \$39.2 million, respectively, exceeded cash used in financing activities totaling \$68.0 million. The increase in cash provided by Peoples investing activities was primarily due to the \$97.3 million contributed by the NB&T acquisition. Peoples financing activities reflected declines of \$31.3 million in deposits and net payments of \$28.8 million on long-term borrowings.

Further information regarding the management of Peoples' liquidity position can be found later in this discussion under "Interest Rate Sensitivity and Liquidity."

## Investment Securities

The following table provides information regarding Peoples' investment portfolio:

| (Dollars in thousands)                          | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |
|-------------------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Available-for-sale securities, at fair value:   |                       |                  |                   |                      |                       |
| Obligations of:                                 |                       |                  |                   |                      |                       |
| U.S. government sponsored agencies              | \$ 1,001              | \$1,000          | \$2,004           | \$ 2,966             | \$ 2,993              |
| States and political subdivisions               | 117,839               | 114,826          | 114,328           | 114,726              | 115,249               |
| Residential mortgage-backed securities          | 607,452               | 620,819          | 650,674           | 632,293              | 639,327               |
| Commercial mortgage-backed securities           | 23,283                | 23,789           | 24,258            | 23,845               | 24,348                |
| Bank-issued trust preferred securities          | 4,783                 | 4,536            | 4,330             | 4,635                | 4,776                 |
| Equity securities                               | 7,785                 | 7,648            | 6,600             | 6,236                | 6,592                 |
| Total fair value                                | \$ 762,143            | \$772,618        | \$802,194         | \$ 784,701           | \$ 793,285            |
| Total amortized cost                            | \$ 743,878            | \$750,305        | \$785,544         | \$ 780,304           | \$ 780,609            |
| Net unrealized gain                             | \$ 18,265             | \$22,313         | \$16,650          | \$ 4,397             | \$ 12,676             |
| Held-to-maturity securities, at amortized cost: |                       |                  |                   |                      |                       |
| Obligations of:                                 |                       |                  |                   |                      |                       |
| States and political subdivisions               | \$ 3,823              | \$3,826          | \$3,828           | \$ 3,831             | \$ 3,833              |
| Residential mortgage-backed securities          | 34,203                | 34,678           | 35,005            | 35,367               | 35,712                |
| Commercial mortgage-backed securities           | 5,636                 | 5,802            | 6,033             | 6,530                | 6,854                 |
| Total amortized cost                            | \$ 43,662             | \$44,306         | \$44,866          | \$ 45,728            | \$ 46,399             |
| Other investment securities, at cost            | \$ 38,443             | \$38,402         | \$38,402          | \$ 38,401            | \$ 38,496             |
| Total investment portfolio:                     |                       |                  |                   |                      |                       |
| Amortized cost                                  | \$ 787,540            | \$794,611        | \$830,410         | \$ 826,032           | \$ 827,008            |
| Carrying value                                  | \$ 844,248            | \$855,326        | \$885,462         | \$ 868,830           | \$ 878,180            |

The decline in available-for-sale investment securities during the third quarter of 2016, compared to at June 30, 2016, was due to principal paydowns outpacing the reinvestment of cash into the portfolio, coupled with declines in market values.



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At September 30, 2016, the investment portfolio was 25.1% of total assets, compared to 27.2% a year ago. In recent quarters, Peoples has maintained the size of the held-to-maturity securities portfolio, for which the unrealized gain or loss does not directly impact stockholders' equity, in contrast to the impact from the available-for-sale securities portfolio.

Peoples' investment in residential and commercial mortgage-backed securities largely consists of securities either guaranteed by the U.S. government or issued by U.S. government sponsored agencies, such as Fannie Mae and Freddie Mac. The remaining portions of Peoples' mortgage-backed securities consist of securities issued by other entities, including other financial institutions, which are not guaranteed by the U.S. government.

The amount of these "non-agency" securities included in the residential mortgage-backed securities totals above was as follows:

| (Dollars in thousands)     | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |
|----------------------------|--------------------|---------------|----------------|-------------------|--------------------|
| Total fair value           | \$ 3,288           | \$3,640       | \$ 4,046       | \$ 4,201          | \$ 6,556           |
| Total amortized cost       | \$ 3,499           | \$3,843       | \$ 4,244       | \$ 4,331          | \$ 6,546           |
| Net unrealized (loss) gain | \$ (211)           | ) \$(203)     | ) \$(198)      | ) \$(130)         | ) \$ 10            |

Management continues to reinvest the principal runoff from the non-agency securities into U.S. agency investments, which accounted for the decline in the past year. At September 30, 2016, Peoples' non-agency portfolio consisted entirely of first lien residential mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

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## Loans

The following table provides information regarding outstanding loan balances:

| (Dollars in thousands)                                  | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |   |
|---------------------------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Gross originated loans:                                 |                       |                  |                   |                      |                       |   |
| Commercial real estate, construction                    | \$ 70,838             | \$ 88,672        | \$ 69,499         | \$ 63,785            | \$ 68,798             |   |
| Commercial real estate, other                           | 507,842               | 468,404          | 471,998           | 471,184              | 429,120               |   |
| Commercial real estate                                  | 578,680               | 557,076          | 541,497           | 534,969              | 497,918               |   |
| Commercial and industrial                               | 351,340               | 322,512          | 308,649           | 288,130              | 288,697               |   |
| Residential real estate                                 | 306,374               | 304,275          | 302,512           | 288,783              | 282,863               |   |
| Home equity lines of credit                             | 83,412                | 80,049           | 76,959            | 74,176               | 71,620                |   |
| Consumer, indirect                                      | 229,334               | 205,980          | 182,428           | 165,320              | 152,110               |   |
| Consumer, other                                         | 67,973                | 65,717           | 63,168            | 61,813               | 61,284                |   |
| Consumer                                                | 297,307               | 271,697          | 245,596           | 227,133              | 213,394               |   |
| Deposit account overdrafts                              | 1,074                 | 1,214            | 2,083             | 1,448                | 1,317                 |   |
| Total originated loans                                  | \$ 1,618,187          | \$ 1,536,823     | \$ 1,477,296      | \$ 1,414,639         | \$ 1,355,809          |   |
| Gross acquired loans:                                   |                       |                  |                   |                      |                       |   |
| Commercial real estate, construction                    | \$ 10,242             | \$ 10,321        | \$ 11,882         | \$ 12,114            | \$ 12,278             |   |
| Commercial real estate, other                           | 221,036               | 240,506          | 256,201           | 265,092              | 281,510               |   |
| Commercial real estate                                  | 231,278               | 250,827          | 268,083           | 277,206              | 293,788               |   |
| Commercial and industrial                               | 48,702                | 55,840           | 59,161            | 63,589               | 68,759                |   |
| Residential real estate                                 | 238,787               | 250,848          | 263,237           | 276,772              | 288,269               |   |
| Home equity lines of credit                             | 27,784                | 28,968           | 30,742            | 32,253               | 34,147                |   |
| Consumer, indirect                                      | 952                   | 1,136            | 1,369             | 1,776                | 1,883                 |   |
| Consumer, other                                         | 3,518                 | 4,348            | 5,227             | 6,205                | 7,590                 |   |
| Consumer                                                | 4,470                 | 5,484            | 6,596             | 7,981                | 9,473                 |   |
| Total acquired loans (a)                                | \$ 551,021            | \$ 591,967       | \$ 627,819        | \$ 657,801           | \$ 694,436            |   |
| Total loans                                             | \$ 2,169,208          | \$ 2,128,790     | \$ 2,105,115      | \$ 2,072,440         | \$ 2,050,245          |   |
| Percent of loans to total loans:                        |                       |                  |                   |                      |                       |   |
| Commercial real estate, construction                    | 3.7                   | % 4.7            | % 3.9             | % 3.7                | % 4.0                 | % |
| Commercial real estate, other                           | 33.8                  | % 33.2           | % 34.5            | % 35.5               | % 34.5                | % |
| Commercial real estate                                  | 37.5                  | % 37.9           | % 38.4            | % 39.2               | % 38.5                | % |
| Commercial and industrial                               | 18.4                  | % 17.8           | % 17.5            | % 17.0               | % 17.4                | % |
| Residential real estate                                 | 25.1                  | % 26.1           | % 26.9            | % 27.3               | % 27.9                | % |
| Home equity lines of credit                             | 5.1                   | % 5.1            | % 5.1             | % 5.1                | % 5.2                 | % |
| Consumer, indirect                                      | 10.6                  | % 9.7            | % 8.8             | % 8.0                | % 7.5                 | % |
| Consumer, other                                         | 3.3                   | % 3.3            | % 3.2             | % 3.3                | % 3.4                 | % |
| Consumer                                                | 13.9                  | % 13.0           | % 12.0            | % 11.3               | % 10.9                | % |
| Deposit account overdrafts                              | —                     | % 0.1            | % 0.1             | % 0.1                | % 0.1                 | % |
| Total percentage                                        | 100.0                 | % 100.0          | % 100.0           | % 100.0              | % 100.0               | % |
| Residential real estate loans being serviced for others | \$ 389,090            | \$ 380,741       | \$ 383,531        | \$ 390,398           | \$ 387,200            |   |

(a) Includes all loans acquired, and related loan discount recorded as part of acquisition accounting, in 2012 and thereafter.

For the third quarter of 2016, period-end total loan balances increased \$40.4 million, or 8% annualized, compared to at June 30, 2016. Period-end total loan balances increased \$119.0 million, or 6%, compared to September 30, 2015. Indirect lending balances continued to be a key component of loan growth as they increased \$23.2 million, or 45% annualized, during the quarter, and for the nine months ended 2016, indirect loans grew \$63.2 million, or 50%

annualized. Commercial loans grew \$23.7 million, or 8% annualized, during the quarter, with the majority of the increase being in commercial and industrial loans, which grew \$21.7 million, or 23% annualized, from the linked quarter. Indirect lending comprised a larger portion of the consumer loan portfolio as it was 24% at September 30, 2016, compared to 22% at June 30, 2016, 18% at December 31, 2015 and 17% at September 30, 2015. In addition, commercial and industrial loan balances comprised 33% of the commercial portfolio at September 30, 2016, compared to 32% at June 30, 2016, 30% at December 31, 2015 and 31% at

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September 30, 2015. The recent growth in indirect lending and commercial and industrial loan balances has provided additional diversification to the loan portfolio.

**Loan Concentration**

Peoples categorizes its commercial loans according to standard industry classifications and monitors for concentrations in a single industry or multiple industries that could be impacted by changes in economic conditions in a similar manner. Peoples' commercial lending activities continue to be spread over a diverse range of businesses from all sectors of the economy, with no single industry comprising over 10% of Peoples' total loan portfolio.

Loans secured by commercial real estate, including commercial construction loans, continue to comprise the largest portion of Peoples' loan portfolio. The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at September 30, 2016:

| (Dollars in thousands)                       | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of<br>Total |   |
|----------------------------------------------|------------------------|---------------------|-------------------|---------------|---|
| Commercial real estate, construction:        |                        |                     |                   |               |   |
| Apartment complexes                          | \$ 29,048              | \$ 49,731           | \$78,779          | 44.4          | % |
| Mixed commercial use facilities:             |                        |                     |                   |               |   |
| Owner occupied                               | 7,173                  | 3,180               | 10,353            | 5.8           | % |
| Non-owner occupied                           | 4,342                  | 8,802               | 13,144            | 7.4           | % |
| Total mixed commercial use facilities        | 11,515                 | 11,982              | 23,497            | 13.2          | % |
| Land development                             | —                      | 10,650              | 10,650            | 6.0           | % |
| Residential property                         | 6,816                  | 2,985               | 9,801             | 5.5           | % |
| Assisted living facilities and nursing homes | 4,926                  | 4,758               | 9,684             | 5.5           | % |
| Light industrial                             | 9,072                  | —                   | 9,072             | 5.1           | % |
| Lodging and lodging related                  | 4,049                  | —                   | 4,049             | 2.3           | % |
| Other                                        | 15,654                 | 16,135              | 31,789            | 18.0          | % |
| Total commercial real estate, construction   | \$ 81,080              | \$ 96,241           | \$177,321         | 100.0         | % |

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| (Dollars in thousands)                       | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of<br>Total |   |
|----------------------------------------------|------------------------|---------------------|-------------------|---------------|---|
| Commercial real estate, other:               |                        |                     |                   |               |   |
| Office buildings and complexes:              |                        |                     |                   |               |   |
| Owner occupied                               | \$ 31,988              | \$ 956              | \$32,944          | 4.4           | % |
| Non-owner occupied                           | 47,028                 | 971                 | 47,999            | 6.3           | % |
| Total office buildings and complexes         | 79,016                 | 1,927               | 80,943            | 10.7          | % |
| Apartment complexes                          | 70,924                 | 269                 | 71,193            | 9.4           | % |
| Mixed commercial use facilities:             |                        |                     |                   |               |   |
| Owner occupied                               | 30,173                 | 780                 | 30,953            | 4.1           | % |
| Non-owner occupied                           | 21,489                 | 260                 | 21,749            | 2.9           | % |
| Total mixed commercial use facilities        | 51,662                 | 1,040               | 52,702            | 7.0           | % |
| Retail facilities:                           |                        |                     |                   |               |   |
| Owner occupied                               | 18,964                 | 1,750               | 20,714            | 2.7           | % |
| Non-owner occupied                           | 30,920                 | 1,029               | 31,949            | 4.2           | % |
| Total retail facilities                      | 49,884                 | 2,779               | 52,663            | 6.9           | % |
| Lodging and lodging related                  | 42,757                 | 2,030               | 44,787            | 5.9           | % |
| Light industrial facilities:                 |                        |                     |                   |               |   |
| Owner occupied                               | 35,405                 | 41                  | 35,446            | 4.7           | % |
| Non-owner occupied                           | 2,758                  | —                   | 2,758             | 0.4           | % |
| Total light industrial facilities            | 38,163                 | 41                  | 38,204            | 5.1           | % |
| Assisted living facilities and nursing homes | 32,982                 | 250                 | 33,232            | 4.4           | % |
| Restaurant:                                  |                        |                     |                   |               |   |
| Owner occupied                               | 25,542                 | —                   | 25,542            | 3.4           | % |
| Non-owner occupied                           | 1,235                  | —                   | 1,235             | 0.2           | % |
| Total restaurant facilities                  | 26,777                 | —                   | 26,777            | 3.6           | % |
| Warehouse facilities                         | 19,883                 | 497                 | 20,380            | 2.7           | % |
| Residential property:                        |                        |                     |                   |               |   |
| Owner occupied                               | 905                    | 1,651               | 2,556             | 0.3           | % |
| Non-owner occupied                           | 11,453                 | 2,348               | 13,801            | 1.8           | % |
| Total residential facilities                 | 12,358                 | 3,999               | 16,357            | 2.1           | % |
| Other                                        | 304,472                | 15,201              | 319,673           | 42.2          | % |
| Total commercial real estate, other          | \$ 728,878             | \$ 28,033           | \$756,911         | 100.0         | % |

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balances of commercial loans in each state were less than \$4.0 million at both September 30, 2016 and December 31, 2015.

Allowance for Loan Losses

The amount of the allowance for loan losses at the end of each period represents management's estimate of expected losses from existing loans based upon its quarterly analysis of the loan portfolio. While this process involves allocations being made to specific loans and pools of loans, the entire allowance is available for all losses incurred within the loan portfolio.

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The following details management's allocation of the allowance for loan losses:

| (Dollars in thousands)                                           | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |   |
|------------------------------------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Commercial real estate                                           | 7,490                 | 7,536            | 7,492             | 7,076                | 7,437                 |   |
| Commercial and industrial                                        | 5,690                 | 5,234            | 5,295             | 5,382                | 11,487                |   |
| Total commercial                                                 | 13,180                | 12,770           | 12,787            | 12,458               | 18,924                |   |
| Residential real estate                                          | 1,120                 | 1,296            | 1,258             | 1,257                | 1,179                 |   |
| Home equity lines of credit                                      | 686                   | 684              | 733               | 732                  | 777                   |   |
| Consumer                                                         | 2,832                 | 2,747            | 2,156             | 1,971                | 1,803                 |   |
| Deposit account overdrafts                                       | 143                   | 144              | 125               | 121                  | 154                   |   |
| Originated allowance for loan losses                             | 17,961                | 17,641           | 17,059            | 16,539               | 22,837                |   |
| Purchased credit impaired loan losses                            | 258                   | 197              | 202               | 240                  | 303                   |   |
| Nonimpaired acquired loans                                       | —                     | —                | —                 | —                    | 103                   |   |
| Acquired allowance for loan losses                               | 258                   | 197              | 202               | 240                  | 406                   |   |
| Allowance for loan losses                                        | \$ 18,219             | \$ 17,838        | \$ 17,261         | \$ 16,779            | \$ 23,243             |   |
| As a percent of originated loans, net of deferred fees and costs | 1.13                  | % 1.16           | % 1.17            | % 1.19               | % 1.72                | % |

The increase in the allowance for loan losses at September 30, 2016, compared to the linked quarter and December 31, 2015 was largely due to loan growth during the year. The coverage of allowance for loan losses at September 30, 2016 decreased from December 31, 2015 primarily due to continued improvement in the historical loss experience used to calculate the allowance for loan losses, coupled with the continued stabilization of asset quality metrics. The decrease in the coverage of allowance for loan losses from September 30, 2015 was due to the specific reserve on the one commercial loan relationship that was charged-off in the fourth quarter of 2015.

The significant allocations to commercial loans reflect the higher credit risk associated with this type of lending and the size of this loan category in relationship to the entire loan portfolio. The allowance allocated to the residential real estate and consumer loan categories is based upon Peoples' allowance methodology for homogeneous pools of loans. The fluctuations in these allocations have been directionally consistent with the changes in loan quality, loss experience and loan balances in these categories.

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The following table summarizes Peoples' net charge-offs and recoveries:

|                                                                            | Three Months Ended |               |                |                   |                    |   |
|----------------------------------------------------------------------------|--------------------|---------------|----------------|-------------------|--------------------|---|
| (Dollars in thousands)                                                     | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |   |
| Gross charge-offs:                                                         |                    |               |                |                   |                    |   |
| Commercial real estate, other                                              | \$28               | \$—           | \$ 28          | \$ 120            | \$ 137             |   |
| Commercial and industrial                                                  | —                  | 6             | 1,012          | 13,150            | 83                 |   |
| Residential real estate                                                    | 146                | 234           | 168            | 94                | 255                |   |
| Home equity lines of credit                                                | 29                 | 19            | 10             | 9                 | 35                 |   |
| Consumer                                                                   | 850                | 425           | 622            | 484               | 387                |   |
| Deposit account overdrafts                                                 | 210                | 171           | 163            | 209               | 243                |   |
| Total gross charge-offs                                                    | 1,263              | 855           | 2,003          | 14,066            | 1,140              |   |
| Recoveries:                                                                |                    |               |                |                   |                    |   |
| Commercial real estate, other                                              | 18                 | 17            | 1,164          | 13                | 8                  |   |
| Commercial and industrial                                                  | —                  | 250           | —              | 5                 | —                  |   |
| Residential real estate                                                    | 123                | 40            | 29             | 108               | 47                 |   |
| Home equity lines of credit                                                | 8                  | 19            | 7              | 12                | 27                 |   |
| Consumer                                                                   | 308                | 341           | 260            | 189               | 242                |   |
| Deposit account overdrafts                                                 | 41                 | 38            | 70             | 37                | 41                 |   |
| Total recoveries                                                           | 498                | 705           | 1,530          | 364               | 365                |   |
| Net charge-offs (recoveries):                                              |                    |               |                |                   |                    |   |
| Commercial real estate, other                                              | 10                 | (17 )         | (1,136)        | 107               | 129                |   |
| Commercial and industrial                                                  | —                  | (244 )        | 1,012          | 13,145            | 83                 |   |
| Residential real estate                                                    | 23                 | 194           | 139            | (14 )             | 208                |   |
| Home equity lines of credit                                                | 21                 | —             | 3              | (3 )              | 8                  |   |
| Consumer                                                                   | 542                | 84            | 362            | 295               | 145                |   |
| Deposit account overdrafts                                                 | 169                | 133           | 93             | 172               | 202                |   |
| Total net charge-offs                                                      | \$765              | \$150         | \$ 473         | \$ 13,702         | \$ 775             |   |
| Ratio of net charge-offs (recoveries) to average total loans (annualized): |                    |               |                |                   |                    |   |
| Commercial real estate, other                                              | —                  | %—            | % (0.22 )      | % 0.02            | % 0.02             | % |
| Commercial and industrial                                                  | —                  | % (0.05 )     | % 0.19         | % 2.53            | % 0.02             | % |
| Residential real estate                                                    | —                  | % 0.04        | % 0.03         | % —               | % 0.04             | % |
| Home equity lines of credit                                                | —                  | %—            | % —            | % —               | % —                | % |
| Consumer                                                                   | 0.11               | % 0.02        | % 0.07         | % 0.06            | % 0.03             | % |
| Deposit account overdrafts                                                 | 0.03               | % 0.02        | % 0.02         | % 0.03            | % 0.04             | % |
| Total                                                                      | 0.14               | % 0.03        | % 0.09         | % 2.64            | % 0.15             | % |

Net charge-offs were below Peoples' historical rate of 20 to 30 basis points in 2016. Peoples recorded net charge-offs of \$765,000 for the three months ended September 30, 2016, resulting in an annualized net charge-off rate of 0.14%.

The increase in consumer net charge-offs was in relation to the increase in indirect lending portfolio, which has experienced significant growth during the year. The commercial and industrial loan recovery during the second quarter of 2016 was due to a single commercial relationship that was previously charged-off. The commercial real estate loan recovery during the first quarter of 2016 was due to a \$1.0 million recovery on a relationship that was previously charged-off. During the fourth quarter of 2015, Peoples recorded a \$13.1 million charge-off of one commercial and industrial loan relationship. These factors have an impact on the estimated loss rates used to determine the allocations of allowance for loan losses for commercial loans.



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The following table details Peoples' nonperforming assets:

| (Dollars in thousands)                         | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |   |
|------------------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Loans 90+ days past due and accruing:          |                       |                  |                   |                      |                       |   |
| Commercial real estate, other                  | \$ 1,636              | \$3,982          | \$2,763           | \$ 2,425             | \$ 834                |   |
| Commercial and industrial                      | 452                   | 459              | 2,074             | 1,986                | 1,674                 |   |
| Residential real estate                        | 1,792                 | 1,421            | 1,707             | 1,522                | 1,223                 |   |
| Home equity                                    | 199                   | —                | 184               | 35                   | 10                    |   |
| Consumer, indirect                             | 82                    | —                | —                 | —                    | —                     |   |
| Consumer, other                                | —                     | 7                | 18                | 1                    | 19                    |   |
| Total                                          | 4,161                 | 5,869            | 6,746             | 5,969                | 3,760                 |   |
| Nonaccrual loans:                              |                       |                  |                   |                      |                       |   |
| Commercial real estate, construction           | 855                   | 877              | 891               | 921                  | —                     |   |
| Commercial real estate, other                  | 10,020                | 7,154            | 7,220             | 7,357                | 2,306                 |   |
| Commercial and industrial                      | 1,365                 | 1,714            | 500               | 350                  | 157                   |   |
| Residential real estate                        | 3,951                 | 3,429            | 2,966             | 2,991                | 3,046                 |   |
| Home equity                                    | 458                   | 426              | 308               | 340                  | 287                   |   |
| Consumer, indirect                             | —                     | —                | —                 | —                    | —                     |   |
| Consumer, other                                | —                     | —                | 30                | 31                   | 31                    |   |
| Total                                          | 16,649                | 13,600           | 11,915            | 11,990               | 5,827                 |   |
| Troubled debt restructurings:                  |                       |                  |                   |                      |                       |   |
| Commercial real estate, other                  | 742                   | 123              | 107               | 153                  | 337                   |   |
| Commercial and industrial                      | 384                   | 394              | 374               | 377                  | 13,854                |   |
| Residential real estate                        | 1,484                 | 1,354            | 1,022             | 864                  | 995                   |   |
| Home equity                                    | 47                    | 52               | 65                | 79                   | 82                    |   |
| Consumer, indirect                             | 30                    | 46               | 82                | 34                   | 36                    |   |
| Consumer, other                                | 10                    | 13               | 14                | 34                   | 13                    |   |
| Total                                          | 2,697                 | 1,982            | 1,664             | 1,541                | 15,317                |   |
| Total nonperforming loans (NPLs)               | 23,507                | 21,451           | 20,325            | 19,500               | 24,904                |   |
| OREO:                                          |                       |                  |                   |                      |                       |   |
| Commercial                                     | 594                   | 597              | 597               | 644                  | 1,476                 |   |
| Residential                                    | 125                   | 82               | 82                | 89                   | 90                    |   |
| Total                                          | 719                   | 679              | 679               | 733                  | 1,566                 |   |
| Total nonperforming assets (NPAs)              | \$ 24,226             | \$22,130         | \$21,004          | \$ 20,233            | \$ 26,470             |   |
| NPLs as a percent of total loans               | 1.08                  | % 1.01           | %0.97             | %0.94                | % 1.21                | % |
| NPAs as a percent of total assets              | 0.72                  | % 0.66           | %0.64             | %0.62                | % 0.82                | % |
| NPAs as a percent of total loans and OREO      | 1.11                  | % 1.04           | % 1.00            | %0.98                | % 1.29                | % |
| Allowance for loan losses as a percent of NPLs | 77.50                 | % 83.16          | %84.92            | %86.05               | % 93.68               | % |

Nonperforming assets increased \$2.1 million during the third quarter of 2016 compared to June 30, 2016, due primarily to an increase of \$3.8 million in nonaccrual loans, which was partially offset by a decrease of \$1.7 million in loans 90+ days past due. The increase in nonaccrual loans was due primarily to two commercial real estate loans. The increase of \$0.8 million in total nonperforming assets during the first quarter of 2016 was primarily due to the increase in loans 90+ days past due and accruing, which was mainly the result of a loan moving into that classification. The decrease in total nonperforming assets in the fourth quarter of 2015 related to the charge-off of one commercial and industrial relationship.

The decrease in OREO during the first quarter of 2016 and fourth quarter of 2015 was due to net sales outpacing new OREO properties being recorded.



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## Deposits

The following table details Peoples' deposit balances:

| (Dollars in thousands)            | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |
|-----------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Non-interest-bearing deposits     | \$ 745,468            | \$ 699,695       | \$ 716,202        | \$ 717,939           | \$ 711,226            |
| Interest-bearing deposits:        |                       |                  |                   |                      |                       |
| Retail certificates of deposit    | 406,866               | 418,748          | 439,460           | 448,992              | 461,398               |
| Money market deposit accounts     | 411,111               | 401,828          | 395,022           | 394,119              | 393,472               |
| Governmental deposit accounts     | 286,716               | 300,639          | 313,904           | 276,639              | 293,889               |
| Savings accounts                  | 438,087               | 438,952          | 434,381           | 414,375              | 404,676               |
| Interest-bearing demand accounts  | 270,490               | 252,119          | 254,241           | 250,023              | 232,354               |
| Brokered certificates of deposits | 16,719                | 20,990           | 33,873            | 33,857               | 33,841                |
| Total interest-bearing deposits   | 1,829,989             | 1,833,276        | 1,870,881         | 1,818,005            | 1,819,630             |
| Total deposits                    | \$ 2,575,457          | \$ 2,532,971     | \$ 2,587,083      | \$ 2,535,944         | \$ 2,530,856          |

Total deposits increased \$42.5 million during the third quarter of 2016, attributable to an increase of \$45.8 million in non-interest-bearing deposits. The increase in non-interest-bearing deposits was primarily due to commercial non-interest-bearing deposit balances, which increased \$36.0 million, with individual non-interest-bearing deposit balances increasing \$12.0 million during the quarter. Commercial non-interest-bearing deposit balances were impacted by one large customer maintaining a higher balance than normal at September 30, 2016.

Compared to December 31, 2015, period-end deposit balances increased \$39.5 million, with \$27.5 million of the growth in non-interest-bearing deposits and \$12.0 million of the growth in interest-bearing deposits. The growth in non-interest-bearing deposits was attributable to growth of \$38.7 million in commercial non-interest-bearing deposit balances. Interest-bearing deposits grew as a result of all categories increasing except for certificates of deposits, which declined \$59.3 million.

Period-end deposits increased \$44.6 million compared to September 30, 2015, with \$34.2 million of the growth in non-interest-bearing deposits and \$10.4 million of the growth in interest-bearing deposits. Individual and commercial non-interest-bearing deposits each grew \$17.4 million. The growth in interest-bearing deposits was the result of growth in all categories except for certificates of deposit, which decreased \$71.7 million, and governmental deposits, which declined \$7.2 million.

Non-interest-bearing deposits comprised 29% of total deposits at September 30, 2016, compared to 28% at June 30, 2016, December 31, 2015 and September 30, 2015.

Peoples continues its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as retail certificates of deposit ("CDs") and brokered deposits. These actions accounted for much of the changes in deposit balances over the last several quarters. The decreases in governmental deposit accounts during the third and second quarter of 2016 and previous quarters in 2015 were due to normal seasonal declines, as the balances typically increase annually during the first quarter.

## Borrowed Funds

The following table details Peoples' short-term and long-term borrowings:

| (Dollars in thousands)                | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |
|---------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Short-term borrowings:                |                       |                  |                   |                      |                       |
| FHLB advances                         | \$ 90,000             | \$ 103,000       | \$ 63,000         | \$ 76,000            | \$ 40,000             |
| Retail repurchase agreements          | 72,807                | 70,512           | 72,068            | 84,386               | 89,165                |
| Total short-term borrowings           | 162,807               | 173,512          | 135,068           | 160,386              | 129,165               |
| Long-term borrowings:                 |                       |                  |                   |                      |                       |
| FHLB advances                         | 100,743               | 101,214          | 66,474            | 66,934               | 69,715                |
| National market repurchase agreements | 40,000                | 40,000           | 40,000            | 40,000               | 40,000                |
| Unamortized debt issuance costs       | (57)                  | (63)             | (69)              | —                    | —                     |
| Term note payable (parent company)    | —                     | —                | —                 | —                    | —                     |

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|                                     |            |           |           |            |            |
|-------------------------------------|------------|-----------|-----------|------------|------------|
| Junior subordinated debt securities | 6,877      | 6,829     | 6,783     | 6,736      | 6,685      |
| Total long-term borrowings          | 147,563    | 147,980   | 113,188   | 113,670    | 116,400    |
| Total borrowed funds                | \$ 310,370 | \$321,492 | \$248,256 | \$ 274,056 | \$ 245,565 |

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Peoples' short-term FHLB advances generally consist of overnight borrowings being maintained in connection with the management of Peoples' daily liquidity position. Peoples continually evaluates the overall balance sheet position given the interest rate environment.

During the second quarter of 2016, Peoples executed transactions to take advantage of the low interest rates, which included:

Peoples restructured \$20.0 million of borrowings that had a weighted-average rate of 2.97%, resulting in a \$700,000 loss. Peoples replaced these borrowings with a long-term FHLB advance, which has an interest rate of 2.17% and matures in 2026.

Peoples borrowed an additional \$35.0 million of long-term FHLB amortizing advances, which had interest rates ranging from 1.08% to 1.40%, and mature between 2019 and 2031.

Peoples entered into three forward starting interest rate swaps to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.56%, which become effective in 2018 and mature between 2023 and 2025. These swaps will replace \$30.0 million in borrowings that mature in 2018, which have interest rates ranging from 3.65% to 3.92%.

Additional information regarding Peoples' interest rate swaps can be found in Note 10 of the Notes to the Unconsolidated Financial Statements.

Capital/Stockholders' Equity

At September 30, 2016, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered "well capitalized" institutions under applicable banking regulations. These higher capital levels reflect Peoples' desire to maintain a strong capital position. During the first quarter of 2015, Peoples adopted the new Basel III regulatory capital framework, as approved by the federal banking agencies. The adoption of this new framework modified the calculations and well capitalized thresholds of the current risk-based capital ratios and added the new Common Equity Tier 1 risk-based capital ratio. Additionally, under the new rules, in order to avoid limitations on dividends, equity repurchases and compensation, Peoples must exceed the three minimum required ratios by at least the capital conservation buffer. The capital conservation buffer is being phased in from 0.625% beginning January 1, 2016 to 2.50% by January 1, 2019, and applies to the Common Equity Tier 1 ("CET1") ratio, tier 1 capital ratio and total risk-based capital ratio. At September 30 2016, Peoples' had a capital buffer of 6.24%, compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019. As such, Peoples exceeded the minimum ratios including the capital conservation buffer at September 30, 2016.

The following table details Peoples' actual risk-based capital levels and corresponding ratios:

| (Dollars in thousands)    | September 30,<br>2016 | June 30,<br>2016 | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |   |
|---------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Capital Amounts:          |                       |                  |                   |                      |                       |   |
| Common Equity Tier 1      | \$ 301,222            | \$ 295,148       | \$ 288,787        | \$ 288,416           | \$ 287,020            |   |
| Tier 1                    | 308,099               | 301,977          | 295,569           | 295,151              | 293,705               |   |
| Total (Tier 1 and Tier 2) | 328,948               | 322,413          | 314,896           | 313,974              | 319,277               |   |
| Net risk-weighted assets  | \$ 2,309,951          | \$ 2,265,022     | \$ 2,203,776      | \$ 2,158,713         | \$ 2,133,399          |   |
| Capital Ratios:           |                       |                  |                   |                      |                       |   |
| Common Equity Tier 1      | 13.04                 | % 13.03          | % 13.10           | % 13.36              | % 13.45               | % |
| Tier 1                    | 13.34                 | % 13.33          | % 13.41           | % 13.67              | % 13.77               | % |
| Total (Tier 1 and Tier 2) | 14.24                 | % 14.23          | % 14.29           | % 14.54              | % 14.97               | % |
| Leverage ratio            | 9.71                  | % 9.56           | % 9.45            | % 9.52               | % 9.57                | % |

Peoples' capital ratios were relatively flat compared to June 30, 2016, although the leverage ratio increased 15 basis points largely due to an increase in assets late in the third quarter of 2016, which had a small impact on average assets. Compared to September 30, 2015, the decline in capital ratios was mostly attributable to stock repurchases completed in the first quarter of 2016. Peoples continues to be well above the amounts required to be considered "well capitalized" under applicable banking regulations.

In addition to traditional capital measurements, management uses tangible capital measures to evaluate the adequacy of Peoples' stockholders' equity. Such ratios represent non-GAAP financial measures since their calculation removes the impact of goodwill and other intangible assets acquired through acquisitions on the Unaudited Consolidated Balance Sheets. Management believes this information is useful to investors since it facilitates the comparison of Peoples' operating

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performance, financial condition and trends to peers, especially those without a similar level of intangible assets to that of Peoples. Further, intangible assets generally are difficult to convert into cash, especially during a financial crisis, and could decrease substantially in value should there be deterioration in the overall franchise value. As a result, tangible equity represents a conservative measure of the capacity for a company to incur losses but remain solvent.

The following table reconciles the calculation of these non-GAAP financial measures to amounts reported in Peoples' Unaudited Consolidated Financial Statements:

| (Dollars in thousands)                     | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |
|--------------------------------------------|--------------------|---------------|----------------|-------------------|--------------------|
| Tangible equity:                           |                    |               |                |                   |                    |
| Total stockholders' equity, as reported    | \$ 440,637         | \$ 437,753    | \$ 428,486     | \$ 419,789        | \$ 424,760         |
| Less: goodwill and other intangible assets | 147,005            | 147,971       | 148,997        | 149,617           | 151,339            |
| Tangible equity                            | \$ 293,632         | \$ 289,782    | \$ 279,489     | \$ 270,172        | \$ 273,421         |
| Tangible assets:                           |                    |               |                |                   |                    |
| Total assets, as reported                  | \$ 3,363,585       | \$ 3,333,455  | \$ 3,294,929   | \$ 3,258,970      | \$ 3,228,830       |
| Less: goodwill and other intangible assets | 147,005            | 147,971       | 148,997        | 149,617           | 151,339            |
| Tangible assets                            | \$ 3,216,580       | \$ 3,185,484  | \$ 3,145,932   | \$ 3,109,353      | \$ 3,077,491       |
| Tangible book value per common share:      |                    |               |                |                   |                    |
| Tangible equity                            | \$ 293,632         | \$ 289,782    | \$ 279,489     | \$ 270,172        | \$ 273,421         |
| Common shares outstanding                  | 18,195,986         | 18,185,708    | 18,157,932     | 18,404,864        | 18,400,809         |
| Tangible book value per common share       | \$ 16.14           | \$ 15.93      | \$ 15.39       | \$ 14.68          | \$ 14.86           |
| Tangible equity to tangible assets ratio:  |                    |               |                |                   |                    |
| Tangible equity                            | \$ 293,632         | \$ 289,782    | \$ 279,489     | \$ 270,172        | \$ 273,421         |
| Tangible assets                            | \$ 3,216,580       | \$ 3,185,484  | \$ 3,145,932   | \$ 3,109,353      | \$ 3,077,491       |

|                                    |      |        |        |        |        |   |
|------------------------------------|------|--------|--------|--------|--------|---|
| Tangible equity to tangible assets | 9.13 | % 9.10 | % 8.88 | % 8.69 | % 8.88 | % |
|------------------------------------|------|--------|--------|--------|--------|---|

The increase in the tangible equity to tangible assets ratio at September 30, 2016 compared to the ratio at June 30, 2016 was due mainly to the quarterly earnings. Tangible equity increased during 2016, largely as a result of the increase in the market value of Peoples' available-for-sale investment portfolio coupled with the current year-to-date earnings.

Tangible book value per common share was \$16.14 at September 30, 2016, compared to \$14.86 at the end of the prior year third quarter and \$15.93 at the end of the linked quarter. The increase from the previous year was primarily attributed to a decrease in the number of common shares outstanding coupled with an increase in the market value of Peoples' available for sale investment portfolio. The increase from the linked quarter was due to current year-to-date earnings.

#### Interest Rate Sensitivity and Liquidity

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

#### Interest Rate Risk

Interest rate risk (“IRR”) is one of the most significant risks arising in the normal course of business of financial services companies like Peoples. IRR is the potential for economic loss due to future interest rate changes that can impact the earnings stream as well as market values of financial assets and liabilities. Peoples' exposure to IRR is due primarily to differences in the maturity or repricing of earning assets and interest-bearing liabilities. In addition, other

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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 assigned overall management of IRR to its Asset-Liability Committee (the “ALCO”), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level and amount of IRR. The methods used by the ALCO to assess IRR remain unchanged from those disclosed in Peoples' 2015 Form 10-K.

The following table shows the estimated changes in net interest income and the economic value of equity based upon a standard, parallel shock analysis (dollars in thousands):

| Increase in Interest Rate<br>(in Basis Points) | Estimated Increase in<br>Net Interest Income |       |                   |       | Estimated Decrease in Economic Value<br>of Equity |         |                   |         |
|------------------------------------------------|----------------------------------------------|-------|-------------------|-------|---------------------------------------------------|---------|-------------------|---------|
|                                                | September 30, 2016                           |       | December 31, 2015 |       | September 30, 2016                                |         | December 31, 2015 |         |
| 300                                            | \$4,079                                      | 4.1 % | \$1,477           | 1.5 % | \$(63,389)                                        | (10.6)% | \$(88,774)        | (15.3)% |
| 200                                            | 3,827                                        | 3.8 % | 1,943             | 1.9 % | (38,084 )                                         | (6.4 )% | (57,205 )         | (9.9 )% |
| 100                                            | 2,766                                        | 2.7 % | 1,823             | 1.8 % | (14,360 )                                         | (2.4 )% | (27,036 )         | (4.7 )% |

At September 30, 2016, Peoples' Unaudited Consolidated Balance Sheet remained positioned for a rising interest rate environment, as illustrated by the potential increase in net interest income shown in the above table. While parallel interest rate shock scenarios are useful in assessing the level of IRR inherent in Peoples' Unaudited Consolidated Balance Sheet, interest rates typically move in a non-parallel manner, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve Board increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates.

Peoples entered into interest rate swaps in the second quarter of 2016 as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. As of September 30, 2016, Peoples had three interest rate swaps with a notional value of \$30 million.

Liquidity

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity. The methods used by the ALCO to monitor and evaluate the adequacy of Peoples' liquidity position remain unchanged from those disclosed in Peoples' 2015 Form 10-K.

At September 30, 2016, Peoples had liquid assets of \$145.0 million, which represented 3.9% of total assets and unfunded commitments. This amount exceeded the minimal level of \$74.2 million, or 2% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional \$73.4 million of unpledged investment securities not included in the measurement of liquid assets.

Management believes the current balance of cash and cash equivalents, and anticipated cash flows from the investment portfolio, along with the availability of other funding sources, will allow Peoples to meet anticipated cash obligations, as well as special needs and off-balance sheet commitments.

Off-Balance Sheet Activities and Contractual Obligations

In the normal course of business, Peoples is a party to financial instruments with off-balance sheet risk necessary to meet the financing needs of Peoples' customers. These financial instruments include commitments to extend credit and standby letters of credit. The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Unaudited Consolidated Balance Sheets. The contract amounts of these instruments express the extent of involvement Peoples has in these financial instruments.

Loan Commitments and Standby Letters of Credit

Loan commitments are made to accommodate the financial needs of Peoples' customers. Standby letters of credit are instruments issued by Peoples Bank guaranteeing the beneficiary payment by Peoples Bank in the event of default by Peoples Bank's customer in the nonperformance of an obligation or service. Historically, most loan commitments and standby letters of credit expire unused. Peoples' exposure to credit loss in the event of nonperformance by the

counter-party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. Peoples uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance

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sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

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 and commitments to make additional capital contributions in low-income housing tax credit investments. Traditional off-balance sheet credit-related financial instruments continue to represent the most significant off-balance sheet exposure.

The following table details the total contractual amount of loan commitments and standby letters of credit:

| (Dollars in thousands)        | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 |
|-------------------------------|--------------------|---------------|----------------|-------------------|--------------------|
| Home equity lines of credit   | \$ 83,267          | \$85,139      | \$84,826       | \$ 84,148         | \$ 84,613          |
| Unadvanced construction loans | 100,484            | 88,342        | 70,389         | 77,479            | 73,715             |
| Other loan commitments        | 268,259            | 242,914       | 245,679        | 233,689           | 224,673            |
| Loan commitments              | \$ 452,010         | \$416,395     | \$400,894      | \$ 395,316        | \$ 383,001         |
| Standby letters of credit     | \$ 27,072          | \$22,065      | \$22,376       | \$ 22,970         | \$ 22,494          |

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information called for by this Item 3 is provided under the caption "Interest Rate Sensitivity and Liquidity" under "ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS 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' management, with the participation of Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2016. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

- (a) information required to be disclosed by Peoples 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' management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples 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' disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

**Changes in Internal Control Over Financial Reporting**

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples' fiscal quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

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PART II

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of their respective businesses or operations, Peoples or one of its subsidiaries may be named as a plaintiff, a defendant, or a party to a legal proceeding or any of their respective properties may be subject to various pending and threatened legal proceedings and various actual and potential claims. In view of the inherent difficulty of predicting the outcome of such matters, Peoples cannot state what the eventual outcome of any such matters will be; however, based on management's current knowledge and after consultation with legal counsel, management believes 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

The United Kingdom's exit from the European Union could adversely affect our business.

The referendum held in the United Kingdom (the "U.K.") on June 23, 2016 resulted in a determination that the U.K. should exit the European Union ("EU"). Such an exit from the European Union is unprecedented and it is unclear how the U.K.'s access to the EU single market, and the wider trading, legal and regulatory environment in which Peoples, its customers and its counterparties operate, will be impacted and how this will affect Peoples' and its business and the global macroeconomic environment. The uncertainty surrounding the terms of the U.K.'s exit and its consequences could adversely impact customer and investor confidence, result in additional market volatility and adversely affect Peoples' business, including revenues from trading and investment banking activities and results of operations and financial condition.

The accounting treatment of the interest rate swaps entered into by Peoples in the second quarter of 2016 as part of its interest rate management strategy may change if the hedging relationship is not as effective as currently anticipated. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. As of September 30, 2016, Peoples had three interest rate swaps with a notional value of \$30.0 million. The swaps become effective in 2018, roughly to coincide with the maturity of existing FHLB advances and their expected replacement dates.

Although Peoples expects that the hedging relationship will be highly effective as described above, it has not assumed that there will be no ineffectiveness in the hedging relationship. As of September 30, 2016, the termination value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$7.1 million. As of September 30, 2016, Peoples has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of \$8.7 million against its obligations under these agreements. If Peoples had breached any of these provisions at September 30, 2016, it could have been required to settle its obligations under the agreements at the termination value.

There have been no other material changes from those risk factors previously disclosed in "ITEM 1A. RISK FACTORS" of Part I of Peoples' 2015 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples' business, financial condition and/or operating results.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended September 30, 2016:

| Period                 | (a)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Common<br>Share | (c)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | (d)<br>Maximum<br>Number ( or<br>Approximate<br>Dollar Value)<br>of Common<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(1)</sup> |
|------------------------|------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| July 1 - 31, 2016      | —                                                          | \$ —                                                   | —                                                                                                                                        | \$ 15,049,184                                                                                                                                                            |
| August 1 - 31, 2016    | 1,408                                                      | <sup>(2)</sup> \$ 22.51                                | —                                                                                                                                        | 15,049,184                                                                                                                                                               |
| September 1 - 30, 2016 | 367                                                        | <sup>(2)</sup> \$ 24.65                                | <sup>(2)</sup> —                                                                                                                         | 15,049,184                                                                                                                                                               |
| Total                  | 1,775                                                      | \$ 22.95                                               | —                                                                                                                                        | \$ 15,049,184                                                                                                                                                            |

On November 3, 2015, Peoples announced that on that same date, Peoples' Board of Directors authorized a share repurchase program authorizing Peoples to purchase up to \$20.0 million of its outstanding common shares. No common shares were purchased under this share repurchase program during the three months ended September 30, 2016.

Information reported includes 1,408 common shares and 367 common shares purchased in open market transactions during August and September, respectively, by Peoples Bank under the Rabbi Trust Agreement establishing a rabbi trust that holds assets to provide funds for the payment of the benefits under the Peoples Bancorp Inc. Third Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

The exhibits required to be filed or furnished with this Form 10-Q are attached hereto or incorporated herein by reference. For a list of such exhibits, see “Exhibit Index” beginning at page 69.

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SIGNATURES

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

PEOPLES BANCORP  
INC.

|       |                  |         |                                                                                               |
|-------|------------------|---------|-----------------------------------------------------------------------------------------------|
| Date: | October 27, 2016 | By: /s/ | CHARLES W.<br>SULERZYSKI<br>Charles W. Sulerzyski<br>President and Chief<br>Executive Officer |
|-------|------------------|---------|-----------------------------------------------------------------------------------------------|

|       |                  |         |                                                                                                           |
|-------|------------------|---------|-----------------------------------------------------------------------------------------------------------|
| Date: | October 27, 2016 | By: /s/ | JOHN C. ROGERS<br>John C. Rogers<br>Executive Vice President,<br>Chief Financial Officer<br>and Treasurer |
|-------|------------------|---------|-----------------------------------------------------------------------------------------------------------|

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EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

Exhibit

Number Description

Exhibit Location

|        |                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                   |
|--------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1    | Agreement and Plan of Merger, dated as of August 4, 2014, as amended, between Peoples Bancorp Inc. and NB&T Financial Group, Inc.*                                                                                                                                                                                                                                                                                 | Included as Annex A to the joint proxy statement/prospectus which forms a part of the Registration Statement on Form S-4 of Peoples Bancorp Inc. ("Peoples") (Registration No. 333-199152)        |
| 3.1(a) | Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993)                                                                                                                                                                                                                                                                                               | Incorporated herein by reference to Exhibit 3(a) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)                                                            |
| 3.1(b) | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994)                                                                                                                                                                                                                                                            | Incorporated herein by reference to Exhibit 3(a)(2) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-16772) ("Peoples' 1997 Form 10-K")             |
| 3.1(c) | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996)                                                                                                                                                                                                                                                             | Incorporated herein by reference to Exhibit 3(a)(3) to Peoples' 1997 Form 10-K                                                                                                                    |
| 3.1(d) | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003)                                                                                                                                                                                                                                                            | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) ("Peoples' March 31, 2003 Form 10-Q") |
| 3.1(e) | Certificate of Amendment by Shareholders to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on January 22, 2009)                                                                                                                                                                                                                                          | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on January 23, 2009 (File No. 0-16772)                                                     |
| 3.1(f) | Certificate of Amendment by Directors to Articles filed with the Secretary of State of the State of Ohio on January 28, 2009, evidencing adoption of amendments by the Board of Directors of Peoples Bancorp Inc. to Article FOURTH of Amended Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Peoples Bancorp Inc. | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on February 2, 2009 (File No. 0-16772)                                                     |
| 3.1(g) |                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                   |

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Amended Articles of Incorporation of Peoples Bancorp Inc. (reflecting all amendments) [For SEC reporting compliance purposes only – not filed with Ohio Secretary of State]

Incorporated herein by reference to Exhibit 3.1(g) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (File No. 0-16772)

3.2(a) Code of Regulations of Peoples Bancorp Inc.

Incorporated herein by reference to Exhibit 3(b) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)

3.2(b) Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003

Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q

3.2(c) Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004

Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)

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

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

\* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of SEC Regulation S-K. A copy of any omitted schedules or exhibits will be furnished supplementally to the SEC upon its request.

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## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

| Exhibit<br>Number | Description                                                                                                                                        | Exhibit Location                                                                                                                                                                                                        |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.2(e)            | Certificate regarding adoption of an amendment to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 22, 2010 | Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) ("Peoples' June 30, 2010 Form 10-Q/A") |
| 3.2(f)            | Code of Regulations of Peoples Bancorp Inc. (reflecting all amendments) [For SEC reporting compliance purposes only]                               | Incorporated herein by reference to Exhibit 3.2(f) to Peoples' June 30, 2010 Form 10-Q/A                                                                                                                                |
| 31.1              | Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]                                                                    | Filed herewith                                                                                                                                                                                                          |
| 31.2              | Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]                                          | Filed herewith                                                                                                                                                                                                          |
| 32                | Section 1350 Certifications                                                                                                                        | Furnished herewith                                                                                                                                                                                                      |
| 101.INS           | XBRL Instance Document                                                                                                                             | Submitted electronically herewith #                                                                                                                                                                                     |
| 101.SCH           | XBRL Taxonomy Extension Schema Document                                                                                                            | Submitted electronically herewith #                                                                                                                                                                                     |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                              | Submitted electronically herewith #                                                                                                                                                                                     |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase Document                                                                                                    | Submitted electronically herewith #                                                                                                                                                                                     |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                             | Submitted electronically herewith #                                                                                                                                                                                     |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document                                                                                               | Submitted electronically herewith #                                                                                                                                                                                     |

# Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at September 30, 2016 and December 31, 2015; (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2016 and 2015; (iii) Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2016 and 2015; (iv) Consolidated Statement of Stockholders' Equity (unaudited) for the nine months ended September 30, 2016; (v) Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2016 and 2015; and (vi) Notes to the Unaudited Consolidated Financial Statements.

