

PEOPLES BANCORP INC  
Form 10-Q  
October 29, 2015

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, 2015

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 jurisdiction of  
incorporation or organization)

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

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

45750

(Address of principal executive  
offices)

(Zip Code)

Registrant's telephone number,  
including area code:

(740) 373-3155

Not Applicable

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

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

Smaller reporting company

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

filer o

(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  x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 18,406,224 common shares, without par value, at October 28, 2015.

---

Table of Contents

Table of Contents

|  |           |
|--|-----------|
| <u>PART I – FINANCIAL INFORMATION</u>  | <u>3</u>  |
| <u>ITEM 1. FINANCIAL STATEMENTS</u>  | <u>3</u>  |
| <u>CONSOLIDATED BALANCE SHEETS (Unaudited)</u>   | <u>3</u>  |
| <u>CONSOLIDATED STATEMENTS OF INCOME (Unaudited)</u>   | <u>4</u>  |
| <u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)</u>                                   | <u>5</u>  |
| <u>CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)</u>                                    | <u>5</u>  |
| <u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)</u>                                   | <u>6</u>  |
| <u>NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>                                      | <u>7</u>  |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION</u> | <u>34</u> |
| <u>SELECTED FINANCIAL DATA</u>   | <u>34</u> |
| <u>EXECUTIVE SUMMARY</u>   | <u>37</u> |
| <u>RESULTS OF OPERATIONS</u>   | <u>38</u> |
| <u>FINANCIAL CONDITION</u>   | <u>48</u> |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>                            | <u>61</u> |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u>   | <u>61</u> |
| <u>PART II – OTHER INFORMATION</u>   | <u>62</u> |
| <u>ITEM 1. LEGAL PROCEEDINGS</u>   | <u>62</u> |
| <u>ITEM 1A. RISK FACTORS</u>   | <u>62</u> |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>                           | <u>62</u> |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>   | <u>62</u> |
| <u>ITEM 4. MINE SAFETY DISCLOSURES</u>   | <u>62</u> |
| <u>ITEM 5. OTHER INFORMATION</u>   | <u>62</u> |
| <u>ITEM 6. EXHIBITS</u>  | <u>62</u> |
| <u>SIGNATURES</u>  | <u>63</u> |
| <u>EXHIBIT INDEX</u>   | <u>64</u> |

Table of Contents

## PART I

## ITEM 1. FINANCIAL STATEMENTS

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (Unaudited)

| (Dollars in thousands)   | September 30,<br>2015 | December 31,<br>2014 |
|--|-----------------------|----------------------|
| Assets   |                       |                      |
| Cash and due from banks  | \$ 51,770             | \$ 42,230            |
| Interest-bearing deposits in other banks   | 11,971                | 19,224               |
| Total cash and cash equivalents  | 63,741                | 61,454               |
| Available-for-sale investment securities, at fair value (amortized cost of \$780,609 at September 30, 2015 and \$632,967 at December 31, 2014)   | 793,285               | 636,880              |
| Held-to-maturity investment securities, at amortized cost (fair value of \$47,135 at September 30, 2015 and \$48,442 at December 31, 2014)   | 46,399                | 48,468               |
| Other investment securities, at cost   | 38,496                | 28,311               |
| Total investment securities  | 878,180               | 713,659              |
| Loans, net of deferred fees and costs  | 2,050,245             | 1,620,898            |
| Allowance for loan losses  | (23,331)              | (17,881)             |
| Net loans  | 2,026,914             | 1,603,017            |
| Loans held for sale  | 1,636                 | 4,374                |
| Bank premises and equipment, net   | 53,401                | 40,335               |
| Goodwill   | 133,201               | 98,562               |
| Other intangible assets  | 18,138                | 10,596               |
| Other assets   | 53,619                | 35,772               |
| Total assets   | \$ 3,228,830          | \$ 2,567,769         |
| Liabilities  |                       |                      |
| Non-interest-bearing deposits  | \$ 711,226            | \$ 493,162           |
| Interest-bearing deposits  | 1,819,630             | 1,439,912            |
| Total deposits   | 2,530,856             | 1,933,074            |
| Short-term borrowings  | 129,165               | 88,277               |
| Long-term borrowings   | 116,400               | 179,083              |
| Accrued expenses and other liabilities   | 27,649                | 27,217               |
| Total liabilities  | 2,804,070             | 2,227,651            |
| Stockholders' Equity   |                       |                      |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2015 and December 31, 2014  | —                     | —                    |
| Common stock, no par value, 24,000,000 shares authorized, 18,932,498 shares issued at September 30, 2015 and 15,599,643 shares issued at December 31, 2014, including shares in treasury | 343,505               | 265,742              |
| Retained earnings  | 90,960                | 90,391               |
| Accumulated other comprehensive income (loss), net of deferred income taxes  | 4,985                 | (1,301)              |
| Treasury stock, at cost, 589,396 shares at September 30, 2015 and 590,246 shares at December 31, 2014  | (14,690)              | (14,714)             |
| Total stockholders' equity   | 424,760               | 340,118              |
| Total liabilities and stockholders' equity   | \$ 3,228,830          | \$ 2,567,769         |

See Notes to the Unaudited Consolidated Financial Statements



Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

| (Dollars in thousands, except per share data)                     | Three Months Ended    |           | Nine Months Ended     |           |
|---|-----------------------|-----------|-----------------------|-----------|
|   | September 30,<br>2015 | 2014      | September 30,<br>2015 | 2014      |
| <b>Interest Income:</b>   |                       |           |                       |           |
| Interest and fees on loans  | \$ 22,870             | \$ 15,910 | \$ 64,176             | \$ 43,353 |
| Interest and dividends on taxable investment securities           | 4,484                 | 4,181     | 13,400                | 12,661    |
| Interest on tax-exempt investment securities                      | 800                   | 470       | 2,202                 | 1,332     |
| Other interest income (expense)                                   | 24                    | 5         | 125                   | (14       |
| Total interest income   | 28,178                | 20,566    | 79,903                | 57,332    |
| <b>Interest Expense:</b>  |                       |           |                       |           |
| Interest on deposits  | 1,539                 | 1,514     | 4,716                 | 4,548     |
| Interest on short-term borrowings                                 | 42                    | 46        | 108                   | 114       |
| Interest on long-term borrowings                                  | 1,061                 | 1,147     | 3,331                 | 3,288     |
| Total interest expense  | 2,642                 | 2,707     | 8,155                 | 7,950     |
| Net interest income   | 25,536                | 17,859    | 71,748                | 49,382    |
| Provision for (recovery of) loan losses                           | 5,837                 | (380      | ) 6,859               | 211       |
| Net interest income after provision for (recovery of) loan losses | 19,699                | 18,239    | 64,889                | 49,171    |
| <b>Other Income:</b>  |                       |           |                       |           |
| Insurance income  | 3,275                 | 3,169     | 10,870                | 10,728    |
| Deposit account service charges                                   | 2,922                 | 2,449     | 8,065                 | 6,787     |
| Trust and investment income                                       | 2,497                 | 1,876     | 7,088                 | 5,656     |
| Electronic banking income   | 2,241                 | 1,695     | 6,533                 | 4,796     |
| Mortgage banking income   | 212                   | 334       | 927                   | 872       |
| Net gain on investment securities                                 | 62                    | 124       | 673                   | 160       |
| Net loss on asset disposals and other transactions                | (51                   | )(109     | ) (1,290              | )(285     |
| Other non-interest income   | 759                   | 338       | 1,857                 | 1,036     |
| Total other income  | 11,917                | 9,876     | 34,723                | 29,750    |
| <b>Other Expenses:</b>  |                       |           |                       |           |
| Salaries and employee benefit costs                               | 13,572                | 11,667    | 45,493                | 33,700    |
| Net occupancy and equipment                                       | 2,840                 | 2,267     | 8,273                 | 5,822     |
| Professional fees   | 1,287                 | 1,451     | 5,542                 | 3,625     |
| Electronic banking expense  | 1,408                 | 1,283     | 3,852                 | 3,316     |
| Amortization of other intangible assets                           | 1,127                 | 367       | 2,944                 | 912       |
| Data processing and software                                      | 910                   | 673       | 2,670                 | 1,798     |
| Marketing expense   | 459                   | 668       | 2,175                 | 1,540     |
| Communication expense   | 628                   | 421       | 1,722                 | 1,170     |
| Franchise tax   | 502                   | 388       | 1,552                 | 1,215     |
| FDIC insurance  | 562                   | 331       | 1,516                 | 878       |
| Foreclosed real estate and other loan expenses                    | 159                   | 177       | 1,031                 | 509       |
| Other non-interest expense  | 2,658                 | 2,514     | 11,034                | 6,543     |
| Total other expenses  | 26,112                | 22,207    | 87,804                | 61,028    |
| Income before income taxes  | 5,504                 | 5,908     | 11,808                | 17,893    |
| Income tax expense  | 1,370                 | 1,729     | 3,450                 | 5,454     |
| Net income  | \$ 4,134              | \$ 4,179  | \$ 8,358              | \$ 12,439 |
| Earnings per common share - basic                                 | \$ 0.23               | \$ 0.33   | \$ 0.48               | \$ 1.09   |
| Earnings per common share - diluted                               | \$ 0.22               | \$ 0.32   | \$ 0.47               | \$ 1.08   |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Weighted-average number of common shares outstanding - basic   | 18,127,131 | 12,632,341 | 17,357,034 | 11,348,625 |
| Weighted-average number of common shares outstanding - diluted | 18,271,979 | 12,765,880 | 17,487,642 | 11,464,020 |
| Cash dividends declared  | \$2,759    | \$1,675    | \$7,789    | \$4,932    |
| Cash dividends declared per common share                       | \$0.15     | \$0.15     | \$0.45     | \$0.45     |
| See Notes to the Unaudited Consolidated Financial Statements   |            |            |            |            |

Table of ContentsPEOPLES BANCORP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

| (Dollars in thousands)  | Three Months Ended |         | Nine Months Ended |           |
|---|--------------------|---------|-------------------|-----------|
|   | September 30,      |         | September 30,     |           |
|   | 2015               | 2014    | 2015              | 2014      |
| Net income  | \$4,134            | \$4,179 | \$8,358           | \$12,439  |
| Other comprehensive income (loss):                                    |                    |         |                   |           |
| Available-for-sale investment securities:                             |                    |         |                   |           |
| Gross unrealized holding gain (loss) arising in the period            | 7,171              | (395)   | ) 9,458           | 15,503    |
| Related tax (expense) benefit   | (2,509)            | )139    | (3,309)           | ) (5,426) |
| Less: reclassification adjustment for net gain included in net income | 62                 | 124     | 673               | 160       |
| Related tax expense   | (22)               | ) (43)  | ) (236)           | ) (56)    |
| Net effect on other comprehensive income (loss)                       | 4,622              | (337)   | ) 5,712           | 9,973     |
| Defined benefit plans:  |                    |         |                   |           |
| Net (loss) income arising during the period                           | (167)              | ) (311) | ) 340             | (1,490)   |
| Related tax benefit (expense)   | 58                 | 109     | (119)             | ) 522     |
| Amortization of unrecognized loss and service cost on benefit plans   | 26                 | 32      | 88                | 97        |
| Related tax expense   | (9)                | ) (11)  | ) (30)            | ) (34)    |
| Recognition of loss due to settlement and curtailment                 | 82                 | 361     | 454               | 1,383     |
| Related tax expense   | (29)               | ) (126) | ) (159)           | ) (484)   |
| Net effect on other comprehensive (loss) income                       | (39)               | ) 54    | 574               | (6)       |
| Total other comprehensive income (loss), net of tax (expense) benefit | 4,583              | (283)   | ) 6,286           | 9,967     |
| Total comprehensive income  | \$8,717            | \$3,896 | \$14,644          | \$22,406  |

## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands)  | Common Shares | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|---|---------------|-------------------|---|----------------|----------------------------|
|   |               |                   |   |                |                            |
| Balance, December 31, 2014  | \$265,742     | \$90,391          | \$(1,301)                                     | \$(14,714)     | \$340,118                  |
| Net income  | —             | 8,358             | —   | —              | 8,358                      |
| Other comprehensive income, net of tax  | —             | —                 | 6,286   | —              | 6,286                      |
| Cash dividends declared   | —             | (7,789)           | )—  | —              | (7,789)                    |
| Tax benefit from exercise of stock options  | 63            | —                 | —   | —              | 63                         |
| Reissuance of treasury stock for deferred compensation plan for Boards of Directors | —             | —                 | —   | 184            | 184                        |
| Purchase of treasury stock  | —             | —                 | —   | (628)          | ) (628)                    |
| Common shares issued under dividend reinvestment plan                               | 299           | —                 | —   | —              | 299                        |
| Common shares issued under compensation plan for Board of Directors                 | (23)          | )—                | —   | 178            | 155                        |
| Common shares issued under employee stock purchase plan                             | (35)          | )—                | —   | 290            | 255                        |



Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|  |           |          |         |            |           |
|--|-----------|----------|---------|------------|-----------|
| Stock-based compensation expense   | 1,432     | —        | —       | —          | 1,432     |
| Issuance of common shares related to acquisition of NB&T Financial Group, Inc. | 76,027    | —        | —       | —          | 76,027    |
| Balance, September 30, 2015  | \$343,505 | \$90,960 | \$4,985 | \$(14,690) | \$424,760 |

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|  | Nine Months Ended<br>September 30, |             |
|--|------------------------------------|-------------|
| (Dollars in thousands)   | 2015                               | 2014        |
| Net cash provided by operating activities                          | \$ 31,096                          | \$ 19,422   |
| Investing activities:  |                                    |             |
| Available-for-sale investment securities:                          |                                    |             |
| Purchases  | (155,043                           | )(109,356 ) |
| Proceeds from sales  | 49,918                             | 88,561      |
| Proceeds from principal payments, calls and prepayments            | 95,107                             | 55,170      |
| Held-to-maturity investment securities:                            |                                    |             |
| Purchases  | —                                  | (1,017 )    |
| Proceeds from principal payments                                   | 1,712                              | 1,022       |
| Net increase in loans  | (43,102                            | )(67,963 )  |
| Net expenditures for premises and equipment                        | (7,049                             | )(5,363 )   |
| Proceeds from sales of other real estate owned                     | 509                                | 204         |
| Proceeds from bank owned life insurance contracts                  | —                                  | 6,322       |
| Business acquisitions, net of cash received                        | 97,277                             | 10,080      |
| (Return of) investment in limited partnership and tax credit funds | (108                               | )358        |
| Net cash provided by (used in) investing activities                | 39,221                             | (21,982 )   |
| Financing activities:  |                                    |             |
| Net increase in non-interest-bearing deposits                      | 92,628                             | 43,085      |
| Net decrease in interest-bearing deposits                          | (123,889                           | )(15,270 )  |
| Net increase (decrease) in short-term borrowings                   | 40,888                             | (45,753 )   |
| Proceeds from long-term borrowings                                 | —                                  | 5,268       |
| Payments on long-term borrowings                                   | (69,666                            | )(7,916 )   |
| Cash dividends paid  | (7,426                             | )(4,618 )   |
| Purchase of treasury stock   | (628                               | )(407 )     |
| Proceeds from issuance of common shares                            | —                                  | 40,242      |
| Excess tax benefit from share-based payments                       | 63                                 | 79          |
| Net cash (used in) provided by financing activities                | (68,030                            | )14,710     |
| Net increase in cash and cash equivalents                          | 2,287                              | 12,150      |
| Cash and cash equivalents at beginning of period                   | 61,454                             | 53,820      |
| Cash and cash equivalents at end of period                         | \$ 63,741                          | \$ 65,970   |

See Notes to the Unaudited Consolidated Financial Statements

Table of Contents

PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

---

**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, 2014 ("2014 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' 2014 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, 2015 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, 2014, contained herein, has been derived from the audited Consolidated Balance Sheet included in Peoples' 2014 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 September 2015, the FASB issued an accounting standards update 2015-16 - Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The simplification eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts of such adjustments, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. For public business entities (such as Peoples), the amendments are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments are to be applied prospectively to adjustments to provisional amounts that occur after the effective date of the amendments with earlier application permitted for financial statements that have not been issued. Peoples elected to early adopt as of July 1, 2015, and will recognize measurement-period adjustments during the period in which Peoples determines the amounts of such adjustments, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date.

In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. In August 2015, the FASB issued an update that defers the effective date of the revenue recognition guidance by one year. This new guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for Peoples). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. Peoples has elected to implement this new accounting guidance using a cumulative-effect approach.

Management's preliminary analysis suggests that the adoption of this new accounting guidance is not expected to have a material effect on Peoples' financial condition or results of operations. There are many aspects of this 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 this new accounting guidance may change based on the conclusions reached as to the application of the new accounting guidance.

Table of Contents

## 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, 2015                     |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| U.S. Treasury and government agencies  | \$—        | \$—  | \$—   | \$—                                       |
| U.S. government sponsored agencies     | 2,993      | —  | 2,993   | —   |
| States and political subdivisions      | 115,249    | —  | 115,249                                       | —   |
| Residential mortgage-backed securities | 639,327    | —  | 639,327                                       | —   |
| Commercial mortgage-backed securities  | 24,348     | —  | 24,348  | —   |
| Bank-issued trust preferred securities | 4,776      | —  | 4,776   | —   |
| Equity securities                      | 6,592      | 6,383  | 209   | —   |
| Total available-for-sale securities    | \$793,285  | \$6,383  | \$786,902                                     | \$—                                       |

December 31, 2014

Obligations of:

|  |           |         |           |     |
|--|-----------|---------|-----------|-----|
| U.S. Treasury and government agencies  | \$1       | \$—     | \$1       | \$— |
| U.S. government sponsored agencies     | 5,950     | —       | 5,950     | —   |
| States and political subdivisions      | 64,743    | —       | 64,743    | —   |
| Residential mortgage-backed securities | 527,291   | —       | 527,291   | —   |
| Commercial mortgage-backed securities  | 27,847    | —       | 27,847    | —   |
| Bank-issued trust preferred securities | 5,645     | —       | 5,645     | —   |
| Equity securities                      | 5,403     | 5,204   | 199       | —   |
| Total available-for-sale securities    | \$636,880 | \$5,204 | \$631,676 | \$— |

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 Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| September 30, 2015                     |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| States and political subdivisions      | \$4,258    | \$—  | \$4,258                                       | \$—                                       |
| Residential mortgage-backed securities | 36,080     | —  | 36,080  | —   |
| Commercial mortgage-backed securities  | 6,797      | —  | 6,797   | —   |
| Total held-to-maturity securities      | \$47,135   | \$—  | \$47,135                                      | \$—                                       |
| December 31, 2014                      |            |  |   |   |
| Obligations of:                        |            |  |   |   |
| States and political subdivisions      | \$4,282    | \$—  | \$4,282                                       | \$—                                       |
| Residential mortgage-backed securities | 36,740     | —  | 36,740  | —   |
| Commercial mortgage-backed securities  | 7,420      | —  | 7,420   | —   |
| Total held-to-maturity securities      | \$48,442   | \$—  | \$48,442                                      | \$—                                       |

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 volatilities, 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

8

---

Table of Contents

the pricing services in management's overall assessment of the reasonableness of the fair values provided, and challenges prices when they believe a material discrepancy in pricing exists.

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, 2015, impaired loans with an aggregate outstanding principal balance of \$58.7 million were measured and reported at a fair value of \$48.1 million. For the three and nine months ended September 30, 2015, Peoples recognized \$4.1 million and \$7.2 million, respectively, of losses on impaired loans through the allowance for loan losses.

The following table presents the fair values of financial assets and liabilities carried on Peoples' 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:

| (Dollars in thousands)        | September 30, 2015 |              | December 31, 2014 |              |
|-------------------------------|--------------------|--------------|-------------------|--------------|
|                               | Carrying Amount    | Fair Value   | Carrying Amount   | Fair Value   |
| <b>Financial assets:</b>      |                    |              |                   |              |
| Cash and cash equivalents     | \$ 63,741          | \$ 63,741    | \$ 61,454         | \$ 61,454    |
| Investment securities         | 878,180            | 878,916      | 713,659           | 713,633      |
| Loans                         | 2,028,550          | 1,990,941    | 1,607,391         | 1,581,813    |
| <b>Financial liabilities:</b> |                    |              |                   |              |
| Deposits                      | \$ 2,530,856       | \$ 2,535,874 | \$ 1,933,074      | \$ 1,938,021 |
| Short-term borrowings         | 129,165            | 129,165      | 88,277            | 88,277       |
| Long-term borrowings          | 116,400            | 121,753      | 179,083           | 183,878      |

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).

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.





Table of Contents

## 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 Value |
|--|-------------------|------------------------------|-------------------------------|------------|
| September 30, 2015                     |                   |                              |                               |            |
| Obligations of:                        |                   |                              |                               |            |
| U.S. Treasury and government agencies  | \$—               | \$—                          | \$—                           | \$—        |
| U.S. government sponsored agencies     | 2,904             | 89                           | —                             | 2,993      |
| States and political subdivisions      | 112,132           | 3,196                        | (79)                          | )115,249   |
| Residential mortgage-backed securities | 634,892           | 8,836                        | (4,401)                       | )639,327   |
| Commercial mortgage-backed securities  | 23,930            | 418                          | —                             | 24,348     |
| Bank-issued trust preferred securities | 5,140             | 42                           | (406)                         | )4,776     |
| Equity securities                      | 1,611             | 5,071                        | (90)                          | )6,592     |
| Total available-for-sale securities    | \$780,609         | \$17,652                     | \$(4,976)                     | )\$793,285 |
| December 31, 2014                      |                   |                              |                               |            |
| Obligations of:                        |                   |                              |                               |            |
| U.S. Treasury and government agencies  | \$1               | \$—                          | \$—                           | \$1        |
| U.S. government sponsored agencies     | 5,836             | 114                          | —                             | 5,950      |
| States and political subdivisions      | 62,292            | 2,510                        | (59)                          | )64,743    |
| Residential mortgage-backed securities | 529,245           | 5,910                        | (7,864)                       | )527,291   |
| Commercial mortgage-backed securities  | 28,021            | 112                          | (286)                         | )27,847    |
| Bank-issued trust preferred securities | 6,132             | 3                            | (490)                         | )5,645     |
| Equity securities                      | 1,440             | 4,044                        | (81)                          | )5,403     |
| Total available-for-sale securities    | \$632,967         | \$12,693                     | \$(8,780)                     | )\$636,880 |

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both September 30, 2015 and December 31, 2014. At September 30, 2015, there were no securities of a single issuer, other than U.S. Treasury and government agencies, and U.S. government sponsored agencies/enterprises, 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:

| (Dollars in thousands) | Three Months Ended    |                       | Nine Months Ended     |                       |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                        | September 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Gross gains realized   | \$94                  | \$129                 | \$726                 | \$863                 |
| Gross losses realized  | 32                    | 5                     | 53                    | 703                   |
| Net gain realized      | \$62                  | \$124                 | \$673                 | \$160                 |

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.

Table of Contents

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, 2015                     |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$7,453             | \$71            | 15                | \$213             | \$8             | 1                 | \$7,666    | \$79            |
| Residential mortgage-backed securities | 105,219             | 1,167           | 28                | 96,747            | 3,234           | 31                | 201,966    | 4,401           |
| Commercial mortgage-backed securities  | —                   | —               | —                 | —                 | —               | —                 | —          | —               |
| Bank-issued trust preferred securities | 2,139               | 3               | —                 | 2,595             | 403             | 3                 | 4,734      | 406             |
| Equity securities                      | 339                 | 17              | 2                 | 102               | 73              | 1                 | 441        | 90              |
| Total                                  | \$115,150           | \$1,258         | 45                | \$99,657          | \$3,718         | 36                | \$214,807  | \$4,976         |
| December 31, 2014                      |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$2,602             | \$12            | 4                 | \$5,788           | \$47            | 8                 | \$8,390    | \$59            |
| Residential mortgage-backed securities | 114,018             | 1,091           | 21                | 216,224           | 6,773           | 57                | 330,242    | 7,864           |
| Commercial mortgage-backed securities  | —                   | —               | —                 | 19,404            | 286             | 4                 | 19,404     | 286             |
| Bank-issued trust preferred securities | —                   | —               | —                 | 2,509             | 490             | 3                 | 2,509      | 490             |
| Equity securities                      | 40                  | 2               | 2                 | 96                | 79              | 1                 | 136        | 81              |
| Total                                  | \$116,660           | \$1,105         | 27                | \$244,021         | \$7,675         | 73                | \$360,681  | \$8,780         |

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2015, 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, 2015 and December 31, 2014, were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2015, approximately 97% of the mortgage-backed securities that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 3%, or three positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the three 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, 2015 were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector.

Table of Contents

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, 2015. 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 Years | 5 to 10<br>Years | Over 10<br>Years | Total      |   |
|--|------------------|--------------|------------------|------------------|------------|---|
| Amortized cost                         |                  |              |                  |                  |            |   |
| Obligations of:                        |                  |              |                  |                  |            |   |
| U.S. Treasury and government agencies  | \$—              | \$—          | \$—              | \$—              | \$—        |   |
| U.S. government sponsored agencies     | —                | 989          | —                | 1,915            | 2,904      |   |
| States and political subdivisions      | 246              | 9,275        | 29,640           | 72,971           | 112,132    |   |
| Residential mortgage-backed securities | —                | 9,728        | 51,764           | 573,400          | 634,892    |   |
| Commercial mortgage-backed securities  | —                | —            | 20,026           | 3,904            | 23,930     |   |
| Bank-issued trust preferred securities | —                | —            | —                | 5,140            | 5,140      |   |
| Equity securities                      |                  |              |                  |                  | 1,611      |   |
| Total available-for-sale securities    | \$ 246           | \$ 19,992    | \$ 101,430       | \$ 657,330       | \$ 780,609 |   |
| Fair value                             |                  |              |                  |                  |            |   |
| Obligations of:                        |                  |              |                  |                  |            |   |
| U.S. Treasury and government agencies  | \$—              | \$—          | \$—              | \$—              | \$—        |   |
| U.S. government sponsored agencies     | —                | 1,000        | —                | 1,993            | 2,993      |   |
| States and political subdivisions      | 248              | 9,586        | 30,477           | 74,938           | 115,249    |   |
| Residential mortgage-backed securities | —                | 9,763        | 52,331           | 577,233          | 639,327    |   |
| Commercial mortgage-backed securities  | —                | —            | 20,365           | 3,983            | 24,348     |   |
| Bank-issued trust preferred securities | —                | —            | —                | 4,776            | 4,776      |   |
| Equity securities                      |                  |              |                  |                  | 6,592      |   |
| Total available-for-sale securities    | \$ 248           | \$ 20,349    | \$ 103,173       | \$ 662,923       | \$ 793,285 |   |
| Total weighted-average yield           | 5.04             | % 2.16       | % 2.78           | % 2.63           | % 2.65     | % |

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 Value |
|--|-------------------|------------------------------|-------------------------------|------------|
| September 30, 2015                     |                   |                              |                               |            |
| Obligations of:                        |                   |                              |                               |            |
| States and political subdivisions      | \$ 3,833          | \$ 430                       | \$(5)                         | \$ 4,258   |
| Residential mortgage-backed securities | 35,712            | 666                          | (298)                         | 36,080     |
| Commercial mortgage-backed securities  | 6,854             | —                            | (57)                          | 6,797      |
| Total held-to-maturity securities      | \$ 46,399         | \$ 1,096                     | \$(360)                       | \$ 47,135  |
| December 31, 2014                      |                   |                              |                               |            |
| Obligations of:                        |                   |                              |                               |            |
| States and political subdivisions      | \$ 3,841          | \$ 448                       | \$(7)                         | \$ 4,282   |
| Residential mortgage-backed securities | 36,945            | 189                          | (394)                         | 36,740     |
| Commercial mortgage-backed securities  | 7,682             | 9                            | (271)                         | 7,420      |
| Total held-to-maturity securities      | \$ 48,468         | \$ 646                       | \$(672)                       | \$ 48,442  |

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three or the nine months ended September 30, 2015 and 2014.



Table of Contents

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, 2015                     |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$—                 | \$—             | —                 | \$320             | \$5             | 1                 | \$320      | \$5             |
| Residential mortgage-backed securities | 3,304               | 36              | 1                 | 10,320            | 262             | 2                 | 13,624     | 298             |
| Commercial mortgage-backed securities  | 588                 | 8               | —                 | 6,209             | 49              | 1                 | 6,797      | 57              |
| Total                                  | \$3,892             | \$44            | 1                 | \$16,849          | \$316           | 4                 | \$20,741   | \$360           |
| December 31, 2014                      |                     |                 |                   |                   |                 |                   |            |                 |
| Obligations of:                        |                     |                 |                   |                   |                 |                   |            |                 |
| States and political subdivisions      | \$—                 | \$—             | —                 | \$323             | \$7             | 1                 | \$323      | \$7             |
| Residential mortgage-backed securities | \$—                 | \$—             | —                 | \$18,242          | \$394           | 5                 | \$18,242   | \$394           |
| Commercial mortgage-backed securities  | —                   | —               | —                 | 6,356             | 271             | 1                 | 6,356      | 271             |
| Total                                  | \$—                 | \$—             | —                 | \$24,921          | \$672           | 7                 | \$24,921   | \$672           |

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, 2015. 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      | \$—           | \$325        | \$—           | \$3,508       | \$3,833  |   |
| Residential mortgage-backed securities | —             | —            | 492           | 35,220        | 35,712   |   |
| Commercial mortgage-backed securities  | —             | —            | —             | 6,854         | 6,854    |   |
| Total held-to-maturity securities      | \$—           | \$325        | \$492         | \$45,582      | \$46,399 |   |
| Fair value                             |               |              |               |               |          |   |
| Obligations of:                        |               |              |               |               |          |   |
| States and political subdivisions      | \$—           | \$320        | \$—           | \$3,938       | \$4,258  |   |
| Residential mortgage-backed securities | —             | —            | 499           | 35,581        | 36,080   |   |
| Commercial mortgage-backed securities  | —             | —            | —             | 6,797         | 6,797    |   |
| Total held-to-maturity securities      | \$—           | \$320        | \$499         | \$46,316      | \$47,135 |   |
| Total weighted-average yield           | —             | %3.14        | %2.28         | %2.69         | %2.69    | % |

## Other Securities

Peoples' other investment securities on the Unaudited Consolidated Balance Sheets 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 \$488.8 million and \$352.8 million at September 30, 2015 and December 31, 2014, respectively, and held-to-maturity investment securities with carrying values of \$21.8 million and \$22.9 million at September 30, 2015 and December 31, 2014, 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 \$11.7 million and \$13.5 million at September 30, 2015 and December 31, 2014, respectively, and held-to-maturity securities with carrying values of \$23.6 million and \$24.5 million at September 30, 2015 and December 31, 2014, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

Table of Contents

## 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,<br>2015 | December 31,<br>2014 |
|---------------------------------------|-----------------------|----------------------|
| Originated loans:                     |                       |                      |
| Commercial real estate, construction  | \$ 68,798             | \$ 37,901            |
| Commercial real estate, other         | 429,120               | 434,660              |
| Commercial real estate                | 497,918               | 472,561              |
| Commercial and industrial             | 288,697               | 249,975              |
| Residential real estate               | 282,863               | 254,169              |
| Home equity lines of credit           | 71,620                | 62,463               |
| Consumer                              | 213,394               | 169,913              |
| Deposit account overdrafts            | 1,317                 | 2,933                |
| Total originated loans                | \$ 1,355,809          | \$ 1,212,014         |
| Acquired Loans:                       |                       |                      |
| Commercial real estate, construction  | \$ 12,278             | \$ 1,051             |
| Commercial real estate, other         | 281,510               | 121,475              |
| Commercial real estate                | 293,788               | 122,526              |
| Commercial and industrial             | 68,759                | 30,056               |
| Residential real estate               | 288,269               | 225,274              |
| Home equity lines of credit           | 34,147                | 18,232               |
| Consumer                              | 9,473                 | 12,796               |
| Deposit account overdrafts            | —                     | —                    |
| Total acquired loans                  | \$ 694,436            | \$ 408,884           |
| Loans, net of deferred fees and costs | \$ 2,050,245          | \$ 1,620,898         |

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,<br>2015 | December 31,<br>2014 |
|-------------------------------|-----------------------|----------------------|
| Commercial real estate, other | \$ 17,465             | \$ 7,762             |
| Commercial and industrial     | 3,660                 | 1,041                |
| Residential real estate       | 28,302                | 15,183               |
| Consumer                      | 220                   | 306                  |
| Total outstanding balance     | \$ 49,647             | \$ 24,292            |
| Net carrying amount           | \$ 37,442             | \$ 19,067            |

Table of Contents

Changes in the accretable yield for purchase credit impaired loans for the nine months ended September 30, 2015 were as follows:

|   |                  |
|---|------------------|
| (Dollars in thousands)                            | Accretable Yield |
| Balance, December 31, 2014                        | \$3,172          |
| Additions:  |                  |
| Reclassification from nonaccretable to accretable | 2,074            |
| NB&T Financial Group, Inc.                        | 3,611            |
| Accretion   | (1,322)          |
| Balance, September 30, 2015                       | \$7,535          |

Cash flows expected to be collected on purchase credit impaired loans are estimated semi-annually 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 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 \$551.5 million and \$457.1 million at September 30, 2015 and December 31, 2014, respectively. Peoples also pledges commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$199.9 million and \$150.7 million at September 30, 2015 and December 31, 2014, 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.

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,<br>2015 | December 31,<br>2014 | September 30,<br>2015                | December 31,<br>2014 |
| Originated loans:                    |                       |                      |                                      |                      |
| Commercial real estate, construction | \$—                   | \$—                  | \$—                                  | \$—                  |
| Commercial real estate, other        | 2,190                 | 2,575                | —                                    | —                    |
| Commercial real estate               | 2,190                 | 2,575                | —                                    | —                    |
| Commercial and industrial            | 13,717                | 1,286                | —                                    | —                    |
| Residential real estate              | 3,213                 | 3,049                | 79                                   | 818                  |
| Home equity lines of credit          | 330                   | 341                  | —                                    | 20                   |
| Consumer                             | 72                    | 19                   | 19                                   | 2                    |
| Total originated loans               | \$ 19,522             | \$ 7,270             | \$ 98                                | \$ 840               |
| Acquired loans:                      |                       |                      |                                      |                      |
| Commercial real estate, construction | \$—                   | \$ 96                | \$—                                  | \$—                  |
| Commercial real estate, other        | 453                   | 9                    | 834                                  | 567                  |
| Commercial real estate               | 453                   | 105                  | 834                                  | 567                  |
| Commercial and industrial            | 294                   | 708                  | 1,674                                | 301                  |
| Residential real estate              | 828                   | 304                  | 1,144                                | 1,083                |
| Home equity lines of credit          | 39                    | 19                   | 10                                   | —                    |
| Consumer                             | 8                     | —                    | —                                    | 8                    |
| Total acquired loans                 | \$ 1,622              | \$ 1,136             | \$ 3,662                             | \$ 1,959             |
| Total loans                          | \$ 21,144             | \$ 8,406             | \$ 3,760                             | \$ 2,799             |





Table of Contents

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

| (Dollars in thousands)                  | Loans Past Due |              |           |           | Current<br>Loans | Total<br>Loans |
|---|----------------|--------------|-----------|-----------|------------------|----------------|
|   | 30 - 59 days   | 60 - 89 days | 90 + Days | Total     |                  |                |
| September 30, 2015                      |                |              |           |           |                  |                |
| Originated loans:                       |                |              |           |           |                  |                |
| Commercial real estate,<br>construction | \$—            | \$—          | \$—       | \$—       | \$ 68,798        | \$ 68,798      |
| Commercial real estate, other           | 7,654          | 893          | 1,161     | 9,708     | 419,412          | 429,120        |
| Commercial real estate                  | 7,654          | 893          | 1,161     | 9,708     | 488,210          | 497,918        |
| Commercial and industrial               | 1,702          | 116          | 13,680    | 15,498    | 273,199          | 288,697        |
| Residential real estate                 | 1,997          | 1,599        | 1,289     | 4,885     | 277,978          | 282,863        |
| Home equity lines of credit             | 124            | 178          | 104       | 406       | 71,214           | 71,620         |
| Consumer                                | 1,203          | 134          | 19        | 1,356     | 212,038          | 213,394        |
| Deposit account overdrafts              | —              | —            | —         | —         | 1,317            | 1,317          |
| Total originated loans                  | \$ 12,680      | \$ 2,920     | \$ 16,253 | \$ 31,853 | \$ 1,323,956     | \$ 1,355,809   |
| Acquired loans:                         |                |              |           |           |                  |                |
| Commercial real estate,<br>construction | \$—            | \$—          | \$ 40     | \$ 40     | \$ 12,238        | \$ 12,278      |
| Commercial real estate, other           | 1,133          | 4,066        | 1,237     | 6,436     | 275,074          | 281,510        |
| Commercial real estate                  | 1,133          | 4,066        | 1,277     | 6,476     | 287,312          | 293,788        |
| Commercial and industrial               | 671            | —            | 1,942     | 2,613     | 66,146           | 68,759         |
| Residential real estate                 | 1,368          | 1,652        | 1,684     | 4,704     | 283,565          | 288,269        |
| Home equity lines of credit             | 36             | 106          | 10        | 152       | 33,995           | 34,147         |
| Consumer                                | 129            | 13           | —         | 142       | 9,331            | 9,473          |
| Deposit account overdrafts              | —              | —            | —         | —         | —                | —              |
| Total acquired loans                    | \$ 3,337       | \$ 5,837     | \$ 4,913  | \$ 14,087 | \$ 680,349       | \$ 694,436     |
| Total loans                             | \$ 16,017      | \$ 8,757     | \$ 21,166 | \$ 45,940 | \$ 2,004,305     | \$ 2,050,245   |
| December 31, 2014                       |                |              |           |           |                  |                |
| Originated loans:                       |                |              |           |           |                  |                |
| Commercial real estate,<br>construction | \$—            | \$—          | \$—       | \$—       | \$ 37,901        | \$ 37,901      |
| Commercial real estate, other           | 565            | 285          | 1,220     | 2,070     | 432,590          | 434,660        |
| Commercial real estate                  | 565            | 285          | 1,220     | 2,070     | 470,491          | 472,561        |
| Commercial and industrial               | 17             | 18           | 1,245     | 1,280     | 248,695          | 249,975        |
| Residential real estate                 | 4,502          | 1,062        | 1,902     | 7,466     | 246,703          | 254,169        |
| Home equity lines of credit             | 344            | 425          | 129       | 898       | 61,565           | 62,463         |
| Consumer                                | 1,136          | 157          | 2         | 1,295     | 168,618          | 169,913        |
| Deposit account overdrafts              | 65             | —            | —         | 65        | 2,868            | 2,933          |
| Total originated loans                  | \$ 6,629       | \$ 1,947     | \$ 4,498  | \$ 13,074 | \$ 1,198,940     | \$ 1,212,014   |
| Acquired loans:                         |                |              |           |           |                  |                |
| Commercial real estate,<br>construction | \$—            | \$—          | \$ 96     | \$ 96     | \$ 955           | \$ 1,051       |
| Commercial real estate, other           | 1,067          | 143          | 567       | 1,777     | 119,698          | 121,475        |
| Commercial real estate                  | 1,067          | 143          | 663       | 1,873     | 120,653          | 122,526        |
| Commercial and industrial               | 46             | 6            | 815       | 867       | 29,189           | 30,056         |
| Residential real estate                 | 4,026          | 1,331        | 1,179     | 6,536     | 218,738          | 225,274        |
| Home equity lines of credit             | 9              | 19           | —         | 28        | 18,204           | 18,232         |
| Consumer                                | 245            | 27           | 8         | 280       | 12,516           | 12,796         |
| Deposit account overdrafts              | —              | —            | —         | —         | —                | —              |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|                      |          |         |         |          |             |             |
|----------------------|----------|---------|---------|----------|-------------|-------------|
| Total acquired loans | \$5,393  | \$1,526 | \$2,665 | \$9,584  | \$399,300   | \$408,884   |
| Total loans          | \$12,022 | \$3,473 | \$7,163 | \$22,658 | \$1,598,240 | \$1,620,898 |

16

---

Table of Contents

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2014 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 estimate loss is deferred until its more exact status may be determined.

“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”.

Table of Contents

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 - 4) | Watch<br>(Grade 5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade 7) | Not<br>Rated | Total<br>Loans |
|--------------------------------------|------------------------------|--------------------|--------------------------|-----------------------|--------------|----------------|
| September 30, 2015                   |                              |                    |                          |                       |              |                |
| Originated loans:                    |                              |                    |                          |                       |              |                |
| Commercial real estate, construction | \$ 66,061                    | \$ 1,473           | \$ 921                   | \$ —                  | \$ 343       | \$ 68,798      |
| Commercial real estate, other        | 399,398                      | 15,075             | 14,647                   | —                     | —            | 429,120        |
| Commercial real estate               | 465,459                      | 16,548             | 15,568                   | —                     | 343          | 497,918        |
| Commercial and industrial            | 262,103                      | 9,754              | 16,840                   | —                     | —            | 288,697        |
| Residential real estate              | 20,952                       | 1,111              | 12,931                   | 93                    | 247,776      | 282,863        |
| Home equity lines of credit          | 741                          | —                  | 756                      | —                     | 70,123       | 71,620         |
| Consumer                             | 39                           | —                  | 4                        | —                     | 213,351      | 213,394        |
| Deposit account overdrafts           | —                            | —                  | —                        | —                     | 1,317        | 1,317          |
| Total originated loans               | \$ 749,294                   | \$ 27,413          | \$ 46,099                | \$ 93                 | \$ 532,910   | \$ 1,355,809   |
| Acquired loans:                      |                              |                    |                          |                       |              |                |
| Commercial real estate, construction | \$ 12,278                    | \$ —               | \$ —                     | \$ —                  | \$ —         | \$ 12,278      |
| Commercial real estate, other        | 251,063                      | 12,959             | 17,409                   | 79                    | —            | 281,510        |
| Commercial real estate               | 263,341                      | 12,959             | 17,409                   | 79                    | —            | 293,788        |
| Commercial and industrial            | 59,683                       | 3,874              | 4,860                    | 342                   | —            | 68,759         |
| Residential real estate              | 19,639                       | 1,423              | 1,122                    | —                     | 266,085      | 288,269        |
| Home equity lines of credit          | 317                          | —                  | —                        | —                     | 33,830       | 34,147         |
| Consumer                             | 272                          | —                  | —                        | —                     | 9,201        | 9,473          |
| Deposit account overdrafts           | —                            | —                  | —                        | —                     | —            | —              |
| Total acquired loans                 | \$ 343,252                   | \$ 18,256          | \$ 23,391                | \$ 421                | \$ 309,116   | \$ 694,436     |
| Total loans                          | \$ 1,092,546                 | \$ 45,669          | \$ 69,490                | \$ 514                | \$ 842,026   | \$ 2,050,245   |
| December 31, 2014                    |                              |                    |                          |                       |              |                |
| Originated loans:                    |                              |                    |                          |                       |              |                |
| Commercial real estate, construction | \$ 37,637                    | \$ —               | \$ —                     | \$ —                  | \$ 264       | \$ 37,901      |
| Commercial real estate, other        | 405,224                      | 12,316             | 17,120                   | —                     | —            | 434,660        |
| Commercial real estate               | 442,861                      | 12,316             | 17,120                   | —                     | 264          | 472,561        |
| Commercial and industrial            | 239,168                      | 8,122              | 2,684                    | 1                     | —            | 249,975        |
| Residential real estate              | 21,296                       | 1,195              | 11,601                   | 56                    | 220,021      | 254,169        |
| Home equity lines of credit          | 767                          | —                  | 965                      | —                     | 60,731       | 62,463         |
| Consumer                             | 60                           | 1                  | 8                        | —                     | 169,844      | 169,913        |
| Deposit account overdrafts           | —                            | —                  | —                        | —                     | 2,933        | 2,933          |
| Total originated loans               | \$ 704,152                   | \$ 21,634          | \$ 32,378                | \$ 57                 | \$ 453,793   | \$ 1,212,014   |
| Acquired loans:                      |                              |                    |                          |                       |              |                |
| Commercial real estate, construction | \$ 955                       | \$ —               | \$ —                     | \$ —                  | \$ 96        | \$ 1,051       |
| Commercial real estate, other        | 106,115                      | 7,100              | 8,260                    | —                     | —            | 121,475        |
| Commercial real estate               | 107,070                      | 7,100              | 8,260                    | —                     | 96           | 122,526        |
| Commercial and industrial            | 27,313                       | 255                | 2,294                    | 194                   | —            | 30,056         |
| Residential real estate              | 13,458                       | 833                | 1,540                    | —                     | 209,443      | 225,274        |
| Home equity lines of credit          | 98                           | —                  | —                        | —                     | 18,134       | 18,232         |
| Consumer                             | 279                          | —                  | —                        | —                     | 12,517       | 12,796         |
| Deposit account overdrafts           | —                            | —                  | —                        | —                     | —            | —              |
| Total acquired loans                 | \$ 148,218                   | \$ 8,188           | \$ 12,094                | \$ 194                | \$ 240,190   | \$ 408,884     |
| Total loans                          | \$ 852,370                   | \$ 29,822          | \$ 44,472                | \$ 251                | \$ 693,983   | \$ 1,620,898   |



Table of Contents

## Impaired Loans

The following table summarizes loans classified as impaired:

| (Dollars in thousands)                  | Unpaid<br>Principal<br>Balance | Recorded<br>With<br>Allowance | 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, 2015                      |                                |                               |                                    |                                 |                      |                                   |                                  |
| Commercial real estate,<br>construction | \$ 44                          | \$—                           | \$ 44                              | \$ 44                           | \$—                  | \$ 27                             | \$ 2                             |
| Commercial real estate, other           | 15,846                         | 134                           | 14,921                             | 15,055                          | 7                    | 6,777                             | 604                              |
| Commercial real estate                  | 15,890                         | \$ 134                        | \$ 14,965                          | \$ 15,099                       | \$ 7                 | \$ 6,804                          | \$ 606                           |
| Commercial and industrial               | 19,835                         | 13,864                        | 3,442                              | 17,306                          | 7,193                | 7,466                             | 135                              |
| Residential real estate                 | 33,572                         | 49                            | 32,647                             | 32,696                          | 4                    | 10,504                            | 921                              |
| Home equity lines of credit             | 880                            | —                             | 876                                | 876                             | —                    | 342                               | 29                               |
| Consumer                                | 400                            | —                             | 387                                | 387                             | —                    | 193                               | 43                               |
| Total                                   | \$ 70,577                      | \$ 14,047                     | \$ 52,317                          | \$ 66,364                       | \$ 7,204             | \$ 25,309                         | \$ 1,734                         |
| December 31, 2014                       |                                |                               |                                    |                                 |                      |                                   |                                  |
| Commercial real estate,<br>construction | \$ 9,914                       | \$—                           | \$ 9,909                           | 9,909                           | \$—                  | \$ 2,020                          | \$ 540                           |
| Commercial real estate, other           | 8,668                          | 653                           | 7,742                              | 8,395                           | 189                  | 2,951                             | 248                              |
| Commercial real estate                  | 18,582                         | \$ 653                        | \$ 17,651                          | \$ 18,304                       | \$ 189               | \$ 4,971                          | \$ 788                           |
| Commercial and industrial               | 3,747                          | 1,945                         | 1,767                              | 3,712                           | 816                  | 766                               | 73                               |
| Residential real estate                 | 6,889                          | 53                            | 6,372                              | 6,425                           | 9                    | 3,543                             | 272                              |
| Home equity lines of credit             | 500                            | —                             | 498                                | 498                             | —                    | 298                               | 18                               |
| Consumer                                | 391                            | —                             | 386                                | 386                             | —                    | 156                               | 24                               |
| Total                                   | \$ 30,109                      | \$ 2,651                      | \$ 26,674                          | \$ 29,325                       | \$ 1,014             | \$ 9,734                          | \$ 1,175                         |

At September 30, 2015, 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 debt, such as (i) a reduction in the interest rate for the remaining life of the debt, (ii) an extension of the maturity date at an interest rate lower than the current market rate for new debt 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.

Table of Contents

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 of Contracts | Three Months Ended      |                   | Remaining Recorded Investment |
|--------------------------------------|---------------------|-------------------------|-------------------|-------------------------------|
|                                      |                     | Recorded Investment (1) |                   |                               |
|                                      |                     | Pre-Modification        | Post-Modification |                               |
| September 30, 2015                   |                     |                         |                   |                               |
| Originated loans:                    |                     |                         |                   |                               |
| Commercial real estate, construction | 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                             | 2                   | 31                      | 31                | 31                            |
| Total originated loans               | 12                  | \$ 13,980               | \$ 13,980         | \$ 13,967                     |
| Acquired loans:                      |                     |                         |                   |                               |
| Commercial real estate, other        | 1                   | 24                      | 24                | 24                            |
| Home equity lines of credit          | 1                   | 8                       | 8                 | 8                             |
| Residential real estate              | 1                   | 34                      | 33                | 33                            |
| Total acquired loans                 | 3                   | \$ 66                   | \$ 65             | \$ 65                         |
| September 30, 2014                   |                     |                         |                   |                               |
| Originated loans:                    |                     |                         |                   |                               |
| Commercial and industrial            | 1                   | \$ 2                    | \$ 2              | \$ 2                          |
| Residential real estate              | 25                  | 1,344                   | 1,344             | 1,343                         |
| Home equity lines of credit          | 8                   | 152                     | 152               | 152                           |
| Consumer                             | 11                  | 86                      | 86                | 86                            |
| Total originated loans               | 45                  | \$ 1,584                | \$ 1,584          | \$ 1,583                      |

(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.



Table of Contents

| (Dollars in thousands)               | Number of<br>Contracts | Nine Months Ended<br>Recorded Investment (1) |                   | Remaining<br>Recorded<br>Investment |
|--------------------------------------|------------------------|--|-------------------|-------------------------------------|
|                                      |                        | Pre-Modification                             | Post-Modification |                                     |
| September 30, 2015                   |                        |  |                   |                                     |
| Originated loans:                    |                        |  |                   |                                     |
| Commercial real estate, construction | 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                             | 4                      | 45   | 42                | 41                                  |
| Total originated loans               | 25                     | \$ 14,487                                    | \$ 14,483         | \$ 14,372                           |
| Acquired loans:                      |                        |  |                   |                                     |
| Commercial real estate, other        | 1                      | 24   | 24                | 24                                  |
| Home equity lines of credit          | 1                      | 8  | 8                 | 8                                   |
| Residential real estate              | 1                      | 34   | 33                | 33                                  |
| Total acquired loans                 | 3                      | \$ 66  | \$ 65             | \$ 65                               |
| September 30, 2014                   |                        |  |                   |                                     |
| Originated loans:                    |                        |  |                   |                                     |
| Commercial real estate, construction | 1                      | \$ 96  | \$ 96             | \$ 96                               |
| Commercial and industrial            | 1                      | \$ 2   | \$ 2              | \$ 2                                |
| Residential real estate              | 43                     | 2,290  | 2,290             | 2,264                               |
| Home equity lines of credit          | 12                     | 238  | 238               | 236                                 |
| Consumer                             | 23                     | 159  | 159               | 151                                 |
| Total originated loans               | 80                     | \$ 2,785                                     | \$ 2,785          | \$ 2,749                            |

(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.

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, 2015     |                            |   | September 30, 2014     |                            |   |
|-----------------------------|------------------------|----------------------------|---|------------------------|----------------------------|---|
|                             | Number of<br>Contracts | Recorded<br>Investment (1) | Impact on the<br>Allowance for<br>Loan Losses | Number of<br>Contracts | Recorded<br>Investment (1) | Impact on the<br>Allowance for<br>Loan Losses |
| Acquired loans:             |                        |                            |   |                        |                            |   |
| Commercial and industrial   | 2                      | \$ 196                     | —   | —                      | \$ —                       | \$ —  |
| Residential real estate     | —                      | —                          | —   | 1                      | 40                         | —   |
| Home equity lines of credit | —                      | —                          | —   | 1                      | 17                         | —   |
| Total                       | 2                      | \$ 196                     | \$ —  | 2                      | \$ 57                      | \$ —  |

(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 originated 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.



Table of Contents

## 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 Industrial | Residential<br>Real Estate | Home<br>Equity<br>Lines of<br>Credit | Consumer | Deposit<br>Account<br>Overdrafts | Total     |
|---|---------------------------|------------------------------|----------------------------|--------------------------------------|----------|----------------------------------|-----------|
| Balance, January 1, 2015                    | \$9,825                   | \$4,036                      | \$1,627                    | \$694                                | \$1,587  | \$112                            | \$17,881  |
| Charge-offs                                 | (182)                     | )(426)                       | )(536)                     | )(116)                               | )(868)   | )(566)                           | )(2,694 ) |
| Recoveries                                  | 160                       | 93                           | 208                        | 107                                  | 583      | 134                              | 1,285     |
| Net charge-offs                             | (22)                      | )(333)                       | )(328)                     | )(9)                                 | )(285)   | )(432)                           | )(1,409 ) |
| (Recovery of) provision for loan losses     | (2,297)                   | )7,783                       | (117)                      | )92                                  | 518      | 474                              | 6,453     |
| Balance, September 30, 2015                 | \$7,506                   | \$11,486                     | \$1,182                    | \$777                                | \$1,820  | \$154                            | \$22,925  |
| Period-end amount allocated to:             |                           |                              |                            |                                      |          |                                  |           |
| Loans individually evaluated for impairment | \$7                       | \$7,193                      | \$4                        | \$—                                  | \$—      | \$—                              | \$7,204   |
| Loans collectively evaluated for impairment | 7,499                     | 4,293                        | 1,178                      | 777                                  | 1,820    | 154                              | 15,721    |
| Ending balance                              | \$7,506                   | \$11,486                     | \$1,182                    | \$777                                | \$1,820  | \$154                            | \$22,925  |
| Balance, January 1, 2014                    | \$13,215                  | \$2,174                      | \$881                      | \$343                                | \$316    | \$136                            | \$17,065  |
| Charge-offs                                 | (126)                     | )(49)                        | )(377)                     | )(51)                                | )(841)   | )(351)                           | )(1,795 ) |
| Recoveries                                  | 1,113                     | 68                           | 169                        | 20                                   | 573      | 132                              | 2,075     |
| Net recoveries (charge-offs)                | 987                       | 19                           | (208)                      | )(31)                                | )(268)   | )(219)                           | )280      |
| (Recovery of) provision for loan losses     | (3,656)                   | )1,035                       | 1,092                      | 346                                  | 1,183    | 211                              | 211       |
| Balance, September 30, 2014                 | \$10,546                  | \$3,228                      | \$1,765                    | \$658                                | \$1,231  | \$128                            | \$17,556  |
| Period-end amount allocated to:             |                           |                              |                            |                                      |          |                                  |           |
| Loans individually evaluated for impairment | \$252                     | \$193                        | \$24                       | \$—                                  | \$—      | \$—                              | \$469     |
| Loans collectively evaluated for impairment | 10,294                    | 3,035                        | 1,741                      | 658                                  | 1,231    | 128                              | 17,087    |
| Ending balance                              | \$10,546                  | \$3,228                      | \$1,765                    | \$658                                | \$1,231  | \$128                            | \$17,556  |

The reduction in the allowance for originated loan losses allocated to commercial real estate, and the related recovery of originated loan losses recorded during 2015 compared to 2014 was driven by net recoveries in recent years reducing the historical loss rates. The increase in provision for originated commercial and industrial loans during 2015 was primarily related to a specific allowance for one relationship. 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 2015 were driven by net charge-off activity and increases in the size of the respective loan portfolios.



Table of Contents

## 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, 2015, the expected cash flows for both nonimpaired acquired loans and 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.

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 |      |
|---------------------------------|--------------------|------|-------------------|------|
|                                 | 2015               | 2014 | 2015              | 2014 |
| Nonimpaired loans:              |                    |      |                   |      |
| Balance, January 1              | \$—                | \$—  | \$—               | \$—  |
| Charge-offs                     | —                  | —    | —                 | —    |
| Recoveries                      | —                  | —    | —                 | —    |
| Net recoveries (charge-offs)    | —                  | —    | —                 | —    |
| Provision for loan losses       | 103                | —    | 103               | —    |
| Balance, September 30           | \$ 103             | \$—  | \$ 103            | \$—  |
| Purchase credit impaired loans: |                    |      |                   |      |
| Balance, January 1              | \$—                | \$—  | \$—               | \$—  |
| Charge-offs                     | —                  | —    | —                 | —    |
| Recoveries                      | —                  | —    | —                 | —    |
| Net recoveries (charge-offs)    | —                  | —    | —                 | —    |
| Provision for loan losses       | 303                | —    | 303               | —    |
| Balance, September 30           | \$ 303             | \$—  | \$ 303            | \$—  |

Table of Contents

## Note 5. Long-Term Borrowings

The following table summarizes Peoples' long-term borrowings:

| (Dollars in thousands)                            | September 30, 2015 |                       | December 31, 2014 |                       |   |
|---|--------------------|-----------------------|-------------------|-----------------------|---|
|   | Balance            | Weighted-Average Rate | Balance           | Weighted-Average Rate |   |
| FHLB putable, non-amortizing, fixed rate advances | 50,000             | 3.32                  | % 83,995          | 3.30                  | % |
| FHLB amortizing, fixed rate advances              | 19,715             | 2.61                  | % 40,719          | 2.13                  | % |
| Callable national market repurchase agreements    | 40,000             | 3.63                  | % 40,000          | 3.63                  | % |
| Subordinated debt                                 | 6,685              | 1.76                  | % —               | —                     | % |
| Term note payable (parent company)                | \$ —               | —                     | % \$ 14,369       | 3.50                  | % |
| Total long-term borrowings                        | \$ 116,400         | 3.22                  | % \$ 179,083      | 3.12                  | % |

On December 18, 2012, Peoples entered into a Loan Agreement (the "Loan Agreement") with an unaffiliated financial institution which provided Peoples with an unsecured revolving credit loan with an original maximum principal amount of \$5 million and an unsecured term loan in the principal amount of \$24 million. The original maturity date for the revolving credit loan was December 17, 2013, which was subsequently extended to December 16, 2014 and then to December 16, 2015. As of September 30, 2015, Peoples had not borrowed any funds under the revolving credit loan and, as disclosed below, the term loan had been paid in full. On August 4, 2014, the Loan Agreement was amended (as amended, the "Amended Loan Agreement"). Under the Amended Loan Agreement, the maximum principal amount of the revolving credit loan was increased from \$5 million to \$10 million. In addition, the interest rate on the term loan was reduced from 3.80% to 3.50%, and certain covenants related to the operations of Peoples' business were modified. Peoples was required to make quarterly principal and interest payments with respect to the term loan until the earlier of either full prepayment by Peoples or the stated maturity date. This term loan could be prepaid at any time prior to maturity without penalties, so long as no default had occurred. Concurrently with the Loan Agreement, Peoples also entered into a Negative Pledge Agreement that precludes Peoples from selling, transferring, assigning, mortgaging, encumbering, pledging, or entering into a negative pledge agreement with respect to or otherwise disposing of any interest in the capital stock or other ownership interests owned by Peoples in its subsidiaries without prior written approval. Peoples is subject to certain covenants under the Amended Loan Agreement, which include restrictions on ownership interests of its subsidiaries; cash and cash equivalents; transfers of criticized, classified or nonperforming assets; additional indebtedness; certain material transactions; and other financial covenants which include:

- Peoples and Peoples Bank, National Association ("Peoples Bank") being required to maintain, as of the last day of each fiscal quarter, sufficient capital to qualify as "well capitalized" under applicable regulatory guidance;
- Peoples Bank being required to maintain a "Total Risk-Based Capital Ratio" (as defined in the Amended Loan Agreement) equal to or in excess of 12.50%, measured as of the last day of each fiscal quarter;
- Peoples Bank being required to maintain a ratio of "Nonperforming Assets" to the sum of "Tangible Capital" plus the "Allowance for Loan Losses" (as each term was defined in the Amended Loan Agreement) of not more than 20%, measured as of the last day of each fiscal quarter;
- Peoples being required to maintain a "Fixed Charge Coverage Ratio" (as defined in the Amended Loan Agreement) that equaled or exceeded 1.25 to 1.00, commencing with the quarter ended December 31, 2012 and for each quarter thereafter, with the items used in the ratio determined on a trailing 12-month basis;
- issuance of dividends by Peoples Bank not exceeding the amount permitted by law without requiring regulatory approval;
- minimum liquidity position (cash and cash equivalents available) of \$2 million at Peoples on an unconsolidated basis, tested quarterly; and
- Peoples Bank being required to maintain a ratio of "Allowance for Loan Losses" to "Nonperforming Loans" (as each term was defined in the Amended Loan Agreement) of not less than 70% measured as of the last day of each fiscal quarter.



Table of Contents

On July 24, 2015, Peoples repaid the term loan balance of \$12.0 million and there were no early termination fees associated with the repayment.

Peoples' callable 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. The callable agreements contain call option features, in which the buyer has the right, at its discretion, to terminate the repurchase agreement after an initial period ranging from three months to five years. After the initial call period, the buyer has a one-time option to terminate the agreement. If the buyer exercises its option, Peoples would be required to repay the agreement in whole at the quarterly date. Peoples is required to make quarterly interest payments.

The puttable, non-amortizing, fixed rate FHLB advances have original maturities ranging from ten to twenty years that may be repaid prior to maturity, subject to termination fees. The FHLB has the option, solely at its discretion, to terminate the advance after the initial fixed rate periods ranging from three months to five years, requiring full repayment of the advance by Peoples, prior to the stated maturity. If the 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 ten to twenty 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. During the first quarter of 2015, Peoples repaid several FHLB advances including puttable, non-amortizing, fixed rate advances and amortizing, fixed-rate advances, totaling approximately \$52.1 million that resulted in early termination fees of \$520,000, and had a weighted-average cost of 1.49%.

On March 6, 2015, Peoples completed its acquisition of NB&T Financial Group, Inc. ("NB&T"), which included the assumption of Fixed/Floating Rate Junior Subordinated Debt Securities due 2037 (the "junior subordinated debt securities") at an acquisition-date fair value of \$6.6 million held in a wholly-owned 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.

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

| (Dollars in thousands)                | Balance   | Weighted-Average Rate |   |
|---------------------------------------|-----------|-----------------------|---|
| Three Months Ending December 31, 2015 | \$2,731   | 2.16                  | % |
| Year Ending December 31, 2016         | 2,945     | 2.38                  | % |
| Year Ending December 31, 2017         | 2,330     | 2.46                  | % |
| Year Ending December 31, 2018         | 82,390    | 3.47                  | % |
| Year Ending December 31, 2019         | 1,426     | 2.61                  | % |
| Thereafter                            | 24,578    | 2.69                  | % |
| Total long-term borrowings            | \$116,400 | 3.22                  | % |





Table of Contents

## Note 6. Stockholders' Equity

The following table details the progression in Peoples' common shares and treasury stock during the nine months ended September 30, 2015:

|  | Common<br>Stock | Treasury<br>Stock |
|--|-----------------|-------------------|
| Shares at December 31, 2014  | 15,599,643      | 590,246           |
| Changes related to stock-based compensation awards:                                |                 |                   |
| Grant of restricted common shares  | 118,011         | —                 |
| Release of restricted common shares  | —               | 22,170            |
| Cancellation of restricted common shares   | (9,006          | )                 |
| Exercise of stock options for common shares  | —               | —                 |
| Grant of common shares   | 2,810           | (100 )            |
| Changes related to deferred compensation plan for Boards of Directors:             |                 |                   |
| Purchase of treasury stock   | —               | 5,011             |
| Reissuance of treasury stock   | —               | (9,642 )          |
| Common shares issued under dividend reinvestment plan                              | 13,342          | —                 |
| Common shares issued under compensation plan for Board of Directors                | —               | (6,940 )          |
| Common shares issued under employee stock purchase plan                            | —               | (11,349 )         |
| Issuance of common shares related to the acquisition of NB&T Financial Group, Inc. | 3,207,698       | —                 |
| Shares at September 30, 2015   | 18,932,498      | 589,396           |

On March 6, 2015, Peoples completed its acquisition of NB&T, and issued 3,207,698 common shares reflecting \$76.0 million of consideration, with the remainder paid in cash. Additional information regarding the NB&T acquisition can be found in Note 10 - Acquisitions.

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, 2015, 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, 2015:

| (Dollars in thousands)                                       | Unrealized Gain<br>on Securities | Unrecognized Pension and<br>Postretirement<br>Costs | Net Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|----------------------------------|---|--|
| Balance, December 31, 2014                                   | \$ 2,542                         | \$(3,843  | )\$(1,301 )  |
| Reclassification adjustments to net income:                  |                                  |   |  |
| Realized gain on sale of securities, net of tax              | (437                             | )—  | (437 )   |
| Realized loss due to settlement and curtailment, net of tax  | —                                | 295   | 295  |
| Other comprehensive income, net of reclassifications and tax | 6,149                            | 279   | 6,428  |
| Balance, September 30, 2015                                  | \$ 8,254                         | \$(3,269  | )\$ 4,985  |



Table of Contents

## Note 7. 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 pay 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 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 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,     |          |
| (Dollars in thousands)           | 2015                    | 2014   | 2015              | 2014     |
| Interest cost                    | \$ 111                  | \$ 121 | \$ 335            | \$ 395   |
| Expected return on plan assets   | (122                    | )(139  | )(373             | )(458    |
| Amortization of net loss         | 28                      | 34     | 92                | 103      |
| Settlement of benefit obligation | 82                      | 361    | 454               | 1,383    |
| Net periodic cost                | \$ 99                   | \$ 377 | \$ 508            | \$ 1,423 |
|                                  | Postretirement Benefits |        |                   |          |
|                                  | Three Months Ended      |        | Nine Months Ended |          |
|                                  | September 30,           |        | September 30,     |          |
| (Dollars in thousands)           | 2015                    | 2014   | 2015              | 2014     |
| Interest cost                    | \$ 2                    | \$ 1   | \$ 4              | \$ 4     |
| Amortization of net loss         | (2                      | )(2    | )(4               | )(6      |
| Net periodic benefit             | \$—                     | \$(1   | )\$—              | \$(2     |

Under US GAAP, Peoples is required to recognize a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the unrealized gain or loss existing immediately prior to the settlement. In general, both the projected benefit obligation and the fair value of plan assets are required to be remeasured in order to determine the settlement gain or loss.

In the first three months of 2015, year-to-date lump sum distributions made to participants exceeded the recognition threshold for settlement gains or losses. As a result, Peoples remeasured its pension obligation and plan assets as of January 1, 2015 as part of the calculation of the settlement loss of \$269,000 that was recognized in the first quarter of 2015. The pension obligation and plan assets were remeasured again as of April 1, 2015 as part of the calculation of the settlement loss of \$103,000 recognized in connection with lump sum distributions made during the second quarter of 2015. The pension obligation and plan assets were remeasured again at July 1, 2015 as part of the calculation of the settlement loss of \$82,000 recognized in connection with lump sum distributions made during the third quarter of 2015.



Table of Contents

The following table summarizes the change in pension obligation and funded status as a result of the remeasurement and the aggregate settlement for the three months ended September 30, 2015:

| (Dollars in thousands)       | September 30, 2015            |                      |                          |                      |
|------------------------------|-------------------------------|----------------------|--------------------------|----------------------|
|                              | As of<br>December 31,<br>2014 | Before<br>Settlement | Impact of<br>Settlements | After<br>Settlements |
| Funded status:               |                               |                      |                          |                      |
| Projected benefit obligation | \$ 13,695                     | \$ 12,114            | \$(190)                  | ) \$ 11,924          |
| Fair value of plan assets    | 8,259                         | 7,056                | (190)                    | ) 6,866              |
| Funded status                | \$(5,436)                     | ) \$(5,058)          | ) \$—                    | ) \$(5,058)          |
| Gross unrealized loss (gain) | \$ 5,979                      | \$ 5,175             | \$(82)                   | ) \$ 5,093           |

## Assumptions:

|                                |      |        |   |      |   |
|--------------------------------|------|--------|---|------|---|
| Discount rate                  | 3.50 | % 3.90 | % | 3.90 | % |
| Expected return on plan assets | 7.50 | % 7.50 | % | 7.50 | % |

## Note 8. Earnings Per Common Share

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

| (Dollars in thousands, except per share data)            | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2015                                | 2014       | 2015                               | 2014       |
| Distributed earnings allocated to common shareholders    | \$ 2,727                            | \$ 1,649   | \$ 7,696                           | \$ 4,862   |
| Undistributed earnings allocated to common shareholders  | 1,375                               | 2,498      | 574                                | 7,486      |
| Net earnings allocated to common shareholders            | \$ 4,102                            | \$ 4,147   | \$ 8,270                           | \$ 12,348  |
| Weighted-average common shares outstanding               | 18,127,131                          | 12,632,341 | 17,357,034                         | 11,348,625 |
| Effect of potentially dilutive common shares             | 144,848                             | 133,539    | 130,608                            | 115,395    |
| Total weighted-average diluted common shares outstanding | 18,271,979                          | 12,765,880 | 17,487,642                         | 11,464,020 |
| Earnings per common share:                               |                                     |            |                                    |            |
| Basic  | \$ 0.23                             | \$ 0.33    | \$ 0.48                            | \$ 1.09    |
| Diluted  | \$ 0.22                             | \$ 0.32    | \$ 0.47                            | \$ 1.08    |

## Anti-dilutive shares excluded from calculation:

|                        |        |        |        |        |
|------------------------|--------|--------|--------|--------|
| Stock options and SARs | 42,832 | 51,727 | 47,831 | 55,604 |
|------------------------|--------|--------|--------|--------|

## Note 9. 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 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 February 2007, Peoples has granted a combination of restricted common shares and stock appreciation rights ("SARs") to be settled in 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-



Table of Contents

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, 2015:

|                             | Number of<br>Common Shares<br>Subject to<br>Options | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic Value |
|-----------------------------|---|------------------------------------|---|------------------------------|
| Outstanding at January 1    | 38,577  | \$ 28.09                           |   |                              |
| Expired                     | 17,000  | 27.19                              |   |                              |
| Outstanding at September 30 | 21,577  | \$ 28.80                           | 0.5   | \$—                          |
| Exercisable at September 30 | 21,577  | \$ 28.80                           | 0.5   | \$—                          |

The following table summarizes Peoples' stock options outstanding at September 30, 2015:

| Range of Exercise Prices | Options Outstanding & Exercisable<br>Common Shares    |   |                                    |
|--------------------------|---|---|------------------------------------|
|                          | Subject to<br>Options<br>Outstanding &<br>Exercisable | Weighted-Average<br>Remaining<br>Contractual Life | Weighted-Average<br>Exercise Price |
| \$28.25                  | 11,577  | 0.3 years   | 28.25                              |
| \$28.56 to \$30.00       | 10,000  | 0.7 years   | 29.43                              |
| Total                    | 21,577  | 0.5 years   | \$ 28.80                           |

**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, 2015:

|                             | Number of<br>Common Shares<br>Subject to SARs | Weighted-<br>Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic<br>Value |
|-----------------------------|---|---|---|---------------------------------|
| Outstanding at January 1    | 21,292  | \$ 25.96                                  |   |                                 |
| Outstanding at September 30 | 19,422  | \$ 25.93                                  | 1.6   | \$—                             |
| Exercisable at September 30 | 19,422  | \$ 25.93                                  | 1.6   | \$—                             |



Table of Contents

The following table summarizes Peoples' SARs outstanding at September 30, 2015:

| Exercise Price | Number of Common Shares Subject to SARs Outstanding & Exercisable | Weighted-Average Remaining Contractual Life |
|----------------|---|---|
| \$23.26        | 2,000   | 1.8   |
| \$23.77        | 9,582   | 2.0   |
| \$29.25        | 7,840   | 1.1   |
| Total          | 19,422  | 1.6   |

## 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 2015, Peoples granted an aggregate of 107,961 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. During the second quarter of 2015, Peoples granted an aggregate of 5,600 restricted common shares to non-employee directors with a six-month time-based vesting period. In the third quarter of 2015, Peoples granted to certain key employees an aggregate of 4,000 restricted common shares with a three-year time-based vesting period and 450 restricted common shares subject to performance-based vesting 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. The following table summarizes the changes to Peoples' restricted common shares for the nine months ended September 30, 2015:

|                             | Time-Based Vesting      |  | Performance-Based Vesting |  |
|-----------------------------|-------------------------|--|---------------------------|--|
|                             | Number of Common Shares | Weighted-Average Grant Date Fair Value | Number of Common Shares   | Weighted-Average Grant Date Fair Value |
| Outstanding at January 1    | 47,591                  | \$ 19.48                               | 125,079                   | \$ 21.73                               |
| Awarded                     | 9,600                   | 22.41                                  | 108,411                   | 23.62                                  |
| Released                    | 24,045                  | 15.78                                  | 49,058                    | 21.74                                  |
| Forfeited                   | 500                     | 15.64                                  | 8,506                     | 22.49                                  |
| Outstanding at September 30 | 32,646                  | \$ 23.12                               | 175,926                   | \$ 22.86                               |

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

## Stock-Based Compensation

Peoples recognized 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:

| (Dollars in thousands)         | Three Months Ended September 30, |        | Nine Months Ended September 30, |          |
|--------------------------------|----------------------------------|--------|---------------------------------|----------|
|                                | 2015                             | 2014   | 2015                            | 2014     |
| Total stock-based compensation | \$ 405                           | \$ 428 | \$ 1,432                        | \$ 1,382 |
| Recognized tax benefit         | (142)                            | (150)  | (501)                           | (484)    |
| Net expense recognized         | \$ 263                           | \$ 278 | \$ 931                          | \$ 898   |

Total unrecognized stock-based compensation expense related to unvested awards was \$2.2 million at September 30, 2015, which will be recognized over a weighted-average period of 2.0 years.

Table of Contents

## Note 10. Acquisitions

During 2015, Peoples has completed two acquisitions, which have been accounted for as business combinations under the acquisition method of accounting under US GAAP. The assets purchased, liabilities assumed and related identifiable intangible assets were recorded at their acquisition date fair values, and are detailed in the table below. The goodwill recognized will not be deductible for income tax purposes. The balances and operations related to these acquisitions have been included in Peoples' Unaudited Consolidated Financial Statements from the date of acquisition. On July 21, 2015, Peoples Insurance Agency, LLC ("Peoples Insurance") acquired an insurance agency and related customer accounts in the Lebanon, Ohio area for total cash consideration of \$0.9 million, and recorded \$0.5 million of customer relationship intangibles and \$0.4 million of goodwill.

On March 6, 2015, Peoples completed its acquisition of NB&T for total consideration of \$102.7 million which reflected the conversion of each of the 3,442,329 outstanding NB&T common shares into \$7.75 in cash and 0.9319 in Peoples' common shares. NB&T merged into Peoples and NB&T's wholly-owned subsidiary, The National Bank and Trust Company, which operated 22 full-service branches in southwest Ohio, merged into Peoples Bank. Per the applicable accounting guidance for business combinations, the acquisition date fair values of the assets purchased, liabilities assumed and related identifiable intangible assets are preliminary and subject to refinement for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available.

The following table is a summary of the preliminary purchase price calculation for NB&T, including the assets acquired and liabilities assumed at their estimated fair values and the resulting goodwill recognized.

| (Dollars in thousands, except per share data)                                       | NB&T       |
|---|------------|
| Purchase price  |            |
| Common shares outstanding of acquired company at acquisition date                   | 3,442,329  |
| Cash purchase price per share   | \$ 7.75    |
| Cash consideration  | 26,678     |
| Number of common shares of Peoples issued for each common share of acquired company | 0.9319     |
| Price per Peoples common share, based on closing stock price on acquisition date    | \$ 23.70   |
| Common share consideration  | 76,027     |
| Cash in lieu of fractional common shares of Peoples                                 | 4          |
| Total purchase price  | \$ 102,709 |
| Net assets at fair value  |            |
| Assets  |            |
| Cash and cash equivalents   | \$ 124,825 |
| Investment securities   | 156,392    |
| Loans, including loans held for sale, net of deferred fees and costs                | 384,588    |
| Bank premises and equipment, net  | 10,702     |
| Other intangible assets   | 10,130     |
| Other assets  | 23,889     |
| Total assets  | 710,526    |
| Liabilities   |            |
| Deposits  | 629,512    |
| Borrowings  | 6,570      |
| Accrued expenses and other liabilities  | 5,941      |
| Total liabilities   | 642,023    |
| Net assets  | \$ 68,503  |
| Goodwill  | \$ 34,206  |



Table of Contents

The estimated fair values presented in the above table reflect additional information that was obtained during the three months ended September 30, 2015, which resulted in changes to certain fair value estimates made as of the date of acquisition. Material adjustments to acquisition date estimated fair values are recorded in the period in which the acquisition occurred and, as a result, previously recorded results have changed. After considering the additional information, obtained during the three months ended September 30, 2015, the estimated fair value of loans decreased \$0.3 million, other assets decreased \$0.3 million, and accrued expenses and other liabilities increased \$0.1 million from June 30, 2015. These revised fair value estimates resulted in a net increase to goodwill of \$0.5 million from the amount reported as of June 30, 2015, to \$34.2 million, which was recognized in the September 30, 2015 Unaudited Consolidated Balance Sheet. The decrease in fair value of loans was considered immaterial to the income previously stated.

Acquired loans are reported net of the unamortized fair value adjustment. The following table details the preliminary fair value adjustment for acquired loans as of the acquisition date:

| (Dollars in thousands)          | NB&T      |
|---------------------------------|-----------|
| Nonimpaired loans:              |           |
| Contractual cash flows          | \$497,451 |
| Nonaccretable difference        | 45,828    |
| Expected cash flows             | 451,623   |
| Accretable yield                | 90,346    |
| Fair value                      | \$361,277 |
| Purchase credit impaired loans: |           |
| Contractual cash flows          | \$40,258  |
| Nonaccretable difference        | 13,336    |
| Expected cash flows             | 26,922    |
| Accretable yield                | 3,611     |
| Fair value                      | \$23,311  |

The following table illustrates the unaudited pro forma information for the results of operations for periods ended September 30, as if the acquisition of NB&T had occurred on January 1 of each year. This information includes the impact of certain purchase accounting adjustments, including the amortization/accretion related to loans, other intangible assets, deposits and borrowings. This information is presented for illustrative purposes only, and is not necessarily indicative of the results of operations had the acquisition been completed at the beginning of the earliest periods presented, and is not necessarily indicative of future results of operations.

| (Dollars in thousands)                                      | For the Three Months |          | For the Nine Months |           |
|---|----------------------|----------|---------------------|-----------|
|   | Ended                |          | Ended               |           |
|   | September 30         |          | September 30        |           |
|   | 2015                 | 2014     | 2015                | 2014      |
| Total revenue (net interest income and non-interest income) | \$37,442             | \$35,888 | \$111,924           | \$102,827 |
| Net income available to common shareholders                 | 4,134                | 5,384    | 9,641               | 16,240    |

Peoples' total revenue for the third quarter of 2015 and through the nine months ended September 30, 2015, included \$7.4 million and \$16.4 million, respectively, provided by NB&T. Also, Peoples' net income available to common shareholders for the third quarter of 2015 and through the nine months ended September 30, 2015, included \$2.1 million and \$4.1 million, respectively, provided by NB&T.

Peoples recorded non-interest expenses related to acquisitions, mainly the NB&T acquisition, of \$9.9 million and net losses on asset disposals related to the NB&T acquisition of \$0.6 million in the Unaudited Consolidated Statement of Income for the nine months ended September 30, 2015. The \$9.9 million was included in the following line items on the Unaudited Consolidated Statement of Income for the nine months ended September 30, 2015: salaries and employee benefit costs contained \$4.4 million, professional fees contained \$1.7 million, and other non-interest expenses contained \$3.8 million.



Table of Contents

The following table is a preliminary summary of the changes in goodwill and intangible assets during the nine-month period ended September 30, 2015:

| (Dollars in thousands)      | Goodwill  | Gross Core<br>Deposits | Gross Customer<br>Relationships |
|-----------------------------|-----------|------------------------|---------------------------------|
| Balance, December 31, 2014  | \$98,562  | \$7,013                | \$8,858                         |
| Acquired intangible assets  | 34,639    | 8,623                  | 1,695                           |
| Accumulated amortization    | \$—       | \$(3,497               | ) \$(6,960                      |
| Balance, September 30, 2015 | \$133,201 | \$12,139               | \$3,593                         |

The following is an analysis of activity of servicing rights for the nine-month period ended September 30, 2015:

| (Dollars in thousands)      | 2015    |
|-----------------------------|---------|
| Balance, December 31, 2014  | \$2,238 |
| Amortization                | (499    |
| Servicing rights originated | 422     |
| Servicing rights acquired   | 245     |
| Balance, September 30, 2015 | \$2,406 |

Table of Contents

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>2015 |            | At or For the Nine Months<br>Ended<br>September 30,<br>2015 |            |    |
|--|--|------------|---|------------|----|
|  | 2014   |            | 2014  |            |    |
| <b>SIGNIFICANT RATIOS</b>  |  |            |   |            |    |
| Return on average stockholders' equity   | 3.89   | % 5.84     | % 2.78  | % 6.68     | %  |
| Return on average assets   | 0.51   | % 0.73     | % 0.36  | % 0.78     | %  |
| Net interest margin  | 3.55   | % 3.45     | % 3.49  | % 3.40     | %  |
| Efficiency ratio (a)   | 65.81  | % 77.82    | % 78.18   | % 74.92    | %  |
| Pre-provision net revenue to average assets (b)  | 1.40   | % 0.96     | % 0.84  | % 1.14     | %  |
| Average stockholders' equity to average assets   | 13.12  | % 12.47    | % 13.10   | % 11.64    | %  |
| Average loans to average deposits  | 79.70  | % 79.82    | % 79.64   | % 78.58    | %  |
| Dividend payout ratio  | 66.74  | % 40.06    | % 93.19   | % 39.65    | %  |
| <b>ASSET QUALITY RATIOS</b>  |  |            |   |            |    |
| Nonperforming loans as a percent of total loans (c)(d)   | 1.21   | % 0.61     | % 1.21  | % 0.61     | %  |
| Nonperforming assets as a percent of total assets (c)(d)                                       | 0.82   | % 0.42     | % 0.82  | % 0.42     | %  |
| Nonperforming assets as a percent of total loans and other real estate owned (c)(d)            | 1.29   | % 0.68     | % 1.29  | % 0.68     | %  |
| Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (d) | 1.72   | % 1.47     | % 1.72  | % 1.47     | %  |
| Allowance for loan losses as a percent of nonperforming loans (c)(d)                           | 93.68  | % 192.71   | % 93.68   | % 192.71   | %  |
| Provision for (recovery of) loan losses as a percent of average total loans                    | 1.14   | % (0.11)   | )% 0.48   | % 0.02     | %  |
| Net charge-offs (recoveries) as a percentage of average total loans (annualized)               | 0.15   | % (0.15)   | )% 0.09   | % (0.03)   | )% |
| <b>CAPITAL RATIOS (d)</b>  |  |            |   |            |    |
| Common Equity Tier 1   | 13.46  | % N/A      | 13.46   | % N/A      |    |
| Tier 1   | 13.77  | % 14.53    | % 13.77   | % 14.53    | %  |
| Total (Tier 1 and Tier 2)  | 14.97  | % 15.73    | % 14.97   | % 15.73    | %  |
| Tier 1 leverage  | 9.57   | % 10.64    | % 9.57  | % 10.64    | %  |
| Tangible equity to tangible assets (e)   | 8.88   | % 9.40     | % 8.88  | % 9.40     | %  |
| <b>PER COMMON SHARE DATA</b>   |  |            |   |            |    |
| Earnings per common share – Basic  | \$0.23   | \$0.33     | \$0.48  | \$1.09     |    |
| Earnings per common share – Diluted  | 0.22   | 0.32       | 0.47  | 1.08       |    |
| Cash dividends declared per common share   | 0.15   | 0.15       | 0.45  | 0.45       |    |
| Book value per common share (d)  | 23.08  | 22.57      | 23.08   | 22.57      |    |
| Tangible book value per common share (d)(e)  | \$14.86  | \$15.50    | \$14.86   | \$15.50    |    |
| Weighted-average number of common shares outstanding – Basic                                   | 18,127,131   | 12,632,341 | 17,357,034  | 11,348,625 |    |
| Weighted-average number of common shares outstanding – Diluted                                 | 18,271,979   | 12,765,880 | 17,487,642  | 11,464,020 |    |
| Common shares outstanding at end of period (a)   | 18,400,809   | 14,150,279 | 18,400,809  | 14,150,279 |    |



Non-interest expense (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus non-interest income (excluding gains or losses on investment securities and asset disposals and other transactions).

(b) This amount represents a non-GAAP financial measure since it excludes the provision for loan losses and gains or losses on investment securities and asset disposals and other transactions included in earnings. Additional information regarding the calculation of these measures can be found later in this section under the caption "Pre-Provision Net Revenue".

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

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

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

These amounts represent non-GAAP financial measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders' equity and total assets. Additional information regarding the calculation of these measures can be found later in this discussion 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", "estimates", "may", "feels", "expects", "believes", "plans", "will", "would", "should", "could", "intends", "anticipates", "believes", "plans", "will", "would", "should", "could", "intends" and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. Factors that might cause such a difference include, but are not limited to:

- (1) the success, impact, and timing of the implementation of Peoples' business strategies, including the successful integration of recently completed acquisitions and the expansion of consumer lending activity;
- (2) Peoples' ability to integrate the NB&T acquisition and any future acquisitions may be unsuccessful, or may be more difficult, time-consuming or costly than expected;
- (3) Peoples may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to Peoples' current shareholders;
- (4) local, regional, national and international economic conditions and the impact they may have on Peoples, its customers and its counterparties, and Peoples' assessment of the impact, which may be different than anticipated; competitive pressures among financial institutions or from non-financial institutions may increase significantly,
- (5) including product and pricing pressures, third-party relationships and revenues, and Peoples' ability to attract, develop and retain qualified professionals; changes in the interest rate environment due to economic conditions and/or the fiscal policies of the U.S.
- (6) government and Board of Governors of the Federal Reserve System ("Federal Reserve Board"), which may adversely impact interest rates, interest margins and interest rate sensitivity; changes in prepayment speeds, loan originations, levels of non-performing assets, delinquent loans and
- (7) charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated; adverse changes in the economic conditions and/or activities, including, but not limited to, impacts from the implementation of the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, as well as
- (8) continued economic uncertainty in the U.S., the European Union, Asia, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults; legislative or regulatory changes or actions, including in particular the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations promulgated and to be promulgated thereunder by the Office
- (9) of the Comptroller of the Currency ("OCC"), 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;
- (10) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;
- (11) changes in accounting standards, policies, estimates or procedures which may adversely affect Peoples' reported financial condition or results of operations;

- (12) Peoples' assumptions and estimates used in applying critical accounting policies, which may prove unreliable, inaccurate or not predictive of actual results;
- (13) adverse changes in the conditions and trends in the financial markets, including political developments, which 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;
- (14) Peoples' ability to receive dividends from its subsidiaries;

Table of Contents

- (15) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;
- (16) the impact of new minimum capital thresholds established as a part of the implementation of Basel III;
- (17) 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;
- (18) 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 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;
- (20) the overall adequacy of Peoples' risk management program;
- (21) the impact on Peoples' businesses, as well as on the risks described above, of various domestic or international 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 with the Securities and Exchange Commission ("SEC"), including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples' 2014 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' 2014 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 82 financial service locations and 81 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 OCC and secondarily by the Federal Reserve Board and the Federal Deposit Insurance Corporation (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, and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary, employee benefit plans 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



Table of Contents

Consolidated Financial Statements, and Management's Discussion and Analysis at September 30, 2015, which were unchanged from the policies disclosed in Peoples' 2014 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:

On July 24, 2015, Peoples repaid the \$12.0 million term loan payable under the Amended Loan Agreement described in Note 5 - Loan-Term Borrowings of the Notes to the Unaudited Consolidated Financial Statements included in this Form 10-Q. There were no early termination fees associated with the repayment.

At the close of business on March 6, 2015, Peoples completed the acquisition of NB&T and the 22 full-service offices of its 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, after preliminary acquisition accounting adjustments.

At the close of business on October 24, 2014, Peoples completed the acquisition of North Akron Savings Bank ("North Akron") and its 4 full-service offices in Akron, Cuyahoga Falls, Munroe and Norton, Ohio. Under the terms of the merger agreement, Peoples paid \$7,655 of consideration per share of North Akron common stock, or \$20.1 million, of which 80% was paid in Peoples' common shares and the remaining 20% in cash. The acquisition added \$111.5 million of loans and \$108.1 million of deposits at the acquisition date, after acquisition accounting adjustments.

At the close of business on August 22, 2014, Peoples completed the acquisition of Ohio Heritage Bancorp, Inc. ("Ohio Heritage") and the 6 full-service offices of its subsidiary, Ohio Heritage Bank, in Coshocton, Newark, Heath, Mount Vernon and New Philadelphia, Ohio. Under the terms of the agreement, Peoples paid \$110.00 of consideration per share of Ohio Heritage common stock, or \$37.7 million, of which 85% was paid in Peoples' common shares and the remaining 15% in cash. The acquisition added \$175.8 million of loans and \$174.9 million of deposits at the acquisition date, after acquisition accounting adjustments.

On August 7, 2014, Peoples announced the completion of the sale of 1,847,826 common shares at \$23.00 per share to institutional investors through a private placement (the "Private Equity Issuance"). Peoples received net proceeds of \$40.2 million from the sale, and used the proceeds, in part, to fund the cash consideration for the NB&T acquisition.

At the close of business on May 30, 2014, Peoples completed the acquisition of Midwest Bancshares, Inc. ("Midwest") and the 2 full-service offices of its subsidiary, First National Bank of Wellston, in Wellston and Jackson, Ohio. Under the terms of the agreement, Peoples paid \$65.50 of consideration per share of Midwest common stock, or \$12.6 million, of which 50% was paid in cash and the remaining 50% in Peoples' common shares. The acquisition added \$58.7 million of loans and \$77.9 million of deposits at the acquisition date, after acquisition accounting adjustments.

In the third quarter of 2015, Peoples incurred \$109,000 of acquisition-related expenses, compared to \$732,000 in the second quarter of 2015, and \$9.6 million in the first quarter of 2015. These acquisition-related expenses were primarily severance costs, fees for legal costs and other professional services, deconversion costs and write-offs associated with assets acquired. For the nine months of 2015, Peoples incurred \$10.5 million of acquisition-related expenses in 2015 compared to \$3.2 million in the nine months of 2014.

As described in Note 7 - Employee Benefit Plans of the Notes to the Unaudited Consolidated Financial Statements included in this Form 10-Q, Peoples incurred settlement charges of \$82,000 in the third quarter of 2015 due to the aggregate amount of lump-sum distributions to participants in Peoples' defined benefit pension plan exceeding the threshold for recognizing such charges during the first quarter of 2015. Settlement charges of \$103,000 and \$361,000 were recognized during the second quarter of 2015 and third quarter of 2014, respectively. For the nine months ended 2015, settlement charges of \$454,000 were recognized, compared to \$1.4 million for the nine months of 2014.

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



Table of Contents

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.

The Federal Reserve Board has maintained its target Federal Funds Rate at a historically low level of 0% to 0.25% since December 2008 and has maintained the Discount Rate at 0.75% since December 2010. The Federal Reserve Board has indicated the possibility these short-term rates could start to be raised in fourth quarter 2015.

From late 2008 until year-end 2014, the Federal Reserve Board took various actions to lower longer-term market interest rates as a means of stimulating the economy – a policy commonly referred to as “quantitative easing”. These actions involved buying mortgage-backed and other debt securities through its open market operations. In December 2013, the Federal Reserve Board announced plans to taper its quantitative easing efforts. As a result, the slope of the U.S. Treasury yield curve has fluctuated significantly. Substantial flattening occurred in late 2008, in mid-2010 and early third quarter of 2011 through 2012, while moderate steepening occurred in the second half of 2009, late 2010 and mid-2013. The curve remained relatively steep throughout the second half of 2013, primarily as a reaction to the Federal Reserve Board's announcement of a reduction in monthly asset purchases and generally improving economic conditions. The curve flattened gradually throughout 2014, and the intermediate part of the curve continued to flatten in 2015. The recent flattening of the yield curve was in response to the slowing global economy, geopolitical uncertainty, and lower yields on sovereign debt around the world.

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, 2015 of \$4.1 million, or \$0.22 per diluted common share, compared to net income of \$4.2 million and \$0.32 per diluted common share a year ago, and \$4.9 million or \$0.27 per diluted common share in the second quarter of 2015. On a year-to-date basis, net income was \$8.4 million or \$0.47 per diluted share in the nine months of 2015 compared to \$12.4 million or \$1.08 per diluted share for the same period in 2014. The decreased earnings for all periods was primarily related to the increase in provision for loan losses which was partially offset by increased net interest income.

Net interest income was \$25.5 million in the third quarter of 2015, compared to \$17.9 million for the third quarter of 2014 and \$24.8 million for the second quarter of 2015, while net interest margin was 3.55%, 3.45% and 3.46%, respectively. For the nine months ended September 30, 2015, net interest income was \$71.7 million, compared to \$49.4 million in 2014. The improvement was driven by an increase in earning assets due to higher loan balances, a reduction in funding costs and accretion income from acquisitions.

Net interest margin, excluding the net accretion income, improved 6 basis points compared to the linked quarter. Prepayment penalties received on investments and loans accounted for 4 basis points of the improvement. The remaining improvement was due to the strategies executed early in the quarter, which included excess cash being deployed into the investment portfolio and the payoff of the \$12.0 million term loan. The accretion income, net of amortization expense, from acquisitions added 18 basis points of net interest margin in the third quarter of 2015, compared to 15 basis points for the linked quarter and 13 basis points for the third quarter of 2014. On a year-to-date basis, net accretion income from the acquisitions added 17 basis points for the nine months of 2015 and 9 basis points for the nine months of 2014.

Peoples' provision for loan losses for the three months ended September 30, 2015 was \$5.8 million, which was driven largely by an increase in a specific reserve for a large commercial loan relationship. The loan growth experienced during the quarter, coupled with the increase in criticized loans, also accounted for a portion of the increase in the provision during the quarter, compared to a recovery of \$380,000 during the three months ended September 30, 2014 and a provision of \$672,000 for the three months ended June 30, 2015. Net charge-offs, while still below Peoples' historical rate of 30 to 40 basis points, increased during the quarter as Peoples recorded net charge-offs of \$750,000, resulting in an annualized net charge-off rate of 15 basis points. The increase of \$1.1 million in nonperforming assets was primarily due to the increase in loans 90+ days past due and accruing, which was mainly the result of two loans. Criticized assets, which are those classified as watch, substandard or doubtful, increased during the quarter largely due to four large commercial real estate loans being downgraded during the quarter.

For the third quarter of 2015, total non-interest income was relatively flat compared to the linked quarter and up 21% compared to the prior year third quarter. The growth in other non-interest income, which was primarily gains from selling Small Business Administration loans, was largely offset by the decline in mortgage banking income compared to the linked



Table of Contents

quarter. The growth in total non-interest income compared to the prior year third quarter was due largely to increased trust and investment income, electronic banking income and deposit account service charges. On a year-to-date basis, all categories comprising total non-interest income were up compared to the first nine months of 2014, most notably electronic banking income, trust and investment income, and deposit account service charges, with growth of 36%, 25%, and 19% respectively.

Non-interest expenses for the third quarter of 2015 were down 9% compared to the linked quarter, with much of the decrease due to a reduction in marketing expenses, coupled with reductions in foreclosed real estate and other loan expenses, salaries and employee benefits, and various other categories. Year-to-date non-interest expenses were up 44% compared to the first nine months of 2014, with the increase due largely to the NB&T acquisition, which closed March 6, 2015. Non-interest expenses for the third quarter and year-to-date of 2015 included acquisition costs of \$0.1 million and \$9.9 million, respectively; and pension settlement charges of \$82,000 and \$454,000, respectively. The efficiency ratio for the third quarter of 2015 was 65.81%, compared to 74.20% for the linked quarter and 77.82% for the third quarter of 2014. The decrease in the ratio for the quarter was the result of the decrease in non-interest expenses.

At September 30, 2015, total assets were \$3.23 billion, up \$661.1 million from year-end 2014. This increase was primarily the result of the NB&T acquisition. The allowance for loan losses was \$23.3 million, or 1.72% of originated loans (net of deferred fees and costs), compared to \$17.9 million and 1.48% at December 31, 2014. The NB&T acquisition added approximately \$384.6 million of loans at acquisition date, after preliminary acquisition accounting adjustments.

Total liabilities were \$2.80 billion at September 30, 2015, up \$576.4 million since year-end 2014. The increase in liabilities was primarily due to a 31%, or \$597.8 million, increase in deposits. Total deposit growth in non-interest bearing deposits increased 44%, or \$218.1 million, and interest bearing deposits increased 26%, or \$379.7 million from December 31, 2014, primarily due to acquisitions. Total retail deposits decreased \$9.4 million during the quarter. All interest-bearing deposit types decreased in the third quarter of 2015, with the largest decreases being certificates of deposits and governmental deposits.

At September 30, 2015, total stockholders' equity was \$424.8 million, up \$84.6 million since December 31, 2014. During the first quarter of 2015, Peoples issued \$76.0 million of common shares as part of the consideration for the NB&T acquisition. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Risk-Based capital ratio remained stable at 13.77% at September 30, 2015, versus 14.32% at December 31, 2014, while the Total Risk-Based Capital ratio was 14.97% versus 15.48% at December 31, 2014. In addition, Peoples' tangible equity to tangible asset ratio was 8.88%, and tangible book value per common share was \$14.86 at September 30, 2015, versus 9.39% and \$15.57 at December 31, 2014, respectively.

**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.

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

Table of Contents

| (Dollars in thousands)               | For the Three Months Ended |                |            |                 |                |            |                    |                |            |
|--------------------------------------|----------------------------|----------------|------------|-----------------|----------------|------------|--------------------|----------------|------------|
|                                      | September 30, 2015         |                |            | June 30, 2015   |                |            | September 30, 2014 |                |            |
|                                      | Average Balance            | Income/Expense | Yield/Cost | Average Balance | Income/Expense | Yield/Cost | Average Balance    | Income/Expense | Yield/Cost |
| Short-term investments               | \$34,093                   | \$21           | 0.24 %     | \$94,376        | \$57           | 0.25 %     | \$16,401           | \$5            | 0.12 %     |
| Other long-term investments          | 1,261                      | 3              | 0.94 %     | 1,345           | 4              | 1.19 %     | 1,785              | —              | — %        |
| Investment Securities (1):           |                            |                |            |                 |                |            |                    |                |            |
| Taxable                              | 742,486                    | 4,530          | 2.44 %     | 722,969         | 4,599          | 2.54 %     | 631,684            | 4,227          | 2.68 %     |
| Nontaxable (2)                       | 113,577                    | 1,231          | 4.34 %     | 115,212         | 1,241          | 4.31 %     | 63,170             | 723            | 4.58 %     |
| Total investment securities          | 856,063                    | 5,761          | 2.69 %     | 838,181         | 5,840          | 2.79 %     | 694,854            | 4,950          | 2.85 %     |
| Loans (3):                           |                            |                |            |                 |                |            |                    |                |            |
| Commercial real estate, construction | 70,264                     | 762            | 4.24 %     | 59,297          | 637            | 4.25 %     | 39,621             | 442            | 4.37 %     |
| Commercial real estate, other        | 719,679                    | 8,478          | 4.61 %     | 736,194         | 8,194          | 4.40 %     | 500,828            | 5,786          | 4.52 %     |
| Commercial and industrial            | 342,672                    | 3,559          | 4.06 %     | 325,393         | 3,386          | 4.12 %     | 254,683            | 2,883          | 4.43 %     |
| Residential real estate (4)          | 570,623                    | 6,283          | 4.40 %     | 573,041         | 6,355          | 4.44 %     | 355,672            | 4,189          | 4.71 %     |
| Home equity lines of credit          | 104,941                    | 1,277          | 4.83 %     | 102,897         | 1,235          | 4.81 %     | 67,841             | 603            | 3.53 %     |
| Consumer                             | 219,143                    | 2,559          | 4.63 %     | 203,176         | 2,385          | 4.71 %     | 173,795            | 2,054          | 4.69 %     |
| Total loans                          | 2,027,322                  | 22,918         | 4.46 %     | 1,999,998       | 22,192         | 4.41 %     | 1,392,440          | 15,957         | 4.52 %     |
| Less: Allowance for loan losses      | (17,982 )                  |                |            | (17,918 )       |                |            | (17,595 )          |                |            |
| Net loans                            | 2,009,340                  | 22,918         | 4.50 %     | 1,982,080       | 22,192         | 4.45 %     | 1,374,845          | 15,957         | 4.58 %     |
| Total earning assets                 | 2,900,757                  | 28,703         | 3.92 %     | 2,915,982       | 28,093         | 3.84 %     | 2,087,885          | 20,912         | 3.96 %     |
| Intangible assets                    | 151,206                    |                |            | 151,736         |                |            | 88,466             |                |            |
| Other assets                         | 157,730                    |                |            | 152,205         |                |            | 100,897            |                |            |
| Total assets                         | \$3,209,693                |                |            | \$3,219,923     |                |            | \$2,277,248        |                |            |
| Deposits:                            |                            |                |            |                 |                |            |                    |                |            |
| Savings accounts                     | \$410,131                  | \$56           | 0.05 %     | \$407,713       | \$55           | 0.05 %     | \$253,328          | \$35           | 0.05 %     |
| Governmental deposit accounts        | 301,178                    | 161            | 0.21 %     | 307,535         | 165            | 0.22 %     | 179,684            | 121            | 0.27 %     |
| Interest-bearing demand accounts     | 235,145                    | 47             | 0.08 %     | 234,602         | 48             | 0.08 %     | 148,611            | 31             | 0.08 %     |
| Money market accounts                | 395,547                    | 158            | 0.16 %     | 397,217         | 158            | 0.16 %     | 287,866            | 117            | 0.16 %     |
| Brokered deposits                    | 34,883                     | 328            | 3.73 %     | 38,114          | 354            | 3.73 %     | 40,508             | 381            | 3.73 %     |
| Retail certificates of deposit       | 472,516                    | 789            | 0.66 %     | 489,604         | 838            | 0.69 %     | 385,222            | 829            | 0.85 %     |
| Total interest-bearing deposits      | 1,849,400                  | 1,539          | 0.33 %     | 1,874,785       | 1,618          | 0.35 %     | 1,295,219          | 1,514          | 0.46 %     |
| Borrowed Funds:                      |                            |                |            |                 |                |            |                    |                |            |
| Short-term FHLB advances             | 9,413                      | 5              | 0.21 %     | —               | —              | — %        | 24,724             | 17             | 0.27 %     |
| Retail repurchase agreements         | 89,583                     | 37             | 0.17 %     | 76,242          | 31             | 0.16 %     | 68,049             | 29             | 0.17 %     |
| Total short-term borrowings          | 98,996                     | 42             | 0.17 %     | 76,242          | 31             | 0.16 %     | 92,773             | 46             | 0.20 %     |
|                                      | 69,821                     | 548            | 3.11 %     | 70,116          | 545            | 3.12 %     | 78,766             | 615            | 3.10 %     |

|  |             |          |        |             |          |        |             |          |        |
|--|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|
| Long-term FHLB advances                    |             |          |        |             |          |        |             |          |        |
| Wholesale repurchase agreements            | 40,000      | 371      | 3.71 % | 40,000      | 367      | 3.67 % | 40,000      | 371      | 3.71 % |
| Other borrowings                           | 9,656       | 142      | 5.75 % | 19,775      | 212      | 4.24 % | 16,748      | 161      | 3.85 % |
| Total long-term borrowings                 | 119,477     | 1,061    | 3.54 % | 129,891     | 1,124    | 3.47 % | 135,514     | 1,147    | 3.37 % |
| Total borrowed funds                       | 218,473     | 1,103    | 2.01 % | 206,133     | 1,155    | 2.25 % | 228,287     | 1,193    | 2.08 % |
| Total interest-bearing liabilities         | 2,067,873   | 2,642    | 0.51 % | 2,080,918   | 2,773    | 0.53 % | 1,523,506   | 2,707    | 0.71 % |
| Non-interest-bearing deposits              | 694,277     |          |        | 690,483     |          |        | 449,177     |          |        |
| Other liabilities                          | 26,433      |          |        | 28,709      |          |        | 20,557      |          |        |
| Total liabilities                          | 2,788,583   |          |        | 2,800,110   |          |        | 1,993,240   |          |        |
| Total stockholders' equity                 | 421,110     |          |        | 419,813     |          |        | 284,008     |          |        |
| Total liabilities and stockholders' equity | \$3,209,693 |          |        | \$3,219,923 |          |        | \$2,277,248 |          |        |
| Interest rate spread                       |             | \$26,061 | 3.41 % |             | \$25,320 | 3.31 % |             | \$18,205 | 3.25 % |
| Net interest margin                        |             |          | 3.55 % |             |          | 3.46 % |             |          | 3.45 % |

(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 statutory tax rate.

Average balances include nonaccrual and impaired loans. Interest income includes interest earned on nonaccrual (3) loans prior to the loans being placed on nonaccrual status. Loan fees included in interest income were immaterial for all periods presented.

Table of Contents

(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.

| (Dollars in thousands)                     | For the Nine Months Ended |                |            |                    |                 |                |            |
|--|---------------------------|----------------|------------|--------------------|-----------------|----------------|------------|
|  | September 30, 2015        |                |            | September 30, 2014 |                 |                |            |
|  | Average Balance           | Income/Expense | Yield/Cost |                    | Average Balance | Income/Expense | Yield/Cost |
| Short-term investments                     | \$63,670                  | \$115          | 0.24 %     |                    | \$10,213        | \$(18)         | (0.24) %   |
| Other long-term investments                | 1,317                     | 10             | 1.02 %     |                    | 2,068           | 5              | 0.32 %     |
| Investment Securities (1):                 |                           |                |            |                    |                 |                |            |
| Taxable                                    | 713,386                   | 13,537         | 2.53 %     |                    | 621,813         | 12,797         | 2.74 %     |
| Nontaxable (2)                             | 104,474                   | 3,389          | 4.33 %     |                    | 57,885          | 2,049          | 4.72 %     |
| Total investment securities                | 817,860                   | 16,926         | 2.76 %     |                    | 679,698         | 14,846         | 2.91 %     |
| Loans (3):                                 |                           |                |            |                    |                 |                |            |
| Commercial real estate, construction       | 58,353                    | 1,887          | 4.26 %     |                    | 48,314          | 1,454          | 3.97 %     |
| Commercial real estate, other              | 685,543                   | 23,666         | 4.55 %     |                    | 473,713         | 16,188         | 4.51 %     |
| Commercial and industrial                  | 320,793                   | 10,140         | 4.17 %     |                    | 244,115         | 8,140          | 4.40 %     |
| Residential real estate (4)                | 549,582                   | 18,234         | 4.42 %     |                    | 304,558         | 10,543         | 4.62 %     |
| Home equity lines of credit                | 97,881                    | 3,367          | 4.60 %     |                    | 62,768          | 1,711          | 3.64 %     |
| Consumer                                   | 203,684                   | 7,020          | 4.61 %     |                    | 156,893         | 5,448          | 4.64 %     |
| Total loans                                | 1,915,836                 | 64,314         | 4.45 %     |                    | 1,290,361       | 43,484         | 4.47 %     |
| Less: Allowance for loan losses            | (17,930)                  | )              |            |                    | (17,318)        | )              |            |
| Net loans                                  | 1,897,906                 | 64,314         | 4.49 %     |                    | 1,273,043       | 43,484         | 4.53 %     |
| Total earning assets                       | 2,780,753                 | 81,365         | 3.88 %     |                    | 1,965,022       | 58,317         | 3.94 %     |
| Intangible assets                          | 141,754                   |                |            |                    | 81,358          |                |            |
| Other assets                               | 145,957                   |                |            |                    | 93,800          |                |            |
| Total assets                               | \$3,068,464               |                |            |                    | \$2,140,180     |                |            |
| Deposits:                                  |                           |                |            |                    |                 |                |            |
| Savings accounts                           | \$381,717                 | \$154          | 0.05 %     |                    | \$235,017       | \$97           | 0.06 %     |
| Governmental deposit accounts              | 273,768                   | 450            | 0.22 %     |                    | 162,851         | 357            | 0.29 %     |
| Interest-bearing demand accounts           | 217,220                   | 134            | 0.08 %     |                    | 141,503         | 88             | 0.08 %     |
| Money market accounts                      | 381,238                   | 456            | 0.16 %     |                    | 278,288         | 335            | 0.16 %     |
| Brokered deposits                          | 37,130                    | 1,034          | 3.72 %     |                    | 43,581          | 1,199          | 3.68 %     |
| Retail certificates of deposit             | 469,010                   | 2,488          | 0.71 %     |                    | 367,412         | 2,472          | 0.90 %     |
| Total interest-bearing deposits            | 1,760,083                 | 4,716          | 0.36 %     |                    | 1,228,652       | 4,548          | 0.49 %     |
| Borrowed Funds:                            |                           |                |            |                    |                 |                |            |
| Short-term FHLB advances                   | 5,436                     | 8              | 0.20 %     |                    | 48,123          | 47             | 0.13 %     |
| Retail repurchase agreements               | 81,304                    | 100            | 0.16 %     |                    | 54,357          | 67             | 0.16 %     |
| Total short-term borrowings                | 86,740                    | 108            | 0.17 %     |                    | 102,480         | 114            | 0.15 %     |
| Long-term FHLB advances                    | 87,154                    | 1,718          | 2.64 %     |                    | 67,811          | 1,660          | 3.27 %     |
| Wholesale repurchase agreements            | 40,000                    | 1,100          | 3.67 %     |                    | 40,000          | 1,100          | 3.67 %     |
| Other borrowings                           | 15,205                    | 513            | 4.45 %     |                    | 17,934          | 528            | 3.93 %     |
| Total long-term borrowings                 | 142,359                   | 3,331          | 3.13 %     |                    | 125,745         | 3,288          | 3.49 %     |
| Total borrowed funds                       | 229,099                   | 3,439          | 2.00 %     |                    | 228,225         | 3,402          | 1.99 %     |
| Total interest-bearing liabilities         | 1,989,182                 | 8,155          | 0.55 %     |                    | 1,456,877       | 7,950          | 0.73 %     |
| Non-interest-bearing deposits              | 645,553                   |                |            |                    | 413,543         |                |            |
| Other liabilities                          | 31,625                    |                |            |                    | 20,611          |                |            |
| Total liabilities                          | 2,666,360                 |                |            |                    | 1,891,031       |                |            |
| Total stockholders' equity                 | 402,104                   |                |            |                    | 249,149         |                |            |
| Total liabilities and stockholders' equity | \$3,068,464               |                |            |                    | \$2,140,180     |                |            |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

|                      |          |      |   |          |      |   |
|----------------------|----------|------|---|----------|------|---|
| Interest rate spread | \$73,210 | 3.33 | % | \$50,367 | 3.21 | % |
| Net interest margin  |          | 3.49 | % |          | 3.40 | % |

(1) Average balances are based on carrying value.

Table of Contents

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

Average balances include nonaccrual and impaired loans. Interest income includes interest earned on nonaccrual (3) loans prior to the loans being placed on nonaccrual status. Loan fees included in interest income were immaterial for all periods presented.

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

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

| (Dollars in thousands)                | Three Months Ended September 30, 2015 Compared to |        |                      |                    |          |                      | Nine Months Ended  |          |                      |
|---------------------------------------|---|--------|----------------------|--------------------|----------|----------------------|--------------------|----------|----------------------|
|                                       | June 30, 2015                                     |        |                      | September 30, 2014 |          |                      | September 30, 2015 |          |                      |
| Increase (decrease) in:               | Rate  | Volume | Total <sup>(1)</sup> | Rate               | Volume   | Total <sup>(1)</sup> | Rate               | Volume   | Total <sup>(1)</sup> |
| <b>INTEREST INCOME:</b>               |   |        |                      |                    |          |                      |                    |          |                      |
| Short-term investments                | \$—   | \$(36) | \$(36)               | \$9                | \$7      | \$16                 | \$107              | \$26     | \$133                |
| Other long-term investments           | —   | (1)    | (1)                  | 3                  | —        | 3                    | 8                  | (3)      | 5                    |
| Investment Securities: <sup>(2)</sup> |   |        |                      |                    |          |                      |                    |          |                      |
| Taxable                               | (640)   | 571    | (69)                 | (1,884)            | 2,187    | 303                  | 451                | 289      | 740                  |
| Nontaxable                            | 40  | (50)   | (10)                 | (256)              | 764      | 508                  | 290                | 1,050    | 1,340                |
| Total investment income               | (600)   | 521    | (79)                 | (2,140)            | 2,951    | 811                  | 741                | 1,339    | 2,080                |
| <b>Loans:</b>                         |   |        |                      |                    |          |                      |                    |          |                      |
| Commercial real estate, construction  | (6)   | 131    | 125                  | (82)               | 402      | 320                  | 114                | 319      | 433                  |
| Commercial real estate, other         | 1,176   | (892)  | 284                  | 116                | 2,576    | 2,692                | 167                | 7,311    | 7,478                |
| Commercial and industrial             | (242)   | 415    | 173                  | (1,372)            | 2,048    | 676                  | (675)              | 2,675    | 2,000                |
| Residential real estate               | (45)  | (27)   | (72)                 | (1,766)            | 3,860    | 2,094                | (734)              | 8,425    | 7,691                |
| Home equity lines of credit           | 5   | 37     | 42                   | 272                | 402      | 674                  | 528                | 1,128    | 1,656                |
| Consumer                              | (225)   | 399    | 174                  | (164)              | 669      | 505                  | (67)               | 1,639    | 1,572                |
| Total loan income                     | 663   | 63     | 726                  | (2,996)            | 9,957    | 6,961                | (667)              | 21,497   | 20,830               |
| Total interest income                 | 63  | 547    | 610                  | (5,124)            | 12,915   | 7,791                | 189                | 22,859   | 23,048               |
| <b>INTEREST EXPENSE:</b>              |   |        |                      |                    |          |                      |                    |          |                      |
| <b>Deposits:</b>                      |   |        |                      |                    |          |                      |                    |          |                      |
| Savings accounts                      | —   | 1      | 1                    | (3)                | 24       | 21                   | (4)                | 61       | 57                   |
| Government deposit accounts           | (2)   | (2)    | (4)                  | (142)              | 182      | 40                   | (149)              | 242      | 93                   |
| Interest-bearing demand accounts      | (2)   | 1      | (1)                  | (9)                | 25       | 16                   | (1)                | 47       | 46                   |
| Money market accounts                 | —   | —      | —                    | (13)               | 54       | 41                   | (4)                | 125      | 121                  |
| Brokered certificates of deposit      | 3   | (29)   | (26)                 | —                  | (53)     | (53)                 | 24                 | (189)    | (165)                |
| Retail certificates of deposit        | (24)  | (25)   | (49)                 | (761)              | 721      | (40)                 | (785)              | 801      | 16                   |
| Total deposit cost                    | (25)  | (54)   | (79)                 | (928)              | 953      | 25                   | (919)              | 1,087    | 168                  |
| <b>Borrowed funds:</b>                |   |        |                      |                    |          |                      |                    |          |                      |
| Short-term borrowings                 | 1   | 10     | 11                   | (4)                | —        | (4)                  | 23                 | (29)     | (6)                  |
| Long-term borrowings                  | 134   | (197)  | (63)                 | 300                | (386)    | (86)                 | (396)              | 439      | 43                   |
| Total borrowed funds cost             | 135   | (187)  | (52)                 | 296                | (386)    | (90)                 | (373)              | 410      | 37                   |
| Total interest expense                | 110   | (241)  | (131)                | (632)              | 567      | (65)                 | (1,292)            | 1,497    | 205                  |
| Net interest income                   | \$(47)  | \$788  | \$741                | \$(4,492)          | \$12,348 | \$7,856              | \$1,481            | \$21,362 | \$22,843             |

(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)Presented on a fully tax-equivalent basis.

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 statutory tax rate.

Table of Contents

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

| (Dollars in thousands)                   | Three Months Ended |               |                    | Nine Months Ended  |                    |
|--|--------------------|---------------|--------------------|--------------------|--------------------|
|  | September 30, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Net interest income, as reported         | \$25,536           | \$24,793      | \$17,859           | \$71,748           | \$49,382           |
| Taxable equivalent adjustments           | 525                | 527           | 346                | 1,462              | 985                |
| Fully tax-equivalent net interest income | \$26,061           | \$25,320      | \$18,205           | \$73,210           | \$50,367           |

Net interest income increased 3% in the third quarter of 2015 compared to the prior quarter and 43% compared to the prior year third quarter. During the third quarter of 2015, net interest income and net interest margin benefited from normal accretion income, net of amortization expense, of \$1.4 million related to the completed acquisitions, which added 18 basis points to net interest margin, compared to \$1.1 million, or 15 basis points, during the linked quarter and \$660,000, or 13 basis points, during the prior year third quarter. On a year-to-date basis, accretion income and amortization expense from the acquisitions added 17 basis points for the nine months of 2015 and 9 basis points for the nine months of 2014.

The net interest margin, excluding the impact of amortization and accretion from the acquisitions completed, improved 6 basis points compared to the linked quarter. Prepayment penalties received on investments and loans accounted for 4 basis points of the improvement. The remaining improvement was due to the strategies executed early in the quarter, which included excess cash being deployed into the investment portfolio and the pay off of the \$12.0 million term loan. Funding costs declined 2 basis points during the third quarter of 2015 compared to the prior quarter, and 18 basis points from the prior year third quarter. 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, 2015 | June 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |   |
| Provision for checking account overdrafts  | \$202              | \$172         | \$120              | \$474              | \$211              |   |
| Provision for other loan losses            | 5,635              | 500           | (500)              | 6,385              | —                  |   |
| Net provision for loan losses              | \$5,837            | \$672         | \$(380)            | \$6,859            | \$211              |   |
| As a percentage of average total loans (a) | 1.14               | %0.13         | %(0.11)            | )%0.48             | )%0.02             | % |

(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 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, coupled with net charge-offs of \$750,000. The provision for loan losses recorded during the second quarter of 2015 was primarily due to an increase in nonperforming assets due to a commercial relationship that was placed on nonaccrual status. The recovery recorded during the third quarter of 2014 was primarily due to a \$500,000 recovery recorded on a loan that had previously been charged-off. During the third quarter of 2015, net charge-offs remained below the long-term historical averages of 30 to 40 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”.





Table of Contents

## Net (Loss) Gains on Asset Disposals and Other Transactions

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

| (Dollars in thousands)                               | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|--|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2015 | June 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Net (loss) gains on other real estate owned ("OREO") | \$ (50)               | )(73             | )\$9                  | \$ (131               | )\$27                 |
| Net gain (loss) on debt extinguishment               | —                     | —                | 67                    | (520                  | )67                   |
| Net loss on bank premises and equipment              | (1                    | )(63             | )(185                 | ) (639                | )(379 )               |
| Net loss on asset disposals and other transactions   | \$ (51                | )(136            | )(109                 | ) \$ (1,290           | )(285 )               |

The net loss on OREO during the second and third quarter of 2015 was due mainly to the sale of one OREO property and the write-down of another OREO property during each quarter. The net loss on bank premises and equipment for the second quarter of 2015 was due mainly to a write-off of obsolete fixed assets and the write-down of a closed office location that is available for sale. During the first quarter of 2015, a loss on bank premises and equipment was recorded due to asset write-offs associated with the NB&T acquisition. Also during the first quarter of 2015, Peoples recognized a loss on debt extinguishment from the prepayment of several FHLB advances, and a loss on OREO from decreases in the market value of residential properties that were sold. The loss on bank premises and equipment recorded during the third quarter of 2014 included \$185,000 of losses due to asset write-offs associated with the Ohio Heritage acquisition, while the gain on debt extinguishment in 2014 was related to restructuring of FHLB advances and a gain on OREO from the sale of a residential property during 2014.

## Non-Interest Income

Insurance income comprised the largest portion of third quarter 2015 non-interest income. The following table details Peoples' insurance income:

| (Dollars in thousands)                      | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2015 | June 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Property and casualty insurance commissions | \$ 2,678              | \$ 2,665         | \$ 2,499              | \$ 7,755              | \$ 7,661              |
| Performance-based commissions               | 116                   | 30               | 224                   | 1,609                 | 1,656                 |
| Life and health insurance commissions       | 436                   | 474              | 395                   | 1,291                 | 1,213                 |
| Credit life and A&H insurance commissions   | 12                    | 26               | 9                     | 39                    | 25                    |
| Other fees and charges                      | 33                    | 88               | 42                    | 176                   | 173                   |
| Total insurance income                      | \$ 3,275              | \$ 3,283         | \$ 3,169              | \$ 10,870             | \$ 10,728             |

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

| (Dollars in thousands)                  | Three Months Ended    |                  |                       | Nine Months Ended     |                       |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2015 | June 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Overdraft and non-sufficient funds fees | \$ 2,264              | \$ 2,259         | \$ 1,968              | \$ 6,173              | \$ 5,284              |
| Account maintenance fees                | 581                   | 521              | 449                   | 1,553                 | 1,239                 |
| Other fees and charges                  | 77                    | 68               | 32                    | 339                   | 264                   |
| Total deposit account service charges   | \$ 2,922              | \$ 2,848         | \$ 2,449              | \$ 8,065              | \$ 6,787              |

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 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.



Table of Contents

Peoples' fiduciary and brokerage revenues continue 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:

| (Dollars in thousands)            | Three Months Ended    |                  | Nine Months Ended     |                       |                       |
|-----------------------------------|-----------------------|------------------|-----------------------|-----------------------|-----------------------|
|                                   | September 30,<br>2015 | June 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | September 30,<br>2014 |
| Fiduciary                         | \$ 1,780              | \$ 1,838         | \$ 1,346              | \$ 5,110              | \$ 4,109              |
| Brokerage                         | 717                   | 706              | 530                   | 1,978                 | 1,547                 |
| Total trust and investment income | \$ 2,497              | \$ 2,544         | \$ 1,876              | \$ 7,088              | \$ 5,656              |
| (Dollars in thousands)            | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015     | December 31,<br>2014  | September 30,<br>2014 |
| Trust assets under management     | \$ 1,261,112          | \$ 1,303,792     | \$ 1,319,423          | \$ 1,022,189          | \$ 999,822            |
| Brokerage assets under management | 556,242               | 576,412          | 501,635               | 525,089               | 511,400               |
| Total managed assets              | \$ 1,817,354          | \$ 1,880,204     | \$ 1,821,058          | \$ 1,547,278          | \$ 1,511,222          |
| Quarterly average                 | \$ 1,861,070          | \$ 1,864,579     | \$ 1,622,287          | \$ 1,540,246          | \$ 1,520,615          |

The decrease in revenues and assets under management during the third quarter was due to excess market volatility.

During 2015, trust assets under management increased compared to the prior year, mainly due to the NB&T acquisition, which also contributed to the overall increase in trust and investment income during the nine months of 2015 compared to the year-to-date 2014. In recent years, Peoples added experienced financial advisors in underserved market areas, and generated new business and revenue related to retirement plans for which it manages the assets and provides services.

Peoples' electronic banking services include ATM and debit cards, direct deposit services, internet and mobile banking, and remote deposit capture, and serve as alternative delivery channels to traditional sales offices for providing services to clients. During the third quarter of 2015, compared to the linked quarter, electronic banking income decreased 3% and compared to the prior year third quarter grew 32%. The growth in electronic banking income was primarily due to an increase in the volume of debit card transactions and ATM surcharges.

Mortgage banking income decreased 49% compared to the linked quarter, and 37% compared to the prior year third quarter due to decreased sales of loans to the secondary market, which was driven by mortgage interest rates available and customers' preference for long-term, fixed-rate loans. In the third quarter of 2015, Peoples sold approximately \$8.5 million of loans to the secondary market compared to \$19.7 million in the second quarter of 2015 and \$14.5 million in the third quarter of 2014. For the nine months of 2015, Peoples sold approximately \$41.1 million compared to \$33.6 million in the first nine months of 2014.

Table of Contents

## Non-Interest Expense

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for approximately 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,<br>2015 | June 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | 2014      |
| (Dollars in thousands)                    |                       |                  |                       |                       |           |
| Base salaries and wages                   | \$ 9,778              | \$ 10,080        | \$ 7,371              | \$ 32,131             | \$ 20,921 |
| Sales-based and incentive compensation    | 1,422                 | 1,725            | 2,116                 | 4,975                 | 5,206     |
| Employee benefits                         | 1,471                 | 1,634            | 1,344                 | 4,686                 | 4,895     |
| Stock-based compensation                  | 405                   | 461              | 428                   | 1,432                 | 1,382     |
| Deferred personnel costs                  | (499)                 | )(430)           | )(344)                | )(1,186)              | )(1,063)  |
| Payroll taxes and other employment costs  | 995                   | 1,090            | 752                   | 3,455                 | 2,359     |
| Total salaries and employee benefit costs | \$ 13,572             | \$ 14,560        | \$ 11,667             | \$ 45,493             | \$ 33,700 |
| Full-time equivalent employees:           |                       |                  |                       |                       |           |
| Actual at end of period                   | 821                   | 831              | 643                   | 821                   | 643       |
| Average during the period                 | 825                   | 838              | 609                   | 791                   | 575       |

For the three months ended September 30, 2015, total salaries and employee benefit costs decreased \$988,000. The decrease was due largely to the decrease of 10 full-time equivalent employees from the linked quarter, the reduction in sales-based and incentive compensation, which are tied to corporate incentive plans and commissions from sales production, and a reduction in the acquisition-related charges. The year-to-date increase relates to severance and retention payouts associated with the NB&T acquisition which were included in base salaries and wages in 2015, coupled with a full year impact related to the associates acquired and retained from acquisitions.

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

|   | Three Months Ended    |                  | Nine Months Ended     |                       |          |
|---|-----------------------|------------------|-----------------------|-----------------------|----------|
|   | September 30,<br>2015 | June 30,<br>2015 | September 30,<br>2014 | September 30,<br>2015 | 2014     |
| (Dollars in thousands)                    |                       |                  |                       |                       |          |
| Depreciation                              | \$ 1,240              | \$ 1,139         | \$ 773                | \$ 3,341              | \$ 2,135 |
| Repairs and maintenance costs             | 766                   | 851              | 704                   | 2,195                 | 1,612    |
| Net rent expense                          | 203                   | 222              | 238                   | 636                   | 699      |
| Property taxes, utilities and other costs | 631                   | 926              | 552                   | 2,101                 | 1,376    |
| Total net occupancy and equipment expense | \$ 2,840              | \$ 3,138         | \$ 2,267              | \$ 8,273              | \$ 5,822 |

Net occupancy and equipment expense decreased during the third quarter of 2015 compared to the linked quarter. The decrease was primarily due to additional expenses incurred for property taxes and costs related to the acquired branches that were recorded in the three months ended June 30, 2015. Net occupancy and equipment expense increased from the prior year third quarter and increased for the year-to-date compared to the prior year. The increases were due to higher depreciation and maintenance costs, coupled with increases in real estate taxes and utilities, due to the expansion of Peoples' footprint as a result of the acquisitions.

Professional fees expense increased year-to-date mainly due to acquisition-related activities and the increase in branch operations. Professional fees incurred as a result of acquisition-related activities were \$1.7 year-to-date 2015 compared to \$1.0 million of acquisition-related professional fees for the nine months of 2014.

Marketing expense decreased \$612,000 from the linked quarter, which was related to the timing of marketing campaigns. The increase year-over-year was the result of the acquisitions and additional marketing in the new markets.

Foreclosed real estate and other loan expense increased year-to-date primarily due to additional loan volume. Average loan balances have increased \$625.5 million from September 30, 2014.

Other non-interest expense has increased substantially year-to-date compared to the first nine months of 2014, primarily driven by acquisition-related costs, which include deconversion costs. For the nine months of 2015, other non-interest expense included \$8.2 million of acquisition-related costs compared to \$1.9 million in the nine months of

2014.

45

---

Table of Contents

Peoples' efficiency ratio, calculated as non-interest expense less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 65.81% for the third quarter of 2015, lower than the prior quarter of 74.20% and the prior year third quarter of 77.82%. The decrease was primarily due to a reduction in total other expenses. Management continues to target an efficiency ratio of 65% absent acquisition-related costs and other non-core charges, such as pension settlement charges.

**Income Tax Expense**

For the nine months ended September 30, 2015, Peoples recorded income tax expense of \$3.5 million, which included the tax impact of acquisition-related costs that are not tax deductible of approximately \$165,000. Peoples' current estimate of the tax rate for the entire year of 2015 is between 29.0% and 30.0%. In comparison, Peoples recorded income tax expense of \$5.5 million for the same period in 2014, for an effective tax rate of 30.5%.

**Pre-Provision Net Revenue**

Pre-provision net revenue ("PPNR") has become a key financial measure used by federal bank regulatory agencies when assessing the capital adequacy of financial institutions. PPNR is defined as net interest income plus non-interest income minus non-interest expense 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.

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:

Table of Contents

| (Dollars in thousands)                                | Three Months Ended    |                  | September 30,<br>2014 | Nine Months Ended     |                       |   |
|---|-----------------------|------------------|-----------------------|-----------------------|-----------------------|---|
|   | September 30,<br>2015 | June 30,<br>2015 |                       | September 30,<br>2015 | September 30,<br>2014 |   |
| Pre-Provision Net Revenue:                            |                       |                  |                       |                       |                       |   |
| Income before income taxes                            | \$5,504               | \$7,144          | \$5,908               | \$11,808              | \$17,893              |   |
| Add: provision for loan losses                        | 5,837                 | 672              | —                     | 6,859                 | 211                   |   |
| Add: loss on debt extinguishment                      | —                     | —                | —                     | 520                   | —                     |   |
| Add: net loss on loans held-for-sale and OREO         | 50                    | 73               | —                     | 131                   | —                     |   |
| Add: net loss on securities transactions              | —                     | —                | —                     | —                     | 30                    |   |
| Add: net loss on other assets                         | 1                     | 63               | 185                   | 639                   | 379                   |   |
| Less: recovery of loan losses                         | —                     | —                | 380                   | —                     | —                     |   |
| Less: net gain on debt extinguishment                 | —                     | —                | 67                    | —                     | 67                    |   |
| Less: net gain on loans held-for-sale and OREO        | —                     | —                | 9                     | —                     | 27                    |   |
| Less: net gain on securities transactions             | 62                    | 11               | 124                   | 673                   | 190                   |   |
| Pre-provision net revenue                             | \$11,330              | \$7,941          | \$5,513               | \$19,284              | \$18,229              |   |
| Total average assets                                  | \$3,209,693           | \$3,219,923      | \$2,277,248           | \$3,068,464           | \$2,140,180           |   |
| Pre-provision net revenue to total average assets (a) | 1.40                  | %0.99            | %0.96                 | %0.84                 | %1.14                 | % |

(a) Presented on an annualized basis.

The third quarter of 2015 PPNR was higher than both the linked quarter and the third quarter of 2014 due largely to the increase in revenue as a result of the acquisitions completed. On a year-to-date basis, PPNR to average total assets has declined due mainly to the increase in non-interest expenses.



Table of Contents

FINANCIAL CONDITION

Cash and Cash Equivalents

At September 30, 2015, Peoples' interest-bearing deposits in other banks decreased from December 31, 2014, as excess cash was utilized to purchase additional investments and fund loan growth. These balances included \$1.8 million of excess cash reserves being maintained at the Federal Reserve Bank at September 30, 2015, compared to \$63.5 million at June 30, 2015 and \$12.4 million at December 31, 2014. 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.

Table of Contents

Through 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.

Through nine months of 2014, Peoples' total cash and cash equivalents increased \$12.2 million, as cash provided by operating activities totaling \$19.4 million and cash provided by financing activities of \$14.7 million, was partially offset by cash used in investing activities of \$22.0 million. Within Peoples' investing activities, the \$68.0 million of net loan growth exceeded the \$34.4 million generated by activities related to available-for-sale securities. Peoples' financing activities included \$83.3 million of cash generated by increases in non-interest-bearing deposits and proceeds from issuance of common shares, while \$61.0 million of cash was used as short-term borrowings and interest-bearing deposits decreased.

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>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Available-for-sale securities, at fair value:   |                       |                  |                   |                      |                       |
| Obligations of:                                 |                       |                  |                   |                      |                       |
| U.S. Treasury and government agencies           | \$—                   | \$—              | \$—               | \$ 1                 | \$ 7                  |
| U.S. government sponsored agencies              | 2,993                 | 3,934            | 5,488             | 5,950                | 8,689                 |
| States and political subdivisions               | 115,249               | 114,213          | 118,447           | 64,743               | 64,048                |
| Residential mortgage-backed securities          | 639,327               | 579,701          | 597,232           | 527,291              | 518,159               |
| Commercial mortgage-backed securities           | 24,348                | 27,200           | 28,241            | 27,847               | 27,542                |
| Bank-issued trust preferred securities          | 4,776                 | 4,668            | 5,649             | 5,645                | 8,194                 |
| Equity securities                               | 6,592                 | 6,504            | 5,765             | 5,403                | 5,188                 |
| Total fair value                                | \$ 793,285            | \$ 736,220       | \$ 760,822        | \$ 636,880           | \$ 631,827            |
| Total amortized cost                            | \$ 780,609            | \$ 730,632       | \$ 748,622        | \$ 632,967           | \$ 631,500            |
| Net unrealized gain                             | \$ 12,676             | \$ 5,588         | \$ 12,200         | \$ 3,913             | \$ 327                |
| Held-to-maturity securities, at amortized cost: |                       |                  |                   |                      |                       |
| Obligations of:                                 |                       |                  |                   |                      |                       |
| States and political subdivisions               | \$ 3,833              | \$ 3,836         | \$ 3,838          | \$ 3,841             | \$ 3,843              |
| Residential mortgage-backed securities          | 35,712                | 36,084           | 36,564            | 36,945               | 37,316                |
| Commercial mortgage-backed securities           | 6,854                 | 7,563            | 7,643             | 7,682                | 7,724                 |
| Total amortized cost                            | \$ 46,399             | \$ 47,483        | \$ 48,045         | \$ 48,468            | \$ 48,883             |
| Total investment portfolio:                     |                       |                  |                   |                      |                       |
| Amortized cost                                  | \$ 827,008            | \$ 778,115       | \$ 796,667        | \$ 681,435           | \$ 680,383            |
| Carrying value                                  | \$ 839,684            | \$ 783,703       | \$ 808,867        | \$ 685,348           | \$ 680,710            |

The increase in residential mortgage-backed securities during the third quarter was due to the strategies executed early in the quarter to deploy excess cash into the investment portfolio, which was offset partially by normal principle pay downs, as well as calls on securities. In the first quarter of 2015, Peoples acquired available-for-sale investment securities in the NB&T acquisition totaling approximately \$156.4 million after preliminary acquisition accounting adjustments, and subsequently sold approximately \$42.2 million of the acquired investment securities. At September 30, 2015, the investment portfolio was 27.2% of total assets compared to 27.8% at year-end and 29.1% 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.

Table of Contents

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

| (Dollars in thousands) | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |
|------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Total fair value       | \$ 6,556              | \$ 8,351         | \$ 14,266         | \$ 14,058            | \$ 15,748             |
| Total amortized cost   | \$ 6,546              | \$ 8,322         | \$ 13,871         | \$ 13,604            | \$ 15,191             |
| Net unrealized gain    | \$ 10                 | \$ 29            | \$ 395            | \$ 454               | \$ 557                |

Management continues to reinvest the principal runoff from the non-agency securities into U.S. agency investments, which accounted for the decline experienced in the second and third quarters of 2015, coupled with \$3.3 million being called in the second quarter of 2015. The increase in non-agency securities during the first quarter of 2015 was due to the NB&T acquisition. At September 30, 2015, 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.

Table of Contents

## Loans

The following table provides information regarding outstanding loan balances:

| (Dollars in thousands)                                  | September 30,<br>2015 | June 30,<br>2015    | March 31,<br>2015   | December 31,<br>2014 | September 30,<br>2014 |          |
|---|-----------------------|---------------------|---------------------|----------------------|-----------------------|----------|
| <b>Gross originated loans:</b>                          |                       |                     |                     |                      |                       |          |
| Commercial real estate, construction                    | \$ 68,798             | \$ 50,168           | \$ 44,276           | \$ 37,901            | \$ 25,244             |          |
| Commercial real estate, other                           | 429,120               | 449,163             | 429,541             | 434,660              | 442,710               |          |
| Commercial real estate                                  | 497,918               | 499,331             | 473,817             | 472,561              | 467,954               |          |
| Commercial and industrial                               | 288,697               | 256,080             | 247,103             | 249,975              | 228,297               |          |
| Residential real estate                                 | 282,863               | 263,095             | 256,551             | 254,169              | 254,610               |          |
| Home equity lines of credit                             | 71,620                | 67,384              | 63,491              | 62,463               | 60,221                |          |
| Consumer  | 213,394               | 196,306             | 176,857             | 169,913              | 164,851               |          |
| Deposit account overdrafts                              | 1,317                 | 3,263               | 3,146               | 2,933                | 2,669                 |          |
| <b>Total originated loans</b>                           | <b>\$ 1,355,809</b>   | <b>\$ 1,285,459</b> | <b>\$ 1,220,965</b> | <b>\$ 1,212,014</b>  | <b>\$ 1,178,602</b>   |          |
| <b>Gross acquired loans:</b>                            |                       |                     |                     |                      |                       |          |
| Commercial real estate, construction                    | 12,278                | 11,220              | 9,759               | 1,051                | 633                   |          |
| Commercial real estate, other                           | 281,510               | 293,369             | 311,868             | 121,475              | 101,218               |          |
| Commercial real estate                                  | 293,788               | 304,589             | 321,627             | 122,526              | 101,851               |          |
| Commercial and industrial                               | 68,759                | 71,013              | 78,807              | 30,056               | 33,187                |          |
| Residential real estate                                 | 288,269               | 302,673             | 317,824             | 225,274              | 156,479               |          |
| Home equity lines of credit                             | 34,147                | 36,607              | 38,222              | 18,232               | 15,013                |          |
| Consumer  | 9,473                 | 11,692              | 13,724              | 12,796               | 14,622                |          |
| <b>Total acquired loans (a)</b>                         | <b>\$ 694,436</b>     | <b>\$ 726,574</b>   | <b>\$ 770,204</b>   | <b>\$ 408,884</b>    | <b>\$ 321,152</b>     |          |
| <b>Total loans</b>                                      | <b>\$ 2,050,245</b>   | <b>\$ 2,012,033</b> | <b>\$ 1,991,169</b> | <b>\$ 1,620,898</b>  | <b>\$ 1,499,754</b>   |          |
| <b>Percent of loans to total loans:</b>                 |                       |                     |                     |                      |                       |          |
| Commercial real estate, construction                    | 4.0                   | % 3.1               | % 2.7               | % 2.4                | % 1.7                 | %        |
| Commercial real estate, other                           | 34.5                  | % 36.8              | % 37.2              | % 34.2               | % 36.3                | %        |
| Commercial real estate                                  | 38.5                  | % 39.9              | % 39.9              | % 36.6               | % 38.0                | %        |
| Commercial and industrial                               | 17.4                  | % 16.3              | % 16.4              | % 17.3               | % 17.4                | %        |
| Residential real estate                                 | 27.9                  | % 28.1              | % 28.8              | % 29.6               | % 27.4                | %        |
| Home equity lines of credit                             | 5.2                   | % 5.2               | % 5.1               | % 5.0                | % 5.0                 | %        |
| Consumer  | 10.9                  | % 10.3              | % 9.6               | % 11.3               | % 12.0                | %        |
| Deposit account overdrafts                              | 0.1                   | % 0.2               | % 0.2               | % 0.2                | % 0.2                 | %        |
| <b>Total percentage</b>                                 | <b>100.0</b>          | <b>% 100.0</b>      | <b>% 100.0</b>      | <b>% 100.0</b>       | <b>% 100.0</b>        | <b>%</b> |
| Residential real estate loans being serviced for others | \$ 387,200            | \$ 392,625          | \$ 386,261          | \$ 352,779           | \$ 343,659            |          |

(a) Includes all loans acquired in 2012 and thereafter.

Total originated loans increased \$70.4 million, or 5%, from the linked quarter due mainly to growth in commercial real estate, construction, commercial and industrial, and residential real estate loan balances, which grew 37%, 13% and 8%, respectively. Consumer loan balances, which consist mostly of loans to finance automobile purchases, have continued to increase in recent quarters due largely to Peoples placing greater emphasis on its consumer lending activity. At March 31, 2015, the loans acquired from NB&T added approximately \$8.4 million of construction loans, \$197.2 million of commercial real estate loans, \$48.3 million of commercial and industrial loans, \$103.4 million of residential real estate loans, \$21.9 million of home equity lines of credit and \$2.8 million of consumer loans after acquisition accounting adjustments. At September 30, 2015, acquired loans experienced a decline as commercial real estate loans decreased \$11.9 million and residential real estate loans decreased \$14.4 million, due to payoffs and normal principal payments.

## 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.

Table of Contents

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, 2015:

| (Dollars in thousands)                       | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of Total |   |
|--|------------------------|---------------------|-------------------|------------|---|
| Commercial real estate, construction:        |                        |                     |                   |            |   |
| Apartment complexes                          | \$30,411               | \$40,869            | \$71,280          | 47.2       | % |
| Mixed commercial use facilities:             |                        |                     |                   |            |   |
| Owner occupied                               | 670                    | —                   | 670               | 0.4        | % |
| Non-owner occupied                           | 2,279                  | 10,839              | 13,118            | 8.7        | % |
| Total mixed commercial use facilities        | 2,949                  | 10,839              | 13,788            | 9.1        | % |
| Residential property                         | 7,062                  | 3,510               | 10,572            | 7.0        | % |
| Assisted living facilities and nursing homes | 7,731                  | 2,187               | 9,918             | 6.6        | % |
| Office buildings and complexes:              |                        |                     |                   |            |   |
| Owner occupied                               | 1,060                  | 771                 | 1,831             | 1.2        | % |
| Non-owner occupied                           | 4,343                  | 1,793               | 6,136             | 4.1        | % |
| Total office buildings and complexes         | 5,403                  | 2,564               | 7,967             | 5.3        | % |
| Day care facilities - owner occupied         | 2,937                  | 2,474               | 5,411             | 3.6        | % |
| Retail facilities                            | 3,131                  | 1,714               | 4,845             | 3.2        | % |
| Restaurant facilities - owner occupied       | 2,957                  | —                   | 2,957             | 2.0        | % |
| Land Development                             | 1,258                  | 2,468               | 3,726             | 2.5        | % |
| Other  | 17,237                 | 3,175               | 20,412            | 13.5       | % |
| Total commercial real estate, construction   | \$81,076               | \$69,800            | \$150,876         | 100.0      | % |

Table of Contents

| (Dollars in thousands)                       | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of Total |   |
|--|------------------------|---------------------|-------------------|------------|---|
| Commercial real estate, other:               |                        |                     |                   |            |   |
| Office buildings and complexes:              |                        |                     |                   |            |   |
| Owner occupied                               | \$20,091               | \$483               | \$20,574          | 2.8        | % |
| Non-owner occupied                           | 42,492                 | 60                  | 42,552            | 5.8        | % |
| Total office buildings and complexes         | 62,583                 | 543                 | 63,126            | 8.6        | % |
| Apartment complexes                          | 61,279                 | 52                  | 61,331            | 8.4        | % |
| Retail facilities:                           |                        |                     |                   |            |   |
| Owner occupied                               | 20,290                 | 405                 | 20,695            | 2.8        | % |
| Non-owner occupied                           | 30,050                 | —                   | 30,050            | 4.1        | % |
| Total retail facilities                      | 50,340                 | 405                 | 50,745            | 6.9        | % |
| Mixed commercial use facilities:             |                        |                     |                   |            |   |
| Owner occupied                               | 22,142                 | 4,366               | 26,508            | 3.6        | % |
| Non-owner occupied                           | 23,151                 | 105                 | 23,256            | 3.2        | % |
| Total mixed commercial use facilities        | 45,293                 | 4,471               | 49,764            | 6.8        | % |
| Assisted living facilities and nursing homes | 43,897                 | 349                 | 44,246            | 6.2        | % |
| Lodging and lodging related                  | 41,664                 | —                   | 41,664            | 5.7        | % |
| Light industrial facilities:                 |                        |                     |                   |            |   |
| Owner occupied                               | 30,521                 | 34                  | 30,555            | 4.2        | % |
| Non-owner occupied                           | 2,952                  | —                   | 2,952             | 0.4        | % |
| Total light industrial facilities            | 33,473                 | 34                  | 33,507            | 4.6        | % |
| Warehouse facilities                         | 18,568                 | 261                 | 18,829            | 2.6        | % |
| Residential property:                        |                        |                     |                   |            |   |
| Owner occupied                               | 1,059                  | 693                 | 1,752             | 0.2        | % |
| Non-owner occupied                           | 13,594                 | 1,859               | 15,453            | 2.1        | % |
| Total residential facilities                 | 14,653                 | 2,552               | 17,205            | 2.3        | % |
| Restaurant facilities:                       |                        |                     |                   |            |   |
| Owner occupied                               | 13,514                 | 35                  | 13,549            | 1.9        | % |
| Non-owner occupied                           | 1,288                  | —                   | 1,288             | 0.2        | % |
| Total restaurant facilities                  | 14,802                 | 35                  | 14,837            | 2.1        | % |
| Other  | 324,078                | 9,473               | 333,551           | 45.8       | % |
| Total commercial real estate, other          | \$710,630              | \$18,175            | \$728,805         | 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, 2015 and December 31, 2014.



Table of Contents

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

| (Dollars in thousands)   | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |   |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Commercial real estate   | 7,506                 | 7,185            | 9,074             | 9,825                | 10,546                |   |
| Commercial and industrial  | 11,486                | 7,194            | 5,107             | 4,036                | 3,228                 |   |
| Total commercial   | 18,992                | 14,379           | 14,181            | 13,861               | 13,774                |   |
| Residential real estate  | 1,182                 | 1,299            | 1,560             | 1,627                | 1,765                 |   |
| Home equity lines of credit                                      | 777                   | 738              | 708               | 694                  | 658                   |   |
| Consumer   | 1,820                 | 1,674            | 1,512             | 1,587                | 1,231                 |   |
| Deposit account overdrafts                                       | 154                   | 154              | 127               | 112                  | 128                   |   |
| Purchase Credit Impaired loan losses                             | 303                   | —                | —                 | —                    | —                     |   |
| Nonimpaired acquired loans                                       | 103                   | —                | —                 | —                    | —                     |   |
| Total allowance for loan losses                                  | \$ 23,331             | \$ 18,244        | \$ 18,088         | \$ 17,881            | \$ 17,556             |   |
| As a percent of originated loans, net of deferred fees and costs | 1.72                  | % 1.42           | % 1.48            | % 1.48               | % 1.49                | % |

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 reduction in the allowance for loan losses allocated to commercial real estate, and the related recovery of loan losses recorded during 2015 compared to 2014, was driven by net recoveries in recent years reducing the historical loss rates. The increase in commercial and industrial loans for the third quarter was related to a specific reserve for one commercial relationship, increased criticized assets due to four large commercial real estate loans being downgraded during the quarter, and portfolio growth. The changes in the residential real estate, home equity lines of credit and consumer categories of the allowance for loan losses and the related provision for originated loan losses recorded during 2015 were driven by net charge-off activity and increases in the size of the respective loan portfolios.

As a percentage of total loans plus OREO, nonperforming assets were 1.29% at September 30, 2015, compared to 1.25% at June 30, 2015 and 0.68% at September 30, 2014. Net charge-offs, while still below Peoples' historical rate of 30 to 40 basis points, increased during the quarter as Peoples recorded net charge-offs of \$750,000, resulting in an annualized net charge-off rate of 15 basis points. These factors have a direct impact on the estimated loss rates used to determine the allocations of allowance for loan losses for commercial loans. Criticized assets, which are those classified as watch, substandard or doubtful, increased during the quarter largely due to four large commercial real estate loans being downgraded during the quarter.

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.

Table of Contents

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

| (Dollars in thousands)  | Three Months Ended    |                  |                   |                      |                       |    |
|---|-----------------------|------------------|-------------------|----------------------|-----------------------|----|
|   | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |    |
| <b>Gross charge-offs:</b>   |                       |                  |                   |                      |                       |    |
| Commercial real estate, construction  | \$—                   | \$—              | \$—               | \$—                  | \$—                   |    |
| Commercial real estate, other   | 137                   | 34               | 10                | 77                   | 126                   |    |
| Commercial real estate  | 137                   | 34               | 10                | 77                   | 126                   |    |
| Commercial and industrial   | 83                    | 343              | —                 | 150                  | —                     |    |
| Residential real estate   | 255                   | 96               | 186               | 101                  | 105                   |    |
| Home equity lines of credit   | 35                    | 23               | 58                | 77                   | 6                     |    |
| Consumer  | 387                   | 295              | 187               | 350                  | 289                   |    |
| Deposit account overdrafts  | 243                   | 180              | 143               | 165                  | 150                   |    |
| Total gross charge-offs   | 1,140                 | 971              | 584               | 920                  | 676                   |    |
| <b>Recoveries:</b>  |                       |                  |                   |                      |                       |    |
| Commercial real estate, construction  | —                     | —                | —                 | —                    | —                     |    |
| Commercial real estate, other   | 24                    | 82               | 55                | 947                  | 905                   |    |
| Commercial real estate  | 24                    | 82               | 55                | 947                  | 905                   |    |
| Commercial and industrial   | —                     | 81               | 12                | 9                    | 9                     |    |
| Residential real estate   | 47                    | 46               | 115               | —                    | 52                    |    |
| Home equity lines of credit   | 27                    | 65               | 15                | 16                   | 8                     |    |
| Consumer  | 251                   | 146              | 186               | 124                  | 222                   |    |
| Deposit account overdrafts  | 41                    | 35               | 58                | 21                   | 32                    |    |
| Total recoveries  | 390                   | 455              | 441               | 1,117                | 1,228                 |    |
| <b>Net charge-offs (recoveries):</b>  |                       |                  |                   |                      |                       |    |
| Commercial real estate, construction  | —                     | —                | —                 | —                    | —                     |    |
| Commercial real estate, other   | 113                   | (48              | ) (45             | ) (870               | ) (779                | )  |
| Commercial real estate  | 113                   | (48              | ) (45             | ) (870               | ) (779                | )  |
| Commercial and industrial   | 83                    | 262              | (12               | ) 141                | (9                    | )  |
| Residential real estate   | 208                   | 50               | 71                | 101                  | 53                    |    |
| Home equity lines of credit   | 8                     | (42              | ) 43              | 61                   | (2                    | )  |
| Consumer  | 136                   | 149              | 1                 | 226                  | 67                    |    |
| Deposit account overdrafts  | 202                   | 145              | 85                | 144                  | 118                   |    |
| Total net charge-offs (recoveries)  | \$ 750                | \$ 516           | \$ 143            | \$ (197              | ) \$ (552             | )  |
| <b>Ratio of net charge-offs (recoveries) to average total loans (annualized):</b> |                       |                  |                   |                      |                       |    |
| Commercial real estate, construction  | —                     | %—               | %—                | %—                   | %—                    | %  |
| Commercial real estate, other   | 0.02                  | %(0.01           | )%(0.01           | )%(0.22              | )%(0.22               | )% |
| Commercial real estate  | 0.02                  | %(0.01           | )%(0.01           | )%(0.22              | )%(0.22               | )% |
| Commercial and industrial   | 0.02                  | %0.05            | %—                | % 0.03               | %—                    | %  |
| Residential real estate   | 0.04                  | %0.01            | % 0.01            | % 0.03               | % 0.02                | %  |
| Home equity lines of credit   | —                     | %(0.01           | )%0.01            | % 0.01               | %—                    | %  |
| Consumer  | 0.03                  | %0.03            | %—                | % 0.06               | % 0.02                | %  |
| Deposit account overdrafts  | 0.04                  | %0.03            | % 0.02            | % 0.04               | % 0.03                | %  |
| Total   | 0.15                  | %0.10            | % 0.03            | % (0.05              | )%(0.15               | )% |

Table of Contents

The following table details Peoples' nonperforming assets:

| (Dollars in thousands)                         | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |   |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Loans 90+ days past due and accruing:          |                       |                  |                   |                      |                       |   |
| Commercial real estate, other                  | \$ 834                | \$ 984           | \$ 2,146          | \$ 567               | \$ 1,406              |   |
| Commercial and industrial                      | 1,674                 | 488              | 408               | 301                  | 279                   |   |
| Residential real estate                        | 1,223                 | 1,651            | 1,096             | 1,901                | 879                   |   |
| Home equity                                    | 10                    | 17               | 47                | 20                   | —                     |   |
| Consumer                                       | 19                    | 25               | 3                 | 10                   | 1                     |   |
| Total  | 3,760                 | 3,165            | 3,700             | 2,799                | 2,565                 |   |
| Nonaccrual loans:                              |                       |                  |                   |                      |                       |   |
| Commercial real estate, construction           | —                     | —                | 96                | —                    | —                     |   |
| Commercial real estate, other                  | 2,306                 | 1,756            | 1,890             | 2,278                | 2,014                 |   |
| Commercial and industrial                      | 157                   | 14,089           | 1,532             | 1,800                | 500                   |   |
| Residential real estate                        | 3,046                 | 3,113            | 2,931             | 2,695                | 2,633                 |   |
| Home equity                                    | 287                   | 373              | 382               | 315                  | 240                   |   |
| Consumer                                       | 31                    | 34               | —                 | 3                    | —                     |   |
| Total  | 5,827                 | 19,365           | 6,831             | 7,091                | 5,387                 |   |
| Troubled debt restructurings:                  |                       |                  |                   |                      |                       |   |
| Commercial real estate, construction           | —                     | —                | —                 | 96                   | 96                    |   |
| Commercial real estate, other                  | 337                   | 242              | 275               | 306                  | 339                   |   |
| Commercial and industrial                      | 13,854                | 196              | 196               | 194                  | —                     |   |
| Residential real estate                        | 995                   | 917              | 977               | 658                  | 465                   |   |
| Home equity                                    | 82                    | 84               | 69                | 45                   | 35                    |   |
| Consumer                                       | 49                    | 19               | 14                | 16                   | —                     |   |
| Total  | 15,317                | 1,458            | 1,531             | 1,315                | 935                   |   |
| Total nonperforming loans (NPLs)               | 24,904                | 23,988           | 12,062            | 11,205               | 8,887                 |   |
| OREO   |                       |                  |                   |                      |                       |   |
| Commercial                                     | 1,476                 | 1,143            | 1,143             | 582                  | 582                   |   |
| Residential                                    | 90                    | 179              | 405               | 364                  | 463                   |   |
| Total  | 1,566                 | 1,322            | 1,548             | 946                  | 1,045                 |   |
| Total nonperforming assets (NPAs)              | \$ 26,470             | \$ 25,310        | \$ 13,610         | \$ 12,151            | \$ 9,932              |   |
| NPLs as a percent of total loans               | 1.21                  | % 1.19           | % 0.60            | % 0.69               | % 0.61                | % |
| NPAs as a percent of total assets              | 0.82                  | % 0.79           | % 0.42            | % 0.47               | % 0.42                | % |
| NPAs as a percent of total loans and OREO      | 1.29                  | % 1.25           | % 0.68            | % 0.75               | % 0.68                | % |
| Allowance for loan losses as a percent of NPLs | 93.68                 | % 76.05          | % 149.96          | % 159.58             | % 192.71              | % |

The increase of \$1.1 million in nonperforming loans during the third quarter was primarily due to the increase in loans 90+ days past due and accruing, which was mainly the result of two loans. The increase in nonperforming loans during the second quarter was due to one large commercial relationship, comprised of four commercial and industrial loan balances, being placed on nonaccrual status. These loans were restructured in the third quarter of 2015 and moved from nonaccrual status to TDR status. During the first quarter of 2015, commercial real estate loans reported as loans 90+ days past due and accruing increased primarily due to a single loan that was previously acquired and several loans acquired from NB&T. The increase in OREO during the third quarter of 2015 was due to the purchase of a commercial property at a trustee sale; while the increase during the first quarter of 2015 was due to properties acquired as part of the NB&T acquisition.



Table of Contents

## Deposits

The following table details Peoples' deposit balances:

| (Dollars in thousands)                 | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Interest-bearing deposits:             |                       |                  |                   |                      |                       |
| Retail certificates of deposit         | \$461,398             | \$480,687        | \$494,896         | \$432,563            | \$408,868             |
| Money market deposit accounts          | 393,472               | 395,788          | 402,257           | 337,387              | 309,721               |
| Governmental deposit accounts          | 293,889               | 304,221          | 316,104           | 161,305              | 183,213               |
| Savings accounts                       | 404,676               | 410,371          | 406,276           | 295,307              | 262,949               |
| Interest-bearing demand accounts       | 232,354               | 234,025          | 228,373           | 173,659              | 156,867               |
| Total retail interest-bearing deposits | 1,785,789             | 1,825,092        | 1,847,906         | 1,400,221            | 1,321,618             |
| Brokered certificates of deposits      | 33,841                | 38,123           | 38,104            | 39,691               | 39,671                |
| Total interest-bearing deposits        | 1,819,630             | 1,863,215        | 1,886,010         | 1,439,912            | 1,361,289             |
| Non-interest-bearing deposits          | 711,226               | 681,357          | 695,131           | 493,162              | 500,330               |
| Total deposits                         | \$2,530,856           | \$2,544,572      | \$2,581,141       | \$1,933,074          | \$1,861,619           |

All interest-bearing deposit types decreased in the third quarter of 2015, compared to the linked quarter, with the largest decreases in certificates of deposits and governmental deposits. The decline in governmental deposits was attributable to one customer moving its funds to a third-party investment advisor. Commercial non-interest bearing checking accounts accounted for all of the increase in non-interest-bearing deposits due mainly to one large customer maintaining a higher than normal balance on September 30, 2015.

The decrease in governmental deposit accounts during the second and third quarters was due to normal seasonal declines, as the balances typically increase annually during the first quarter. Peoples also maintained 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 increase in deposit balances during the first quarter was due to the acquisition of NB&T, which included CDs totaling \$81.9 million, money market deposit accounts of \$74.0 million, governmental deposit accounts of \$120.9 million, savings accounts of \$94.2 million, interest-bearing demand accounts of \$56.3 million and non-interest-bearing deposits of \$179.7 million at March 31, 2015.

## Borrowed Funds

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

| (Dollars in thousands)                | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |
|---------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|
| Short-term borrowings:                |                       |                  |                   |                      |                       |
| FHLB advances                         | \$40,000              | \$—              | \$—               | \$15,000             | \$—                   |
| Retail repurchase agreements          | 89,165                | 92,711           | 91,101            | 73,277               | 71,897                |
| Total short-term borrowings           | 129,165               | 92,711           | 91,101            | 88,277               | 71,897                |
| Long-term borrowings:                 |                       |                  |                   |                      |                       |
| FHLB advances                         | 69,715                | 70,018           | 70,313            | 124,714              | 101,890               |
| National market repurchase agreements | 40,000                | 40,000           | 40,000            | 40,000               | 40,000                |
| Term note payable (parent company)    | —                     | 11,978           | 13,174            | 14,369               | 15,564                |
| Subordinated debt                     | 6,685                 | 6,637            | 6,587             | —                    | —                     |
| Total long-term borrowings            | 116,400               | 128,633          | 130,074           | 179,083              | 157,454               |
| Total borrowed funds                  | \$245,565             | \$221,344        | \$221,175         | \$267,360            | \$229,351             |

Peoples' short-term FHLB advances generally consist of overnight borrowings being maintained in connection with the management of Peoples' daily liquidity position. Peoples repaid the term loan payable under the Amended Loan Agreement as described in Note 5 - Long-Term Borrowings of the Notes to the Unaudited Consolidated Financial Statements included in this Form 10-Q. The term loan had principal balance of \$12.0 million and was repaid on July 24, 2015. There were no early termination fees associated with the repayment.



Table of Contents

## Capital/Stockholders' Equity

During the first quarter of 2015, Peoples issued common shares (representing \$76.0 million) in partial consideration for the NB&T acquisition, and the remaining consideration was paid in cash. At September 30, 2015, 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 strong capital positions to provide greater flexibility to grow the company. Also 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 capital ratios and added the new Common Equity Tier 1 capital ratio. Additionally, under the new rules, in order to avoid limitations on capital distributions, including dividend payments, Peoples must hold a capital conservation buffer above the adequately capitalized Common Equity Tier 1 capital ratio. The capital conservation buffer is being phased in from 0.00% for 2015 to 2.50% by 2019.

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

| (Dollars in thousands)    | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |   |
|---------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|---|
| Capital Amounts:          |                       |                  |                   |                      |                       |   |
| Common Equity Tier 1      | \$287,020             | \$276,346        | \$281,249         | N/A                  | N/A                   |   |
| Tier 1                    | 293,705               | 282,982          | 287,835           | 241,707              | 232,720               |   |
| Total (Tier 1 and Tier 2) | 319,277               | 303,439          | 307,795           | 261,371              | 251,977               |   |
| Net risk-weighted assets  | \$2,132,453           | \$2,023,844      | \$2,046,183       | \$1,687,968          | \$1,601,664           |   |
| Capital Ratios:           |                       |                  |                   |                      |                       |   |
| Common Equity Tier 1      | 13.46                 | % 13.65          | % 13.75           | % N/A                | N/A                   |   |
| Tier 1                    | 13.77                 | % 13.98          | % 14.07           | % 14.32              | % 14.53               | % |
| Total (Tier 1 and Tier 2) | 14.97                 | % 14.99          | % 15.04           | % 15.48              | % 15.73               | % |
| Leverage ratio            | 9.57                  | % 9.22           | % 10.98           | % 9.92               | % 10.64               | % |

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 information since their calculation removes the impact of 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 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.





Table of Contents

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,<br>2015 | June 30,<br>2015 | March 31,<br>2015 | December 31,<br>2014 | September 30,<br>2014 |
|--|-----------------------|------------------|-------------------|----------------------|-----------------------|
| <b>Tangible Equity:</b>                          |                       |                  |                   |                      |                       |
| Total stockholders' equity, as reported          | \$ 424,760            | \$ 418,164       | \$ 419,218        | \$ 340,118           | \$ 319,282            |
| Less: goodwill and other intangible assets       | 151,339               | 151,169          | 152,291           | 109,158              | 100,016               |
| Tangible equity                                  | \$ 273,421            | \$ 266,995       | \$ 266,927        | \$ 230,960           | \$ 219,266            |
| <b>Tangible Assets:</b>                          |                       |                  |                   |                      |                       |
| Total assets, as reported                        | \$ 3,228,830          | \$ 3,210,425     | \$ 3,253,835      | \$ 2,567,769         | \$ 2,432,903          |
| Less: goodwill and other intangible assets       | 151,339               | 151,169          | 152,291           | 109,158              | 100,016               |
| Tangible assets                                  | \$ 3,077,491          | \$ 3,059,256     | \$ 3,101,544      | \$ 2,458,611         | \$ 2,332,887          |
| <b>Tangible Book Value per Common Share:</b>     |                       |                  |                   |                      |                       |
| Tangible equity                                  | \$ 273,421            | \$ 266,995       | \$ 266,927        | \$ 230,960           | \$ 219,266            |
| Common shares outstanding                        | 18,400,809            | 18,391,575       | 18,374,256        | 14,836,727           | 14,150,279            |
| Tangible book value per common share             | \$ 14.86              | \$ 14.52         | \$ 14.53          | \$ 15.57             | \$ 15.50              |
| <b>Tangible Equity to Tangible Assets Ratio:</b> |                       |                  |                   |                      |                       |
| Tangible equity                                  | \$ 273,421            | \$ 266,995       | \$ 266,927        | \$ 230,960           | \$ 219,266            |
| Tangible assets                                  | \$ 3,077,491          | \$ 3,059,256     | \$ 3,101,544      | \$ 2,458,611         | \$ 2,332,887          |

Tangible equity to tangible assets 8.88 % 8.73 % 8.61 % 9.39 % 9.40 %

The increase in the tangible equity to tangible assets ratio at September 30, 2015 compared to the ratio at June 30, 2015 was due mainly to the increase in tangible equity. Tangible equity increased during the quarter largely as a result of the increase in market value of Peoples' available-for-sale investment portfolio coupled with current year-to-date earnings.

The increase in the tangible equity to tangible assets ratio at June 30, 2015 compared to the ratio at March 31, 2015 was due mainly to the decrease in tangible assets. Tangible assets declined during the quarter largely as a result of the cash balance decreasing, which corresponded to the decline in deposit balances. The decrease in the tangible equity to tangible assets ratio during the first quarter of 2015 compared to the ratio at December 31, 2014 was primarily caused by the NB&T acquisition, which increased all components of the ratio.

Compared to the prior year third quarter, increases in stockholders' equity were driven primarily by issuances of equity in connection with acquisitions, and earnings exceeding dividends, while higher tangible assets were attributable to loan growth and acquisitions.

**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

Table of Contents

primarily to differences in the maturity or repricing of earning assets and interest-bearing liabilities. In addition, other factors, such as prepayments of loans and investment securities, or early withdrawal of deposits, can expose Peoples to IRR and increase interest costs or reduce revenue streams.

Peoples has 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' 2014 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 Net Interest Income |                   |                    | Estimated Decrease in Economic Value of Equity |                    |                   |            |         |
|--|---|-------------------|--------------------|--|--------------------|-------------------|------------|---------|
|  | September 30, 2015                        | December 31, 2014 | September 30, 2015 | December 31, 2014                              | September 30, 2015 | December 31, 2014 |            |         |
| 300  | \$4,651                                   | 4.8 %             | \$5,600            | 7.3 %  | \$(81,911)         | (14.4)%           | \$(66,730) | (15.7)% |
| 200  | 4,159                                     | 4.3 %             | 4,848              | 6.3 %  | (52,436)           | (9.2)%            | (41,537)   | (9.8)%  |
| 100  | 2,840                                     | 2.9 %             | 3,235              | 4.2 %  | (23,990)           | (4.2)%            | (18,026)   | (4.2)%  |

At September 30, 2015, 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' 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.

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' 2014 Form 10-K.

At September 30, 2015, Peoples had liquid assets of \$211.4 million, which represented 6.0% of total assets and unfunded commitments. This amount exceeded the minimal level of \$70.9 million, or 2% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional \$75.6 million of unpledged 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

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, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 | September 30, 2014 |
|-------------------------------|--------------------|---------------|----------------|-------------------|--------------------|
| Home equity lines of credit   | \$84,613           | \$84,687      | \$85,591       | \$62,704          | \$59,549           |
| Unadvanced construction loans | 73,715             | 64,244        | 74,690         | 46,781            | 54,504             |
| Other loan commitments        | 224,673            | 216,957       | 213,698        | 173,746           | 152,503            |
| Loan commitments              | 383,001            | 365,888       | 373,979        | 283,231           | 266,556            |
| Standby letters of credit     | \$22,494           | \$22,247      | \$28,879       | \$30,837          | \$34,570           |



Table of Contents

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, 2015. 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, 2015, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

Table of Contents

## 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 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

There have been no material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2014 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.

## 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, 2015:

| Period                    | (a)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased | (b)<br>Average Price<br>Paid per<br>Common Share | (c)<br>Total Number of<br>Common Shares<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs <sup>(1)</sup> | (d)<br>Maximum<br>Number of Common<br>Shares that May Yet Be<br>Purchased Under the<br>Plans or Programs <sup>(1)</sup> |
|---------------------------|--|--|---|---|
| July 1 - 31, 2015         | 255  | (2) \$ 21.61                                     | (2) —   | —   |
| August 1 - 31, 2015       | 1,061  | (2)(3) \$ 21.68                                  | (2)(3) —  | —   |
| September 1 - 30,<br>2015 | —  | (2)(3) \$ —                                      | (2)(3) —  | —   |
| Total                     | 1,316  | \$ 21.67   | —   | —   |

(1) Peoples’ Board of Directors has not authorized any stock repurchase plans or programs for 2015.

Information reported includes 255 common shares and 1,022 common shares purchased in open market transactions during July and August, 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.

(2) Information reported includes 39 common shares withheld in August to pay income tax or other tax liabilities associated with vested restricted common shares.

## 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 63.

Table of Contents

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 29, 2015

By: /s/ CHARLES W. SULERZYSKI  
Charles W. Sulerzyski  
President and Chief Executive Officer

Date: October 29, 2015

By: /s/ EDWARD G. SLOANE  
Edward G. Sloane  
Executive Vice President,  
Chief Financial Officer and Treasurer

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

| Exhibit Number | Description  | Exhibit Location  |
|----------------|--|---|
| 2.1            | Agreement and Plan of Merger, dated as of January 21, 2014, between Peoples Bancorp Inc. and Midwest Bancshares, Inc.*   | Included as Annex A to the proxy statement/prospectus which forms a part of the Registration Statement of Peoples Bancorp Inc. ("Peoples") on Form S-4 (Registration No. 333-194626)              |
| 2.2            | Agreement and Plan of Merger, dated as of April 4, 2014, between Peoples Bancorp Inc. and Ohio Heritage Bancorp, Inc.*   | Included as Annex A to the proxy statement/prospectus which forms a part of Peoples' Registration Statement on Form S-4 (Registration No. 333-196872)   |
| 2.3            | Agreement and Plan of Merger, dated as of April 21, 2014, as amended, among Peoples Bancorp Inc., Peoples Bank, National Association and North Akron Savings Bank* | Included as Annex A to the proxy statement/prospectus which forms a part of Peoples' Registration Statement on Form S-4 (Registration No. 333-197736)   |
| 2.4            | 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 Peoples' Registration Statement on Form S-4 (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) | 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)                   |

\* 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.

Table of Contents

## EXHIBIT INDEX

PEOPLES BANCORP INC. QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

| Exhibit Number | Description  | Exhibit Location  |
|----------------|--|---|
| 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)   |
| 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 #   |

Edgar Filing: PEOPLES BANCORP INC - Form 10-Q

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, 2015 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at September 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income (unaudited) for the three and nine months ended September 30, 2015 and 2014; (iv) Consolidated Statement of Stockholders' Equity (unaudited) for the nine months ended September 30, 2015; (v) Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2015 and 2014; and (vi) Notes to the Unaudited Consolidated Financial Statements.