

PEOPLES BANCORP INC
Form 10-Q
July 28, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from ____ to ____

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio 31-0987416

(State

or

other (I.R.S.

jurisdiction Employer

of Identification

incorporation No.)

or

organization)

138

Putnam

Street,

P.

O. 45750

Box

738,

Marietta,

Ohio

(Address

of

principal (Zip Code)

executive

offices)

Registrant's (740)

telephone 373-3155

number,
including
area
code:

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 18,183,754 common shares, without par value, at July 27, 2016.

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$54,096	\$ 53,663
Interest-bearing deposits in other banks	12,248	17,452
Total cash and cash equivalents	66,344	71,115
Available-for-sale investment securities, at fair value (amortized cost of \$750,305 at June 30, 2016 and \$780,304 at December 31, 2015)	772,618	784,701
Held-to-maturity investment securities, at amortized cost (fair value of \$46,143 at June 30, 2016 and \$45,853 at December 31, 2015)	44,306	45,728
Other investment securities, at cost	38,402	38,401
Total investment securities	855,326	868,830
Loans, net of deferred fees and costs	2,128,790	2,072,440
Allowance for loan losses	(17,838)	(16,779)
Net loans	2,110,952	2,055,661
Loans held for sale	4,223	1,953
Bank premises and equipment, net	52,731	53,487
Goodwill	132,631	132,631
Other intangible assets	15,340	16,986
Other assets	95,908	58,307
Total assets	\$3,333,455	\$ 3,258,970
Liabilities		
Non-interest-bearing deposits	\$699,695	\$ 717,939
Interest-bearing deposits	1,833,276	1,818,005
Total deposits	2,532,971	2,535,944
Short-term borrowings	173,512	160,386
Long-term borrowings	147,980	113,670
Accrued expenses and other liabilities	41,239	29,181
Total liabilities	2,895,702	2,839,181
Stockholders' equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at June 30, 2016 and December 31, 2015	—	—
Common stock, no par value, 24,000,000 shares authorized, 18,934,758 shares issued at June 30, 2016 and 18,931,200 shares issued at December 31, 2015, including shares in treasury	343,540	343,948
Retained earnings	101,095	90,790
Accumulated other comprehensive income (loss), net of deferred income taxes	11,134	(359)
Treasury stock, at cost, 802,957 shares at June 30, 2016 and 586,686 shares at December 31, 2015	(18,016)	(14,590)
Total stockholders' equity	437,753	419,789
Total liabilities and stockholders' equity	\$3,333,455	\$ 3,258,970

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Interest income:				
Interest and fees on loans	\$23,391	\$22,146	\$46,357	\$41,306
Interest and dividends on taxable investment securities	4,738	4,553	9,419	8,916
Interest on tax-exempt investment securities	781	806	1,561	1,402
Other interest income	11	61	27	101
Total interest income	28,921	27,566	57,364	51,725
Interest expense:				
Interest on deposits	1,503	1,618	3,104	3,177
Interest on short-term borrowings	105	31	192	66
Interest on long-term borrowings	1,005	1,124	1,993	2,270
Total interest expense	2,613	2,773	5,289	5,513
Net interest income	26,308	24,793	52,075	46,212
Provision for loan losses	727	672	1,682	1,022
Net interest income after provision for loan losses	25,581	24,121	50,393	45,190
Other income:				
Insurance income	3,299	3,283	7,797	7,595
Trust and investment income	2,776	2,544	5,158	4,591
Electronic banking income	2,567	2,312	5,102	4,292
Deposit account service charges	2,563	2,848	5,166	5,143
Net gain on investment securities	767	11	863	611
Mortgage banking income	265	412	425	715
Net loss on asset disposals and other transactions	(769)	(136)	(800)	(1,239)
Other non-interest income	897	527	1,773	1,098
Total other income	12,365	11,801	25,484	22,806
Other expenses:				
Salaries and employee benefit costs	13,972	14,560	28,297	31,921
Net occupancy and equipment expense	2,581	3,138	5,387	5,433
Professional fees	2,123	1,808	3,582	4,255
Electronic banking expense	1,485	1,320	2,918	2,444
Data processing and software expense	1,013	1,025	1,762	1,760
Amortization of other intangible assets	1,007	1,144	2,015	1,817
Communication expense	584	592	1,212	1,094
FDIC insurance expense	540	530	1,157	954
Franchise tax expense	483	502	1,021	1,050
Marketing expense	414	1,071	812	1,716
Foreclosed real estate and other loan expenses	100	551	351	872
Other non-interest expense	2,203	2,537	4,273	8,376
Total other expenses	26,505	28,778	52,787	61,692
Income before income taxes	11,441	7,144	23,090	6,304
Income tax expense	3,479	2,231	7,133	2,080
Net income	\$7,962	\$4,913	\$15,957	\$4,224
Earnings per common share - basic	\$0.44	\$0.27	\$0.88	\$0.25

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Earnings per common share - diluted	\$0.44	\$ 0.27	\$0.88	\$ 0.24
Weighted-average number of common shares outstanding - basic	17,980,797	18,116,090	18,026,277	16,965,603
Weighted-average number of common shares outstanding - diluted	18,113,811	18,253,918	18,154,260	17,094,095
Cash dividends declared	\$2,904	\$ 2,758	\$5,652	\$ 5,030
Cash dividends declared per common share	\$0.16	\$ 0.15	\$0.31	\$ 0.30

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Net income	\$7,962	\$4,913	\$15,957	\$4,224
Other comprehensive income (loss):				
Available-for-sale investment securities:				
Gross unrealized holding gain (loss) arising in the period	6,421	(6,596)	18,750	2,287
Related tax (benefit) expense	(2,247)	2,308	(6,563)	(800)
Less: reclassification adjustment for net gain included in net income	767	11	863	611
Related tax expense	(268)	(4)	(302)	(214)
Net effect on other comprehensive income (loss)	3,675	(4,295)	11,626	1,090
Defined benefit plans:				
Net gain arising during the period	2	533	2	507
Related tax expense	(1)	(186)	(1)	(177)
Amortization of unrecognized loss and service cost on benefit plans	46	30	45	62
Related tax expense	(16)	(9)	(15)	(21)
Recognition of loss due to settlement and curtailment	—	103	—	372
Related tax expense	—	(36)	—	(130)
Net effect on other comprehensive income	31	435	31	613
Cash flow hedges:				
Net loss arising during the period	(252)	—	(252)	—
Related tax benefit	88	—	88	—
Net effect on other comprehensive loss	(164)	—	(164)	—
Total other comprehensive income (loss), net of tax expense	3,542	(3,860)	11,493	1,703
Total comprehensive income	\$11,504	\$1,053	\$27,450	\$5,927

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Shares	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2015	\$343,948	\$90,790	\$ (359)	\$(14,590)	\$ 419,789
Net income	—	15,957	—	—	15,957
Other comprehensive income, net of tax	—	—	11,493	—	11,493
Cash dividends declared	—	(5,652)	—	—	(5,652)
Reissuance of treasury stock for common share awards	(1,245)	—	—	1,245	—
Tax expense from exercise of stock options	(3)	—	—	—	(3)
Reissuance of treasury stock for deferred compensation plan for Boards of Directors	—	—	—	201	201
Repurchase of common shares in connection with employee incentive and director compensation plans	—	—	—	(316)	(316)
Common shares repurchased under share repurchase program	—	—	—	(4,965)	(4,965)
Common shares issued under dividend reinvestment plan	219	—	—	—	219
Common shares issued under compensation plan for Boards of Directors	(24)	—	—	202	178
Common shares issued under employee stock purchase plan	(18)	—	—	207	189
Stock-based compensation expense	663	—	—	—	663
Balance, June 30, 2016	\$343,540	\$101,095	\$ 11,134	\$(18,016)	\$ 437,753

See Notes to the Unaudited Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2016	2015
(Dollars in thousands)		
Net cash provided by operating activities	\$32,135	\$14,216
Investing activities:		
Available-for-sale investment securities:		
Purchases	(65,889)	(64,105)
Proceeds from sales	30,590	47,567
Proceeds from principal payments, calls and prepayments	60,112	59,875
Held-to-maturity investment securities:		
Proceeds from principal payments	1,208	762
Net increase in loans	(54,247)	(4,653)
Net expenditures for premises and equipment	(3,785)	(5,107)
Proceeds from sales of other real estate owned	141	191
Investment in bank owned life insurance	(35,000)	—
Business acquisitions, net of cash received	(244)	98,147
Investment in limited partnership and tax credit funds	(2,878)	(108)
Net cash (used in) provided by investing activities	(69,992)	132,569
Financing activities:		
Net (decrease) increase in non-interest-bearing deposits	(18,244)	62,759
Net increase (decrease) in interest-bearing deposits	15,332	(80,493)
Net increase in short-term borrowings	13,126	4,434
Proceeds from long-term borrowings	55,000	—
Payments on long-term borrowings	(21,429)	(57,362)
Cash dividends paid	(5,423)	(4,785)
Purchase of treasury stock under share repurchase program	(4,965)	—
Repurchase of common shares in connection with employee incentive and director compensation plans to be held as treasury stock	(316)	(593)
Proceeds from issuance of common shares	8	—
Excess tax (expense) benefit from share-based payment awards	(3)	63
Net cash provided by (used in) financing activities	33,086	(75,977)
Net (decrease) increase in cash and cash equivalents	(4,771)	70,808
Cash and cash equivalents at beginning of period	71,115	61,454
Cash and cash equivalents at end of period	\$66,344	\$132,262

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

In May 2016, the FASB issued ASU 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. This accounting guidance provides clarification of the collectibility criterion and when revenue would be recognized for certain contracts. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for Peoples). Management's preliminary analysis suggests that the adoption of the new accounting guidance is not expected to have a material effect on Peoples' financial condition or results of operations. There are many aspects of the new accounting guidance that are still being interpreted, and the FASB has recently issued and proposed updates to certain aspects of the guidance. Therefore, the results of Peoples' preliminary analysis of the materiality of the adoption of the new accounting guidance may change based on the conclusions reached as to the application of the new accounting

guidance.

In March 2016, the FASB issued ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax

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benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value are to be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the accounting guidance is adopted. For public entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Peoples will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' results of operations.

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

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

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

In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendment is intended to enhance the reporting model for financial instruments to provide users of financial statements with more useful information. The new ASU requires equity investments to be measured at fair value with changes in fair value recognized in net income. However, a reporting organization may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment (if any), from observable price changes in orderly transactions for similar investments of the same issuer. The ASU is effective for fiscal years beginning after December 15, 2019 (effective January 1, 2020, for Peoples). Peoples is currently evaluating the impact of adopting the new accounting guidance on Peoples' consolidated financial statements which may result in an impact to the income statement on a quarterly and annual basis, as market rates fluctuate. Peoples will adopt this accounting guidance as required.

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Note 2. Fair Value of Financial Instruments

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

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
June 30, 2016					
Obligations of:					
U.S. government sponsored agencies	\$ 1,000	\$—	\$ 1,000	\$	—
States and political subdivisions	114,826	—	114,826	—	—
Residential mortgage-backed securities	620,819	—	620,819	—	—
Commercial mortgage-backed securities	23,789	—	23,789	—	—
Bank-issued trust preferred securities	4,536	—	4,536	—	—
Equity securities	7,648	7,433	215	—	—
Total available-for-sale securities	\$ 772,618	\$ 7,433	\$ 765,185	\$	—
December 31, 2015					
Obligations of:					
U.S. government sponsored agencies	\$ 2,966	\$—	\$ 2,966	\$	—
States and political subdivisions	114,726	—	114,726	—	—
Residential mortgage-backed securities	632,293	—	632,293	—	—
Commercial mortgage-backed securities	23,845	—	23,845	—	—
Bank-issued trust preferred securities	4,635	—	4,635	—	—
Equity securities	6,236	6,024	212	—	—
Total available-for-sale securities	\$ 784,701	\$ 6,024	\$ 778,677	\$	—

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

(Dollars in thousands)	Fair Value	Fair Value at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Obligations of:				
States and political subdivisions	\$ 4,331	\$ 4,331	\$	—

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Residential mortgage-backed securities	35,977	—35,977	—	
Commercial mortgage-backed securities	5,835	—5,835	—	
Total held-to-maturity securities	\$46,143	\$46,143	\$	—
December 31, 2015				
Obligations of:				
States and political subdivisions	\$4,221	\$4,221	\$	—
Residential mortgage-backed securities	35,196	—35,196	—	
Commercial mortgage-backed securities	6,436	—6,436	—	
Total held-to-maturity securities	\$45,853	\$45,853	\$	—

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

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At June 30, 2016, impaired loans with an aggregate outstanding principal balance of \$46.5 million were measured and reported at a fair value of \$38.4 million. For the three and six months ended June 30, 2016, Peoples recognized \$125,000 and \$63,000 of losses on impaired loans, respectively, through the allowance for loan losses.

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

(Dollars in thousands)	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	\$66,344	\$66,344	\$71,115	\$71,115
Investment securities	855,326	857,163	868,830	868,955
Loans (1)	2,115,175	2,083,649	2,057,614	2,018,482
Financial liabilities:				
Deposits	\$2,532,971	\$2,537,078	\$2,535,944	\$2,540,131
Short-term borrowings	173,512	173,512	160,386	160,386
Long-term borrowings	147,980	152,610	113,670	117,299
Cash flow hedges (2)	288	288	—	—

(1) Includes loans held for sale

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

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

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

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

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

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

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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.

Note 3. Investment Securities

Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
Obligations of:				
U.S. government sponsored agencies	\$ 995	\$ 5	\$ —	\$ 1,000
States and political subdivisions	109,767	5,059	—	114,826
Residential mortgage-backed securities	609,507	12,766	(1,454)	620,819
Commercial mortgage-backed securities	23,005	784	—	23,789
Bank-issued trust preferred securities	5,157	—	(621)	4,536
Equity securities	1,874	5,845	(71)	7,648
Total available-for-sale securities	\$ 750,305	\$ 24,459	\$ (2,146)	\$ 772,618
December 31, 2015				
Obligations of:				
U.S. government sponsored agencies	\$ 2,908	\$ 58	\$ —	\$ 2,966
States and political subdivisions	111,283	3,487	(44)	114,726
Residential mortgage-backed securities	635,504	4,905	(8,116)	632,293
Commercial mortgage-backed securities	23,770	119	(44)	23,845
Bank-issued trust preferred securities	5,146	—	(511)	4,635
Equity securities	1,693	4,627	(84)	6,236
Total available-for-sale securities	\$ 780,304	\$ 13,196	\$ (8,799)	\$ 784,701

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

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

	Three Months Ended June 30,	Six Months Ended June 30,		
(Dollars in thousands)	2016	2015	2016	2015
Gross gains realized	\$ 767	\$ 32	\$ 863	\$ 632
Gross losses realized	—	21	—	21
Net gain realized	\$ 767	\$ 11	\$ 863	\$ 611

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
June 30, 2016								
Obligations of:								
Residential mortgage-backed securities	\$ 13,543	\$ 204	8	\$ 57,891	\$ 1,250	23	\$ 71,434	\$ 1,454
Bank-issued trust preferred securities	2,094	66	1	2,443	555	3	4,537	621
Equity securities	21	1	1	106	70	1	127	71
Total	\$ 15,658	\$ 271	10	\$ 60,440	\$ 1,875	27	\$ 76,098	\$ 2,146
December 31, 2015								
Obligations of:								
States and political subdivisions	\$ 7,662	\$ 38	8	\$ 213	\$ 6	1	\$ 7,875	\$ 44
Residential mortgage-backed securities	303,549	3,902	76	102,090	4,214	33	405,639	8,116
Commercial mortgage-backed securities	6,682	44	3	—	—	—	6,682	44
Bank-issued trust preferred securities	2,129	19	1	2,506	492	3	4,635	511
Equity securities	438	15	2	106	69	1	544	84
Total	\$ 320,460	\$ 4,018	90	\$ 104,915	\$ 4,781	38	\$ 425,375	\$ 8,799

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

At June 30, 2016, approximately 99% 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 1%, 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 June 30, 2016 were primarily attributable to the floating-rate nature of those investments, the current interest rate environment and spreads within that sector.

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

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total	
Amortized cost						
Obligations of:						
U.S. government sponsored agencies	\$995	\$—	\$—	\$—	\$995	
States and political subdivisions	675	12,183	31,536	65,373	109,767	
Residential mortgage-backed securities	5	14,654	40,393	554,455	609,507	
Commercial mortgage-backed securities	—	3,267	16,054	3,684	23,005	
Bank-issued trust preferred securities	—	—	—	5,157	5,157	
Equity securities					1,874	
Total available-for-sale securities	\$1,675	\$30,104	\$87,983	\$628,669	\$750,305	
Fair value						
Obligations of:						
U.S. government sponsored agencies	\$1,000	\$—	\$—	\$—	\$1,000	
States and political subdivisions	684	12,581	32,724	68,837	114,826	
Residential mortgage-backed securities	5	14,721	41,262	564,831	620,819	
Commercial mortgage-backed securities	—	3,383	16,676	3,730	23,789	
Bank-issued trust preferred securities	—	—	—	4,536	4,536	
Equity securities					7,648	
Total available-for-sale securities	\$1,689	\$30,685	\$90,662	\$641,934	\$772,618	
Total weighted-average yield	2.96	%3.02	%2.94	%2.68	%2.74	%

Held-to-Maturity

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
Obligations of:				
States and political subdivisions	\$ 3,826	\$ 505	\$ —	\$4,331
Residential mortgage-backed securities	34,678	1,324	(25) 35,977
Commercial mortgage-backed securities	5,802	33	—	5,835
Total held-to-maturity securities	\$ 44,306	\$ 1,862	\$ (25) \$46,143
December 31, 2015				
Obligations of:				
States and political subdivisions	\$ 3,831	\$ 394	\$ (4) \$4,221
Residential mortgage-backed securities	35,367	363	(534) 35,196
Commercial mortgage-backed securities	6,530	—	(94) 6,436
Total held-to-maturity securities	\$ 45,728	\$ 757	\$ (632) \$45,853

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
June 30, 2016								
Obligations of:								
States and political subdivisions	\$—	\$ —	—	\$—	\$ —	—	\$—	\$ —
Residential mortgage-backed securities	—	—	—	1,109	25	1	1,109	25
Commercial mortgage-backed securities	—	—	—	88	—	1	88	—
Total	\$—	\$ —	—	\$1,197	\$ 25	2	\$1,197	\$ 25
December 31, 2015								
Obligations of:								
States and political subdivisions	\$—	\$ —	—	\$319	\$ 4	1	\$319	\$ 4
Residential mortgage-backed securities	3,706	89	2	10,040	445	2	13,746	534
Commercial mortgage-backed securities	540	4	1	5,895	90	1	6,435	94
Total	\$4,246	\$ 93	3	\$16,254	\$ 539	4	\$20,500	\$ 632

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

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	\$ —	\$321	\$977	\$2,528	\$3,826
Residential mortgage-backed securities	—	—	4,653	30,025	34,678
Commercial mortgage-backed securities	—	—	—	5,802	5,802
Total held-to-maturity securities	\$ —	\$321	\$5,630	\$38,355	\$44,306
Fair value					
Obligations of:					
States and political subdivisions	\$ —	\$332	\$1,136	\$2,863	\$4,331
Residential mortgage-backed securities	—	—	4,870	31,107	35,977
Commercial mortgage-backed securities	—	—	—	5,835	5,835
Total held-to-maturity securities	\$ —	\$332	\$6,006	\$39,805	\$46,143
Total weighted-average yield	—%	3.14%	2.23%	2.85%	2.77%

Other Securities

Peoples' other investment securities on the Unaudited Consolidated Balance Sheet consists 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 \$495.3 million and \$495.5 million at June 30, 2016 and December 31, 2015, respectively, and held-to-maturity investment securities with carrying values of \$20.5 million and \$21.4 million at June 30, 2016 and December 31, 2015, respectively, to secure public and trust department deposits, and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of \$10.0 million and \$11.1 million at June 30, 2016 and December 31, 2015, respectively, and held-to-maturity securities with carrying values of \$22.8 million and \$23.3 million at June 30, 2016 and December 31, 2015, respectively, to secure additional

borrowing capacity at the FHLB and the FRB.

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Note 4. Loans

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

(Dollars in thousands)	June 30, 2016	December 31, 2015
Originated loans:		
Commercial real estate, construction	\$88,672	\$ 63,785
Commercial real estate, other	468,404	471,184
Commercial real estate	557,076	534,969
Commercial and industrial	322,512	288,130
Residential real estate	304,275	288,783
Home equity lines of credit	80,049	74,176
Consumer, indirect	205,980	165,320
Consumer, other	65,717	61,813
Consumer	271,697	227,133
Deposit account overdrafts	1,214	1,448
Total originated loans	\$1,536,823	\$ 1,414,639
Acquired loans:		
Commercial real estate, construction	\$10,321	\$ 12,114
Commercial real estate, other	240,506	265,092
Commercial real estate	250,827	277,206
Commercial and industrial	55,840	63,589
Residential real estate	250,848	276,772
Home equity lines of credit	28,968	32,253
Consumer, indirect	1,136	1,776
Consumer, other	4,348	6,205
Consumer	5,484	7,981
Total acquired loans	\$591,967	\$ 657,801
Loans, net of deferred fees and costs	\$2,128,790	\$ 2,072,440

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

(Dollars in thousands)	June 30, 2016	December 31, 2015
Commercial real estate, other	\$15,220	\$ 16,893
Commercial and industrial	2,437	3,040
Residential real estate	24,907	27,155
Consumer	139	193
Total outstanding balance	\$42,703	\$ 47,281
Net carrying amount	\$31,027	\$ 35,064

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

(Dollars in thousands)	Accretable Yield
Balance, December 31, 2015	\$ 7,042
Reclassification from nonaccretable to accretable	1,916
Accretion	(967)
Balance, June 30, 2016	\$ 7,991

Peoples completes semi-annual re-estimations of cash flows on acquired purchased credit impaired loans in February and August of each year. The above reclassification from nonaccretable to accretable related to the re-estimation of cash flows on the acquired purchased credit impaired loan portfolios coupled with the loans performing better than expected. The majority of the reclassification related to prepayment speeds decreasing in the residential portfolio, resulting in higher total expected cash flows.

Cash flows expected to be collected on purchased 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 \$546.1 million and \$554.8 million at June 30, 2016 and December 31, 2015, respectively. Peoples also pledges commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$166.4 million and \$195.5 million at June 30, 2016 and December 31, 2015, respectively.

Nonaccrual and Past Due Loans

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

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

(Dollars in thousands)	Nonaccrual Loans		Loans 90+ Days Past Due and Accruing	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Originated loans:				
Commercial real estate, construction	\$877	\$ 921	\$—	\$ —
Commercial real estate, other	6,711	7,041	1,377	—
Commercial real estate	7,588	7,962	1,377	—
Commercial and industrial	1,827	480	—	680
Residential real estate	3,423	3,057	74	169
Home equity lines of credit	200	321	—	—
Consumer, indirect	46	34	—	—
Consumer, other	8	58	—	1
Consumer	54	92	—	1
Total originated loans	\$13,092	\$ 11,912	\$1,451	\$ 850
Acquired loans:				
Commercial real estate, other	566	469	2,605	2,425
Commercial real estate	566	469	2,605	2,425
Commercial and industrial	281	247	459	1,306
Residential real estate	1,360	798	1,347	1,353
Home equity lines of credit	278	98	—	35
Consumer, other	5	7	7	—
Total acquired loans	\$2,490	\$ 1,619	\$4,418	\$ 5,119
Total loans	\$15,582	\$ 13,531	\$5,869	\$ 5,969

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

(Dollars in thousands)	Loans Past Due			Total	Current Loans	Total Loans
	30 - 59 days	60 - 89 days	90 + Days			
June 30, 2016						
Originated loans:						
Commercial real estate, construction	\$—	\$877	\$—	\$877	\$87,795	\$88,672
Commercial real estate, other	1,688	1,988	7,414	11,090	457,314	468,404
Commercial real estate	1,688	2,865	7,414	11,967	545,109	557,076
Commercial and industrial	405	102	1,646	2,153	320,359	322,512
Residential real estate	1,546	1,949	1,010	4,505	299,770	304,275
Home equity lines of credit	151	161	42	354	79,695	80,049
Consumer, indirect	812	61	—	873	205,107	205,980
Consumer, other	230	229	—	459	65,258	65,717
Consumer	1,042	290	—	1,332	270,365	271,697
Deposit account overdrafts	—	—	—	—	1,214	1,214
Total originated loans	\$4,832	\$5,367	\$10,112	\$20,311	\$1,516,512	\$1,536,823
Acquired loans:						
Commercial real estate, construction	\$—	\$—	\$40	\$40	\$10,281	\$10,321
Commercial real estate, other	837	396	2,958	4,191	236,315	240,506
Commercial real estate	837	396	2,998	4,231	246,596	250,827
Commercial and industrial	502	53	740	1,295	54,545	55,840
Residential real estate	1,518	1,642	2,177	5,337	245,511	250,848
Home equity lines of credit	—	53	206	259	28,709	28,968
Consumer, indirect	22	—	—	22	1,114	1,136
Consumer, other	18	55	7	80	4,268	4,348
Consumer	40	55	7	102	5,382	5,484
Total acquired loans	\$2,897	\$2,199	\$6,128	\$11,224	\$580,743	\$591,967
Total loans	\$7,729	\$7,566	\$16,240	\$31,535	\$2,097,255	\$2,128,790

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

Credit Quality Indicators

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

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

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

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

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

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

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

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

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
June 30, 2016						
Originated loans:						
Commercial real estate, construction	\$87,111	\$—	\$ 877	\$ —	\$684	\$88,672
Commercial real estate, other	444,483	8,486	15,435	—	—	468,404
Commercial real estate	531,594	8,486	16,312	—	684	557,076
Commercial and industrial	285,036	31,721	5,732	—	23	322,512
Residential real estate	20,972	1,161	10,917	208	271,017	304,275
Home equity lines of credit	794	—	140	—	79,115	80,049
Consumer, indirect	97	—	1	—	205,882	205,980
Consumer, other	124	—	—	—	65,593	65,717
Consumer	221	—	1	—	271,475	271,697
Deposit account overdrafts	—	—	—	—	1,214	1,214
Total originated loans	\$838,617	\$41,368	\$ 33,102	\$ 208	\$623,528	\$1,536,823
Acquired loans:						
Commercial real estate, construction	\$10,321	\$—	\$ —	\$ —	\$—	\$10,321
Commercial real estate, other	212,597	12,717	15,120	72	—	240,506
Commercial real estate	222,918	12,717	15,120	72	—	250,827
Commercial and industrial	53,878	109	1,657	196	—	55,840
Residential real estate	17,648	660	1,407	—	231,133	250,848
Home equity lines of credit	280	—	—	—	28,688	28,968
Consumer, indirect	81	—	—	—	1,055	1,136
Consumer, other	60	—	—	—	4,288	4,348
Consumer	141	—	—	—	5,343	5,484
Total acquired loans	\$294,865	\$13,486	\$ 18,184	\$ 268	\$265,164	\$591,967
Total loans	\$1,133,482	\$54,854	\$ 51,286	\$ 476	\$888,692	\$2,128,790

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

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Impaired Loans

The following table summarizes loans classified as impaired:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
June 30, 2016							
Commercial real estate, construction	\$ 937	\$ —	\$ 920	\$ 920	\$ —	\$ 937	\$ 1
Commercial real estate, other	21,013	6,718	13,991	20,709	1,286	20,390	455
Commercial real estate	\$ 21,950	\$ 6,718	\$ 14,911	\$ 21,629	\$ 1,286	\$ 21,327	\$ 456
Commercial and industrial	4,555	3,261	1,195	4,456	469	3,692	101
Residential real estate	31,589	433	30,330	30,763	127	29,559	771
Home equity lines of credit	1,164	—	1,158	1,158	—	847	28
Consumer, indirect	238	—	222	222	—	153	7
Consumer, other	189	—	185	185	—	180	9
Consumer	427	—	407	407	—	333	16
Total	\$ 59,685	\$ 10,412	\$ 48,001	\$ 58,413	\$ 1,882	\$ 55,758	\$ 1,372
December 31, 2015							
Commercial real estate, construction	\$ 957	\$ —	\$ 957	\$ 957	\$ —	\$ 227	\$ 3
Commercial real estate, other	23,430	6,396	12,772	19,168	1,363	13,070	815
Commercial real estate	\$ 24,387	\$ 6,396	\$ 13,729	\$ 20,125	\$ 1,363	\$ 13,297	\$ 818
Commercial and industrial	5,670	1,224	4,130	5,354	351	4,049	246
Residential real estate	31,304	370	28,834	29,204	106	26,785	1,354
Home equity lines of credit	425	—	419	419	—	325	18
Consumer, indirect	118	—	103	103	—	84	—
Consumer, other	265	—	195	195	—	210	28
Consumer	383	—	298	298	—	294	28
Total	\$ 62,169	\$ 7,990	\$ 47,410	\$ 55,400	\$ 1,820	\$ 44,750	\$ 2,464

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

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

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

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

(Dollars in thousands)	Number of Contracts	Three Months Ended Recorded Investment (1)		Remaining Recorded Investment
		Pre-Modification	Post-Modification	
June 30, 2016				
Originated loans:				
Commercial real estate, other	1	\$ 57	\$ 57	\$ 57
Commercial and industrial	2	22	30	30
Residential real estate	1	36	36	36
Home equity lines of credit	1	11	11	11
Consumer, indirect	4	72	72	72
Consumer, other	2	12	12	12
Consumer	6	84	84	84
Total originated loans	11	210	218	218
Acquired loans:				
Residential real estate	5	\$ 519	\$ 519	\$ 516
Home equity lines of credit	3	179	179	177
Consumer, indirect	2	9	9	9
Consumer, other	4	21	21	21
Consumer	6	30	30	30
Total acquired loans	14	\$ 728	\$ 728	\$ 723
June 30, 2015				
Originated loans:				
Residential real estate	2	\$ 184	\$ 184	\$ 184
Home equity lines of credit	4	92	92	91
Consumer, other	2	10	10	10
Total originated loans	8	\$ 286	\$ 286	\$ 285
Acquired loans:				
Commercial real estate, other	1	\$ 24	\$ 24	\$ 24
Residential real estate	2	35	35	35
Home equity lines of credit	1	8	8	8
Total acquired loans	4	\$ 67	\$ 67	\$ 67

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

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(Dollars in thousands)	Number of Contracts	Six Months Ended		Remaining Recorded Investment
		Pre-Modification	Post-Modification	
June 30, 2016				
Originated loans:				
Commercial real estate, other	1	\$57	\$ 57	\$ 57
Commercial and industrial	6	\$722	\$ 730	\$ 731
Residential real estate	3	120	120	120
Home equity lines of credit	1	11	11	10
Consumer, indirect	5	83	83	82
Consumer, other	4	15	15	14
Consumer	9	98	98	96
Total originated loans	20	\$1,008	\$ 1,016	\$ 1,014
Acquired loans:				
Residential real estate	10	\$850	\$ 852	\$ 846
Home equity lines of credit	3	179	179	177
Consumer, indirect	2	10	10	10
Consumer, other	5	24	24	24
Consumer	7	34	34	34
Total acquired loans	20	\$1,063	\$ 1,065	\$ 1,057
June 30, 2015				
Originated loans:				
Residential real estate	2	\$184	\$ 184	\$ 184
Home equity lines of credit	9	308	309	306
Consumer, indirect	1	6	6	6
Consumer, other	2	10	10	10
Consumer	3	16	16	16
Total originated loans	14	\$508	\$ 509	\$ 506
Acquired loans:				
Commercial real estate, other	1	\$24	\$ 24	\$ 24
Residential real estate	2	35	35	35
Home equity lines of credit	1	8	8	8
Total acquired loans	4	\$67	\$ 67	\$ 67

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

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The following table presents those loans for the six months ended June 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)	June 30, 2016		June 30, 2015	
	Recorded Contracts	Impact on the Investment Allowance for Loan Losses	Recorded Contracts	Impact on the Investment Allowance for Loan Losses
Acquired loans:				
Commercial and industrial	\$ —	—\$	—2 196	—
Total	\$ —	—\$	—2 \$ 196	\$ —

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

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

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

Allowance for Originated Loan Losses

Changes in the allowance for originated loan losses for the six months ended June 30, were as follows:

(Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Home Equity Lines of Credit		Deposit Account Overdrafts	Total
				Consumer			
Balance, January 1, 2016	\$ 7,076	\$ 5,382	\$ 1,257	\$ 732	\$ 1,971	\$ 121	\$ 16,539
Charge-offs	—	(1,017)	(379)	(29)	(1,047)	(334)	(2,806)
Recoveries	1,181	250	69	26	600	108	2,234
Net recoveries (charge-offs)	1,181	(767)	(310)	(3)	(447)	(226)	(572)
(Recovery of) provision for loan losses	(721)	619	349	(45)	1,223	249	1,674
Balance, June 30, 2016	\$ 7,536	\$ 5,234	\$ 1,296	\$ 684	\$ 2,747	\$ 144	\$ 17,641
Period-end amount allocated to:							
Loans individually evaluated for impairment	\$ 1,286	\$ 469	\$ 127	\$ —	\$ —	\$ —	\$ 1,882
Loans collectively evaluated for impairment	6,250	4,765	1,169	684	2,747	144	15,759
Ending balance	\$ 7,536	\$ 5,234	\$ 1,296	\$ 684	\$ 2,747	\$ 144	\$ 17,641
Balance, January 1, 2015	\$ 9,825	\$ 4,036	\$ 1,627	\$ 694	\$ 1,587	\$ 112	\$ 17,881
Charge-offs	(44)	(343)	(282)	(81)	(482)	(323)	(1,555)
Recoveries	82	94	159	80	325	93	833
Net recoveries (charge-offs)	38	(249)	(123)	(1)	(157)	(230)	(722)
(Recovery of) provision for loan losses	(2,733)	3,408	(207)	45	237	272	1,022
Balance, June 30, 2015	\$ 7,130	\$ 7,195	\$ 1,297	\$ 738	\$ 1,667	\$ 154	\$ 18,181
Period-end amount allocated to:							

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Loans individually evaluated for impairment	\$ 286	\$ 3,556	\$ 6	\$—	\$—	\$ —	\$3,848
Loans collectively evaluated for impairment	6,844	3,639	1,291	738	1,667	154	14,333
Ending balance	\$ 7,130	\$ 7,195	\$ 1,297	\$ 738	\$ 1,667	\$ 154	\$18,181

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

Allowance for Acquired Loan Losses

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

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Purchased credit impaired loans:				
Balance, beginning of period	\$ 202	\$ —	-\$ 240	\$ —
Charge-offs	(5)	—	(51)	—
Recoveries	—	—	—	—
Net charge-offs (recoveries)	(5)	—	(51)	—
Provision for loan losses	—	—	8	—
Balance, June 30	\$ 197	\$ —	-\$ 197	\$ —

Note 5. Goodwill and Other Intangible Assets

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

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Note 6. Long-Term Borrowings

The following table summarizes Peoples' long-term borrowings:

(Dollars in thousands)	June 30, 2016			December 31, 2015		
	Balance	Weighted-Average Rate	%	Balance	Weighted-Average Rate	%
FHLB putable, non-amortizing, fixed-rate advances	\$70,000	2.49	%	\$50,000	3.32	%
FHLB amortizing, fixed-rate advances	31,214	2.02	%	16,934	2.69	%
Callable national market repurchase agreements	40,000	3.63	%	40,000	3.63	%
Junior subordinated debt securities	6,829	2.18	%	6,736	1.83	%
Unamortized debt issuance costs	(63)	—	%	—	—	%
Total long-term borrowings	\$147,980	2.69	%	\$113,670	3.25	%

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

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

- Peoples restructured \$20.0 million of borrowings that had a weighted-average rate of 2.97%, resulting in a \$700,000 loss. Peoples replaced these borrowings with a long-term FHLB advance, which has an interest rate of 2.17% and matures in 2026.
- Peoples borrowed an additional \$35.0 million of long-term FHLB amortizing advances, which had interest rates ranging from 1.08% to 1.40%, and mature between 2019 and 2031.
- Peoples entered into three forward starting interest rate swaps during the second quarter of 2016 to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.56%, which become effective in 2018 and mature between 2023 and 2025. These swaps will replace \$30.0 million in borrowings that mature in 2018, which have interest rates ranging from 3.65% to 3.92%.

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

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

On March 6, 2015, Peoples acquired NB&T Financial Group, Inc. ("NB&T"), which included the assumption of Fixed/Floating Rate Junior Subordinated Debt Securities due in 2037 (the "junior subordinated debt securities"). At the acquisition date, junior subordinated debt securities with a fair value of \$6.6 million were held in a statutory trust whose common securities were wholly-owned by NB&T. The sole assets of the statutory trust are the junior subordinated debt securities and related payments. The junior subordinated debt securities and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee of the obligations of the statutory trust under the Capital Securities held by third-party investors. Distributions on the Capital Securities are payable at the annual rate of 1.50% over the 3-month LIBOR. Distributions on the Capital Securities are included in interest expense

in the Unaudited Consolidated Financial Statements. These securities are considered Tier I capital (with certain limitations applicable) under current regulatory guidelines. The junior subordinated debt securities are subject to mandatory redemption, in whole or in part, upon repayment of the Capital Securities at maturity or their earlier redemption at the liquidation amount. Subject to prior approval of the Federal Reserve, the Capital Securities

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are redeemable prior to the maturity date of September 6, 2037, and are redeemable at par. Since September 6, 2012, the Capital Securities have been redeemable at par. Distributions on the Capital Securities can be deferred from time to time for a period not to exceed 20 consecutive semi-annual periods.

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

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

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

- (a) neither Peoples nor any of its subsidiaries may create, incur or suffer to exist additional indebtedness with an aggregate principal amount which exceeds \$10 million at any time outstanding, subject to specific negotiated carve-outs;
- (b) neither Peoples nor any of its subsidiaries may be a party to certain material transactions (such as mergers or consolidations with third parties, liquidations or dissolutions, sales of assets, acquisitions, investments and sale/leaseback transactions), subject to transactions in the ordinary course of the banking business of Peoples Bank and new investments in an aggregate amount not exceeding \$10 million being permitted as well as specific negotiated carve-outs;
- (c) neither Peoples nor any of its subsidiaries may voluntarily prepay, defease, purchase, redeem, retire or otherwise acquire any subordinated indebtedness issued by them; subject to specific negotiated carve-outs and the consent of Raymond James Bank; and
- (d) neither Peoples nor any of its subsidiaries may make any Restricted Payments (as defined in the RJB Credit Agreement), except that, to the extent legally permissible, (i) any subsidiary may declare and pay dividends to Peoples or a wholly-owned subsidiary of Peoples and (ii) Peoples may declare and pay dividends on its common shares provided that no event of default exists before or after giving effect to the dividend and Peoples is in compliance (on a pro forma basis) with the financial covenants specified in the RJB Credit Agreement, after giving effect to the dividend.

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

- (i) Peoples (on a consolidated basis) and Peoples Bank must be "well capitalized" at all times, as defined and determined by the applicable governmental authority having jurisdiction over Peoples or Peoples Bank;
- (ii) Peoples (on a consolidated basis) and Peoples Bank must maintain a Total risk-based capital ratio (as defined by the applicable governmental authority having regulatory authority over Peoples or Peoples Bank) of at least 12.5% as of the last day of any fiscal quarter;

- (iii) Peoples Bank must maintain a ratio of “Non-Performing Assets” to “Tangible Primary Capital” of not more than 20% as of the last day of any fiscal quarter;
- (iv) Peoples Bank must maintain a ratio of “Loan Loss Reserves” to “Non-Performing Loans” of not less than 70% at all times; and

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

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

(Dollars in thousands)	Balance	Weighted-Average Rate	
Six months ending December 31, 2016	\$2,824	2.08	%
Year ending December 31, 2017	5,545	1.77	%
Year ending December 31, 2018	64,971	3.54	%
Year ending December 31, 2019	13,508	1.27	%
Year ending December 31, 2020	10,564	2.04	%
Thereafter	50,568	2.23	%
Total long-term borrowings	\$147,980	2.69	%

Note 7. Stockholders' Equity

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

	Common Shares	Treasury Stock
Shares at December 31, 2015	18,931,200	586,686
Changes related to stock-based compensation awards:		
Release of restricted common shares	—	13,892
Cancellation of restricted common shares	(7,312)	—
Grant of restricted common shares	—	(53,000)
Changes related to deferred compensation plan for Boards of Directors:		
Purchase of treasury stock	—	3,981
Reissuance of treasury stock	—	(10,424)
Common shares repurchased under share repurchase program	—	279,770
Common shares issued under dividend reinvestment plan	10,870	—
Common shares issued under compensation plan for Boards of Directors	—	(8,771)
	—	(9,177)

Common shares issued
under employee stock
purchase plan

Shares at June 30, 2016 18,934,758 802,957

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 June 30, 2016, Peoples had no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income (Loss)

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

(Dollars in thousands)	Unrealized Gain on Securities	Unrecognized Net Pension and Postretirement Costs	Unrealized Loss on Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2015	\$ 2,869	\$ (3,228)	\$ —	\$ (359)
Reclassification adjustments to net income:				
Realized gain on sale of securities, net of tax	(561)	—	—	(561)
Other comprehensive income, net of reclassifications and tax	12,187	31	(164)	12,054
Balance, June 30, 2016	\$ 14,495	\$ (3,197)	\$ (164)	\$ 11,134

Note 8. Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. As of January 1, 2011, all retirees who desire to participate in the Peoples Bank medical plan do so by electing COBRA, which provides up to 18 months of coverage; retirees over the age of 65 also have the option to pay to participate in a group Medicare supplemental plan. Peoples' policy is to fund the cost of the health benefits as they arise.

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

(Dollars in thousands)	Pension Benefits			
	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Interest cost	\$109	\$109	\$219	\$224
Expected return on plan assets	(146)	(121)	(246)	(251)
Amortization of net loss	48	31	48	64
Settlement of benefit obligation	—	103	—	372
Net periodic cost	\$11	\$122	\$21	\$409

	Postretirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Interest cost	\$1	\$1	\$2	\$2
Amortization of net loss	(2)	(1)	(3)	(2)
Net periodic benefit	\$(1)	\$—	\$(1)	\$—

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

Note 9. Earnings Per Common Share

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

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
(Dollars in thousands, except per share data)				
Distributed earnings allocated to common shareholders	\$2,877	\$ 2,726	\$5,592	\$ 4,969
Undistributed earnings (loss) allocated to common shareholders	5,050	2,154	10,297	(787)
Net earnings allocated to common shareholders	\$7,927	\$ 4,880	\$15,889	\$ 4,182
Weighted-average common shares outstanding	17,980,797	16,090	18,026,270	16,965,603
Effect of potentially dilutive common shares	133,015	37,828	127,988	128,492
Total weighted-average diluted common shares outstanding	18,113,812	16,127,918	18,154,258	17,094,095
Earnings per common share:				
Basic	\$0.44	\$ 0.27	\$0.88	\$ 0.25
Diluted	\$0.44	\$ 0.27	\$0.88	\$ 0.24

Anti-dilutive shares excluded from calculation:

Restricted shares, stock options and stock appreciation rights	30,703	44,045	31,739	48,614
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Note 10. Financial Instruments with Off-Balance Sheet Risk

Derivatives and Hedging Activities - Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments on the Balance Sheet

Peoples' fair value of the derivative financial instrument was \$6.9 million in an asset position and \$7.2 million in a liability position at June 30, 2016, and there was \$3.1 million in an asset position and \$3.1 million in a liability position at December 31, 2015.

Cash Flow Hedges of Interest Rate Risk

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

cash outflows for various FHLB advances.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in accumulated other comprehensive income ("AOCI") (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of

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the derivative is recognized directly in earnings. Peoples assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transaction.

Peoples hedged its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 25 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments).

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

The amount of accumulated other comprehensive pre-tax loss for Peoples's cash flow hedges were \$252,000 for the three and six months ended June 30, 2016, and no pre-tax net losses were recorded for the three and six months ended June 30, 2015. Additionally, Peoples had no reclassifications to earnings in the three or six months ended June 30, 2016 or June 30, 2015.

Non-Designated Hedges

Peoples maintains an interest rate protection program for commercial loan customers, which was established in 2010. Under this program, Peoples provides its customer with a fixed-rate loan while creating a variable-rate asset for Peoples by the customer entering into an interest rate swap with Peoples on terms that match the loan. Peoples offsets its risk exposure by entering into an offsetting interest rate swap with an unaffiliated institution. These interest rate swaps do not qualify as designated hedges; therefore, each swap is accounted for as a standalone derivative. Peoples had interest rate swaps associated with commercial loans with a notional value of \$187.6 million and fair value of \$6.9 million of equally offsetting assets and liabilities at June 30, 2016 and a notional value of \$144.4 million and fair value of \$3.1 million of equally offsetting assets and liabilities at December 31, 2015. These interest rate swaps did not have a material impact on Peoples' results of operation or financial condition.

Note 11. Stock-Based Compensation

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

Stock Options

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

Number of Common Shares Subject to	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
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	Options				
Outstanding at January 1	20,310	\$ 28.83			
Expired	18,310	28.74			
Outstanding at June 30	2,000	\$ 29.79	0.2 years	\$	—
Exercisable at June 30	2,000	\$ 29.79	0.2 years	\$	—

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The following table summarizes Peoples' stock options outstanding at June 30, 2016:

Exercise Price	Options Outstanding & Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
\$29.79	2,000	2 years	\$29.79

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 six months ended June 30, 2016:

	Number of Common Shares Subject to SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	17,748	\$ 25.86		
Forfeited	779	26.44		
Outstanding at June 30	16,969	\$ 25.79	1.1 years	\$ —
Exercisable at June 30	16,969	\$ 25.79	1.1 years	\$ —

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

Exercise Price	Number of Common Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
\$23.26	2,000	1.1 years
\$23.77	8,541	1.5 years
\$29.25	6,428	0.5 years
Total	16,969	1.1 years

Restricted Common Shares

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

three fiscal years preceding the vesting date. In the second quarter of 2016, Peoples granted, to certain key employees, an aggregate of 17,500 restricted common shares subject to time-based vesting with restrictions that will lapse three years after the grant date.

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

	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	30,734	\$ 21.76	158,763	\$ 22.86
Awarded	17,500	21.69	35,500	17.86
Released	334	21.52	41,028	21.74
Forfeited	2,000	21.92	5,312	23.24
Outstanding at June 30	45,900	\$ 21.73	147,923	\$ 21.96

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

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 for each period:

	Three Months Ended		Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
(Dollars in thousands)				
Total stock-based compensation expense	\$324	\$461	\$663	\$1,026
Recognized tax benefit	(113)	(161)	(232)	(359)
Net expense recognized	\$211	\$300	\$431	\$667

Total unrecognized stock-based compensation expense related to unvested awards was \$2.1 million at June 30, 2016, which will be recognized over a weighted-average period of 2.0 years.

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

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

	At or For the Three Months Ended		At or For the Six Months Ended		
	June 30, 2016	2015	June 30, 2016	2015	
SIGNIFICANT RATIOS (a)					
Return on average stockholders' equity	7.45	%4.69	% 7.52	%2.19	%
Return on average assets	0.97	%0.61	% 0.98	%0.28	%
Net interest margin	3.57	%3.46	% 3.55	%3.46	%
Efficiency ratio (b)	65.08	%74.19	% 64.67	%84.83	%
Pre-provision net revenue to total average assets (c)	1.48	%0.99	% 1.51	%0.54	%
Average stockholders' equity to average assets	13.01	%13.04	% 12.98	%13.00	%
Average loans to average deposits	82.25	%77.96	% 81.84	%79.61	%
Investment securities as percentage of total assets (d)	25.66	%25.61	% 25.66	%25.61	%
Dividend payout ratio	36.47	%56.14	% 35.42	%119.08	%
ASSET QUALITY RATIOS (a)					
Nonperforming loans as a percent of total loans (d)(e)	1.01	%1.19	% 1.01	%1.19	%
Nonperforming assets as a percent of total assets (d)(e)	0.66	%0.79	% 0.66	%0.79	%
Nonperforming assets as a percent of total loans and other real estate owned (d)(e)	1.04	%1.25	% 1.04	%1.25	%
Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (d)	1.16	%1.42	% 1.16	%1.42	%
Allowance for loan losses as a percent of nonperforming loans (d)(e)	83.16	%76.05	% 83.16	%76.05	%
Provision for loan losses as a percent of average total loans	0.14	%0.13	% 0.16	%0.11	%
Net charge-offs as a percentage of average total loans (annualized)	0.03	%0.11	% 0.06	%0.07	%
CAPITAL RATIOS (a)(d)					
Common Equity Tier 1 risk-based capital (f)	13.03	%13.74	% 13.03	%13.74	%
Tier 1	13.33	%14.06	% 13.33	%14.06	%
Total (Tier 1 and Tier 2)	14.23	%15.04	% 14.23	%15.04	%
Tier 1 leverage	9.56	%9.50	% 9.56	%9.50	%
Tangible equity to tangible assets (g)	9.10	%8.73	% 9.10	%8.73	%
PER COMMON SHARE DATA (a)					
Earnings per common share – basic	\$0.44	\$ 0.27	\$0.88	\$ 0.25	
Earnings per common share – diluted	0.44	0.27	0.88	0.24	
Cash dividends declared per common share	0.16	0.15	0.31	0.30	
Book value per common share (d)	24.07	22.74	24.07	22.74	
Tangible book value per common share (d)(g)	\$15.93	\$ 14.52	\$15.93	\$ 14.52	
Weighted-average number of common shares outstanding – basic	17,980,797	18,116,090	18,026,272	16,965,603	
Weighted-average number of common shares outstanding – diluted	18,113,812	18,253,918	18,154,260	17,094,095	
Common shares outstanding at end of period	18,185,708	18,391,575	18,185,708	18,391,575	

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

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

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

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

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

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

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(f) Peoples' capital conservation buffer was 6.23% at June 30, 2016, compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019.

These amounts represent non-GAAP financial measures since they exclude other intangible assets and goodwill. Additional information regarding the calculation of these measures can be found under the caption "Capital/Stockholders' Equity".

Forward-Looking Statements

Certain statements in this Form 10-Q, which are not historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act, and the Private Securities Litigation Reform Act of 1995. Words such as "anticipates", "estimate", "may", "feel", "expect", "believes", "plans", "will", "would", "should", similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. Factors that might cause such a difference include, but are not limited to:

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

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

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- adverse changes in the conditions and trends in the financial markets, including political developments, which
- (14) may adversely affect the fair value of securities within Peoples' investment portfolio, the interest rate sensitivity of Peoples' consolidated balance sheet, and the income generated by Peoples' trust and investment activities;
 - (15) Peoples' ability to receive dividends from its subsidiaries;
 - (16) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;
 - (17) the impact of new minimum capital thresholds established as a part of the implementation of Basel III;
 - (18) the impact of larger or similar sized financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples' business generation and retention, funding and liquidity;
 - (19) the costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
 - (20) 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;
 - (21) the overall adequacy of Peoples' risk management program;
 - (22) the impact on Peoples' businesses, as well as on the risks described above, of various domestic or international military or terrorist activities or conflicts; and
 - (23) 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 (the "SEC"), including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2015 ("Peoples' 2015 Form 10-K").

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

Business Overview

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

Peoples offers diversified financial products and services through 81 financial service locations, including 73 full-service bank branches, 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 Ohio Division of Financial Institutions (the "ODFI") and the Federal Reserve Bank of Cleveland. Peoples Bank is also subject to regulations of the Consumer Financial Protection Bureau and the FDIC. Peoples Insurance is subject to regulation by the Ohio Department of Insurance and the state insurance regulatory agencies of those states in which it may do business.

Peoples' products and services include traditional banking products, such as deposit accounts, lending products and trust services. Peoples provides services through traditional offices, ATMs, mobile banking for consumers and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary, employee benefit plans and asset management services. Brokerage services are offered by Peoples exclusively through an unaffiliated registered broker-dealer.

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Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to understanding Peoples' Unaudited Consolidated Financial Statements, and Management's Discussion and Analysis at June 30, 2016, which were unchanged from the policies disclosed in Peoples' 2015 Form 10-K.

Summary of Recent Transactions and Events

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

In the fourth quarter of 2016, Peoples will be converting its core banking systems (including the related operating systems, data systems and products). Peoples anticipates one-time costs associated with the conversion of approximately \$1.2 million. The costs recorded in the second quarter of 2016 were \$90,000 with the remaining costs to be recorded in the remaining quarters of 2016. The conversion will support Peoples' future growth, and will provide efficiencies for the back-office areas.

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

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

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

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

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

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

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

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

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

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

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

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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.

In the first quarter and six months ended June 30, 2015, Peoples recorded \$9.0 million and \$9.8 million of non-core acquisition expenses, respectively. The non-core charges included \$4.0 million and \$4.3 million of salaries and employee benefit costs, \$3.6 million and \$3.8 million of other non-interest expense, and \$1.4 million and \$1.7 million of professional fees, respectively.

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

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

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

EXECUTIVE SUMMARY

Peoples recorded net income for the quarter ended June 30, 2016 of \$8.0 million, or \$0.44 per diluted common share, compared to \$4.9 million, or \$0.27 per diluted common share, a year ago and net income of \$8.0 million, or \$0.44 per diluted common share, in the first quarter of 2016. On a year-to-date basis, net income was \$16.0 million, or \$0.88 per diluted share, compared to \$4.2 million, or \$0.24 per diluted share, for the same period in 2015. The increased earnings for all periods was related to the increases in net interest income and other income, and a decrease in expenses, which was partially offset by the increased provision for loan losses.

Net interest income was \$26.3 million in the second quarter of 2016, compared to \$24.8 million for the second quarter of 2015 and \$25.8 million for the first quarter of 2016, while net interest margin was 3.57%, 3.46% and 3.53%, respectively. For the six months ended June 30, 2016, net interest income was \$52.1 million, compared to \$46.2 million for the same period in 2015.

The increase in net interest margin from prior periods was driven primarily by an increase in average earning assets due to loan growth, coupled with the continued shift in the mix of deposits from high cost funding to core deposits. The accretion income, net of amortization expense, from acquisitions added 11 basis points to net interest margin in the second quarter of 2016, compared to 15 basis points for the second quarter of 2015 and 12 basis points for the linked quarter. On a year-to-date basis, net of amortization expense, from acquisitions added 11 basis points to net interest margin for the first six months of 2016 compared to 17 basis points for the first six months of 2015. For the six months ended June 30, 2016, net interest income and net interest margin improved due to the NB&T acquisition which closed on March 6, 2015, coupled with loan growth. Additionally, the sustained shift in the mix of the balance sheet, for both assets and liabilities, continued to improve net interest margin.

Peoples' provision for loan losses for each of the three months ended June 30, 2016 and June 30, 2015 was \$0.7 million, compared to \$1.0 million for the first quarter of 2016. Asset quality metrics, in general, improved during the second quarter of 2016, net charge-offs decreased to \$150,000, compared to \$580,000 for the second quarter of 2015 and \$473,000 for the first quarter of 2016. The annualized net charge-off rate for the second quarter of 2016 was 0.04%, compared to 0.11% for the second quarter of 2015, and 0.09% for the first quarter of 2016. The provision for loan losses recorded in 2016 was primarily driven by loan growth experienced during the quarter. The allowance for loan losses increased to \$17.8 million, compared to \$16.8 million at December 31, 2015. The ratio of the allowance for loan losses as a percent of originated loans was 1.16% at June 30, 2016, relatively flat from 1.17% at March 31,

2016.

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For the second quarter of 2016, total other income increased \$564,000, or 5%, compared to second quarter of 2015, and decreased \$754,000, or 6%, from the linked quarter. The growth in total other income compared to the second quarter of 2015 was due primarily to the increase in trust and investment income, electronic banking income and other income, which was due to the additional income attributed to the BOLI insurance policies purchased in June 2016. Additionally, recoveries received on acquired loans that were fully charged-off prior to acquisition. The decrease from the linked quarter was primarily due to the annual performance-based insurance income of \$1.6 million, which was recognized in the first quarter of 2016.

Total other expenses for the second quarter of 2016 were \$26.5 million, compared to \$28.8 million during the second quarter of 2015 and \$26.3 million for the first quarter of 2016. Total other expenses decreased from second quarter of 2015 due largely to the \$1.0 million of NB&T acquisition costs recorded during the second quarter of 2015. Total other expenses increased slightly from linked quarter due primarily to increases in professional fees and data processing and software expenses, which were partially offset by reductions in salaries and employee benefit costs, and net occupancy and equipment expense. Total other expenses for the second quarter and year-to-date period of 2015 included acquisition costs of \$1.0 million and \$10.3 million, respectively; and pension settlement charges of \$0.1 million and \$0.4 million, respectively. Peoples' number of full time equivalent employees declined to 803 at June 30, 2016, compared to 821 at March 31, 2016 and 831 at June 30, 2015. Beginning in the second quarter of 2016, non-core charges include one-time costs associated with the conversion of Peoples' core banking system (including the related operating systems, data systems and products). These costs are expected to be approximately \$1.1 million for the remainder of 2016, with the conversion taking place in the fourth quarter of 2016.

Peoples' efficiency ratio, calculated as total other expense less amortization of other intangible assets divided by fully taxable equivalent ("FTE") net interest income for the second quarter of 2016 was 65.08%, compared to 74.19% for the second quarter of 2015 and 64.26% for the linked quarter. The higher efficiency ratio in the second quarter of 2016 compared to the linked quarter was primarily due to slightly higher non-interest expense of 1% while revenue was flat. On a year-to-date basis, the efficiency ratio was 64.67% compared to 84.83% for the six months ended 2015. The improvements in the 2016 efficiency ratio versus 2015 were primarily due to increased revenues coupled with decreases in expenses.

At June 30, 2016, total assets were \$3.3 billion, up \$74.5 million or 2% from year-end 2015. The increase was primarily the result of increases in loans balances, net of deferred fees and costs, of \$56.4 million, or 6% annualized growth, and an increase of \$35.0 million in BOLI, offset partially by a decrease in investment securities. The increase in loans was driven primarily by organic growth of \$22.1 million in commercial real estate loans, coupled with a \$44.6 million increase in consumer loan balances. The decrease in investment securities was due to a sale of \$28.9 million of available-for-sale securities for a gain of \$767,000.

Total liabilities were \$2.9 billion at June 30, 2016, up \$56.5 million since year-end 2015. The increase in liabilities was primarily due to a 17%, or \$47.4 million, increase in total borrowed funds. Total non-interest bearing deposits decreased 3%, or \$18.2 million, and interest-bearing deposits increased \$15.3 million from December 31, 2015. The decline in deposits during the second quarter of 2016 was due to decreases in certificates of deposit, brokered deposits and non-interest-bearing deposits of \$33.6 million, \$15.3 million, and \$16.5 million, respectively, while seasonal fluctuations contributed to the \$13.3 million decline in governmental deposits.

At June 30, 2016, total stockholders' equity was \$437.8 million, up \$18.0 million since December 31, 2015. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Common Equity Tier 1 risk-based capital ratio was 13.03% at June 30, 2016 compared to 13.36% at December 31, 2015. The tier 1 risk-based capital ratio was 13.33% at June 30, 2016, versus 13.67% at December 31, 2015, while the total risk-based capital ratio was 14.23% versus 14.54% at December 31, 2015. In addition, Peoples' tangible equity to tangible asset ratio was 9.10%, and tangible book value per common share was \$15.93 at June 30, 2016, versus 8.69% and \$14.68 at December 31, 2015, respectively. The slight decline in Peoples' capital ratios from December 31, 2015, was due primarily to an increase of risk-weighted assets, which was the result of growth in loans, BOLI and lower income housing investments coupled with stock repurchases totaling \$5.0 million.

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RESULTS OF OPERATIONS

Net Interest Income

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

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

(Dollars in thousands)	For the Three Months Ended											
	June 30, 2016				March 31, 2016				June 30, 2015			
	Average Balance	Income/ Expense	Yield/ Cost		Average Balance	Income/ Expense	Yield/ Cost		Average Balance	Income/ Expense	Yield/ Cost	
Short-term investments	\$9,073	\$ 11	0.49 %		\$12,436	\$ 16	0.52 %		\$94,376	\$ 57	0.25 %	
Long-term investments	—	—	— %		—	—	— %		1,345	4	1.19 %	
Investment Securities (1):												