

PEOPLES BANCORP INC  
Form 10-Q  
July 26, 2018

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, 2018

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|  |   |   |  |  |
|--|---|---|--|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> | Non-accelerated filer <input type="checkbox"/><br>(Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> | Emerging growth company <input type="checkbox"/> |
|--|---|---|--|--|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 19,535,545 common shares, without par value, at July 25, 2018.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

## PEOPLES BANCORP INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
|  | (Unaudited)      |                      |
| (Dollars in thousands)   |                  |                      |
| Assets   |                  |                      |
| Cash and due from banks  | \$63,375         | \$ 58,121            |
| Interest-bearing deposits in other banks   | 21,427           | 14,073               |
| Total cash and cash equivalents  | 84,802           | 72,194               |
| Available-for-sale investment securities, at fair value (amortized cost of \$816,217 at June 30, 2018 and \$797,732 at December 31, 2017) (a)  | 795,924          | 795,187              |
| Held-to-maturity investment securities, at amortized cost (fair value of \$38,426 at June 30, 2018 and \$41,213 at December 31, 2017)  | 38,834           | 40,928               |
| Other investment securities (a)  | 42,007           | 38,371               |
| Total investment securities  | 876,765          | 874,486              |
| Loans, net of deferred fees and costs  | 2,686,491        | 2,357,137            |
| Allowance for loan losses  | (19,266)         | (18,793)             |
| Net loans  | 2,667,225        | 2,338,344            |
| Loans held for sale  | 6,278            | 2,510                |
| Bank premises and equipment, net   | 58,292           | 52,510               |
| Bank owned life insurance  | 67,943           | 62,176               |
| Goodwill   | 151,423          | 133,111              |
| Other intangible assets  | 12,530           | 11,465               |
| Other assets   | 46,833           | 34,890               |
| Total assets   | \$3,972,091      | \$ 3,581,686         |
| Liabilities  |                  |                      |
| Deposits:  |                  |                      |
| Non-interest-bearing   | \$585,861        | \$ 556,010           |
| Interest-bearing   | 2,363,398        | 2,174,320            |
| Total deposits   | 2,949,259        | 2,730,330            |
| Short-term borrowings  | 360,727          | 209,491              |
| Long-term borrowings   | 113,085          | 144,019              |
| Accrued expenses and other liabilities   | 49,681           | 39,254               |
| Total liabilities  | 3,472,752        | 3,123,094            |
| Stockholders' equity   |                  |                      |
| Preferred stock, no par value, 50,000 shares authorized, no shares issued at June 30, 2018 and December 31, 2017   | —                | —                    |
| Common shares, no par value, 24,000,000 shares authorized, 20,114,405 shares issued at June 30, 2018 and 18,952,385 shares issued at December 31, 2017, including shares in treasury | 385,751          | 345,412              |
| Retained earnings (b)  | 145,723          | 134,362              |
| Accumulated other comprehensive loss, net of deferred income taxes (b)   | (17,603)         | (5,215)              |
| Treasury stock, at cost, 623,852 shares at June 30, 2018 and 702,449 shares at December 31, 2017   | (14,532)         | (15,967)             |
| Total stockholders' equity   | 499,339          | 458,592              |
| Total liabilities and stockholders' equity   | \$3,972,091      | \$ 3,581,686         |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity investment securities (including those held in participant accounts in the Peoples Bancorp Inc. Nonqualified Deferred Compensation Plan) from available-for-sale investment securities to other investment securities. At December 31, 2017, \$7.8 million of securities were included in available-for-sale investment securities.

(b) As of January 1, 2018, Peoples adopted ASU 2014-09 (which resulted in a reduction to retained earnings and an increase in other liabilities of \$3.1 million, net of federal income taxes, to reflect uncompleted contracts in the initial application of the guidance) and ASU 2016-01 (which resulted in the reclassification of \$5.0 million in net unrealized gains on equity securities from accumulated other comprehensive loss to retained earnings).

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,<br>2018   | 2017      | June 30,<br>2018 | 2017      |
| Interest income:  |                    |           |                  |           |
| Interest and fees on loans                                | \$31,250           | \$ 25,464 | \$58,131         | \$ 49,763 |
| Interest and dividends on taxable investment securities   | 5,830              | 4,956     | 11,480           | 9,665     |
| Interest on tax-exempt investment securities              | 635                | 762       | 1,278            | 1,556     |
| Other interest income                                     | 54                 | 26        | 106              | 41        |
| Total interest income                                     | 37,769             | 31,208    | 70,995           | 61,025    |
| Interest expense:   |                    |           |                  |           |
| Interest on deposits                                      | 3,101              | 1,729     | 5,314            | 3,216     |
| Interest on short-term borrowings                         | 1,175              | 233       | 2,143            | 484       |
| Interest on long-term borrowings                          | 685                | 1,156     | 1,371            | 2,290     |
| Total interest expense                                    | 4,961              | 3,118     | 8,828            | 5,990     |
| Net interest income                                       | 32,808             | 28,090    | 62,167           | 55,035    |
| Provision for loan losses                                 | 1,188              | 947       | 3,171            | 1,571     |
| Net interest income after provision for loan losses       | 31,620             | 27,143    | 58,996           | 53,464    |
| Non-interest income:                                      |                    |           |                  |           |
| Insurance income  | 3,369              | 3,414     | 8,024            | 7,516     |
| Trust and investment income                               | 3,232              | 2,977     | 6,300            | 5,659     |
| Electronic banking income                                 | 2,785              | 2,587     | 5,570            | 5,148     |
| Deposit account service charges                           | 2,388              | 2,294     | 4,508            | 4,723     |
| Mortgage banking income                                   | 969                | 467       | 1,320            | 854       |
| Bank owned life insurance income                          | 497                | 496       | 965              | 989       |
| Commercial loan swap fees                                 | 146                | 651       | 262              | 919       |
| Net (loss) gain on asset disposals and other transactions | (405)              | )109      | (331)            | )106      |
| Net (loss) gain on investment securities                  | (147)              | )18       | (146)            | )358      |
| Other non-interest income (a)                             | 421                | 704       | 1,752            | 1,116     |
| Total non-interest income                                 | 13,255             | 13,717    | 28,224           | 27,388    |
| Non-interest expense:                                     |                    |           |                  |           |
| Salaries and employee benefit costs                       | 18,025             | 15,049    | 34,015           | 30,545    |
| Professional fees   | 3,022              | 1,529     | 4,740            | 3,139     |
| Net occupancy and equipment expense                       | 2,803              | 2,648     | 5,669            | 5,361     |
| Electronic banking expense                                | 1,448              | 1,525     | 2,976            | 3,039     |
| Data processing and software expense                      | 1,359              | 1,096     | 2,681            | 2,238     |
| Amortization of other intangible assets                   | 861                | 871       | 1,615            | 1,734     |
| Marketing expense   | 656                | 354       | 981              | 634       |
| Franchise tax expense                                     | 614                | 584       | 1,258            | 1,167     |
| FDIC insurance expense                                    | 416                | 457       | 782              | 890       |
| Foreclosed real estate and other loan expenses            | 338                | 179       | 550              | 375       |
| Communication expense                                     | 300                | 390       | 644              | 800       |
| Other non-interest expense                                | 6,129              | 1,998     | 8,281            | 4,089     |
| Total non-interest expense                                | 35,971             | 26,680    | 64,192           | 54,011    |
| Income before income taxes                                | 8,904              | 14,180    | 23,028           | 26,841    |
| Income tax expense  | 1,012              | 4,414     | 3,395            | 8,266     |
| Net income  | \$7,892            | \$ 9,766  | \$19,633         | \$ 18,575 |
| Earnings per common share - basic                         | \$0.41             | \$ 0.54   | \$1.05           | \$ 1.02   |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Earnings per common share - diluted                            | \$0.41     | \$ 0.53    | \$1.04     | \$ 1.02    |
| Weighted-average number of common shares outstanding - basic   | 19,160,728 | 18,044,574 | 18,646,261 | 18,037,333 |
| Weighted-average number of common shares outstanding - diluted | 19,293,381 | 18,203,752 | 18,773,160 | 18,195,715 |
| Cash dividends declared  | \$5,466    | \$ 3,645   | \$10,237   | \$ 7,279   |
| Cash dividends declared per common share                       | \$0.28     | \$ 0.20    | \$0.54     | \$ 0.40    |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in a reduction to income of \$236,000 during the three months ended June 30, 2018 and income of \$224,000 for the six months ended June 2018.

See Notes to the Unaudited Consolidated Financial Statements

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

|  | Three Months<br>Ended |          | Six Months Ended |          |
|--|-----------------------|----------|------------------|----------|
|  | June 30,<br>2018      | 2017     | June 30,<br>2018 | 2017     |
| (Dollars in thousands)   |                       |          |                  |          |
| Net income   | \$7,892               | \$9,766  | \$19,633         | \$18,575 |
| Other comprehensive income:  |                       |          |                  |          |
| Available-for-sale investment securities:  |                       |          |                  |          |
| Gross unrealized holding (loss) gain arising in the period                           | (2,661)               | 2,272    | (12,774)         | 5,684    |
| Related tax benefit (expense)  | 559                   | (795)    | 2,683            | (1,989)  |
| Less: reclassification adjustment for net (loss) gain included in net income         | (147)                 | 18       | (146)            | 358      |
| Related tax benefit (expense)  | 31                    | (6)      | 31               | (125)    |
| Amounts reclassified out of accumulated other comprehensive loss per ASU 2016-01 (a) | —                     | —        | (5,020)          | —        |
| Related tax benefit  | —                     | —        | 1,054            | —        |
| Net effect on other comprehensive (loss) income                                      | (1,986)               | 1,465    | (13,942)         | 3,462    |
| Defined benefit plans:   |                       |          |                  |          |
| Net loss arising during the period   | —                     | (1)      | —                | —        |
| Amortization of unrecognized loss and service cost on benefit plans                  | 26                    | 24       | 52               | 47       |
| Related tax expense  | (5)                   | (8)      | (11)             | (16)     |
| Net effect on other comprehensive income   | 21                    | 15       | 41               | 31       |
| Cash flow hedges:  |                       |          |                  |          |
| Net gain (loss) arising during the period  | 537                   | (666)    | 1,915            | (769)    |
| Related tax (expense) benefit  | (113)                 | 233      | (402)            | 269      |
| Net effect on other comprehensive income (loss)                                      | 424                   | (433)    | 1,513            | (500)    |
| Total other comprehensive (loss) income, net of tax expense                          | (1,541)               | 1,047    | (12,388)         | 2,993    |
| Total comprehensive income   | \$6,351               | \$10,813 | \$7,245          | \$21,568 |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, which resulted in the reclassification of \$5.0 million in net unrealized gains on equity securities from accumulated other comprehensive loss to retained earnings.

See Notes to the Unaudited Consolidated Financial Statements



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## CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

| (Dollars in thousands)  | Common<br>Shares | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|---|------------------|----------------------|---|-------------------|----------------------------------|
| Balance, December 31, 2017  | \$345,412        | \$134,362            | \$ (5,215                                     | ) \$(15,967)      | \$ 458,592                       |
| Amounts reclassified out of retained earnings, net of tax,<br>per ASU 2014-09   | —                | (3,055               | )—  | —                 | (3,055 )                         |
| Net income  | —                | 19,633               | —   | —                 | 19,633                           |
| Other comprehensive income, net of tax  | —                | 5,020                | (12,388                                       | )—                | (7,368 )                         |
| Cash dividends declared   | —                | (10,237              | )—  | —                 | (10,237 )                        |
| Exercise of stock appreciation rights   | (2               | )—                   | —   | 2                 | —                                |
| Reissuance of treasury stock for common stock awards  | (2,346           | )—                   | —   | 2,346             | —                                |
| Reissuance of treasury stock for deferred compensation<br>plan for Boards of Directors  | —                | —                    | —   | 46                | 46                               |
| Repurchase of treasury stock in connection with<br>employee incentive plan and under compensation plan<br>for Boards of Directors | —                | —                    | —   | (1,143            | )(1,143 )                        |
| Common shares issued under dividend reinvestment plan   | 338              | —                    | —   | —                 | 338                              |
| Common shares issued under compensation plan for<br>Boards of Directors   | 63               | —                    | —   | 121               | 184                              |
| Common shares issued under employee stock purchase<br>plan  | 31               | —                    | —   | 63                | 94                               |
| Stock-based compensation expense  | 1,357            | —                    | —   | —                 | 1,357                            |
| Issuance of common shares related to acquisition of<br>ASB Financial Corp.  | 40,898           | —                    | —   | —                 | 40,898                           |
| Balance, June 30, 2018  | \$385,751        | \$145,723            | \$ (17,603                                    | ) \$(14,532)      | \$ 499,339                       |

See Notes to the Unaudited Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
| (Dollars in thousands)   | 2018                         | 2017      |
| Net cash provided by operating activities  | \$27,499                     | \$26,730  |
| Investing activities:  |                              |           |
| Available-for-sale investment securities:  |                              |           |
| Purchases  | (81,441 )                    | (96,177 ) |
| Proceeds from sales  | 14,489                       | 581       |
| Proceeds from principal payments, calls and prepayments  | 60,088                       | 74,342    |
| Held-to-maturity investment securities:  |                              |           |
| Purchases  | —                            | (1,310 )  |
| Proceeds from principal payments   | 2,627                        | 1,197     |
| Other investment securities:   |                              |           |
| Purchases  | (1,089 )                     | —         |
| Proceeds from sales  | 7,111                        | —         |
| Net increase in loans  | (92,582 )                    | (67,735 ) |
| Net expenditures for bank premises and equipment   | (2,721 )                     | (1,581 )  |
| Proceeds from sales of other real estate owned   | 265                          | 50        |
| Business acquisitions, net of cash received  | 4,695                        | (450 )    |
| (Investment in) return of limited partnership and tax credit funds   | (399 )                       | 5         |
| Net cash used in investing activities  | (88,957 )                    | (91,078 ) |
| Financing activities:  |                              |           |
| Net (decrease) increase in non-interest-bearing deposits   | 364                          | 37,640    |
| Net increase in interest-bearing deposits  | 19,705                       | 129,768   |
| Net increase (decrease) in short-term borrowings   | 66,412                       | (163,075) |
| Proceeds from long-term borrowings   | —                            | 75,000    |
| Payments on long-term borrowings   | (1,062 )                     | (1,244 )  |
| Cash dividends paid  | (10,001 )                    | (7,003 )  |
| Repurchase of treasury stock in connection with employee incentive plan and compensation plan for Boards of Directors to be held as treasury stock | (1,143 )                     | (324 )    |
| Proceeds from (payments for) issuance of common shares   | 15                           | (6 )      |
| Contingent consideration payments made after a business combination  | (224 )                       | (122 )    |
| Net cash provided by financing activities  | 74,066                       | 70,634    |
| Net increase in cash and cash equivalents  | 12,608                       | 6,286     |
| Cash and cash equivalents at beginning of period   | 72,194                       | 66,146    |
| Cash and cash equivalents at end of period   | \$84,802                     | \$72,432  |

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

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**Basis of Presentation:** The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("Peoples' 2017 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' 2017 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, 2018 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 at the dates indicated. Such adjustments are normal and recurring in nature. Intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2017, contained herein, has been derived from the audited Consolidated Balance Sheet included in Peoples' 2017 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.

**Accounting Standards Update ("ASU") 2018-07 - Compensation - Stock Compensation (Topic 718):** The update has been issued as part of a simplification initiative which will expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees and expands the scope through the amendments to address and improve aspects of the accounting for non-employee share-based payment transactions. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019 for Peoples). Peoples will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' consolidated financial statements.

**ASU 2018-06 - Codification Improvements (Topic 942):** The update has been issued to increase stakeholders' awareness of the improvements to Topic 942, Financial Services - Depository and Lending. The update will supersede outdated guidance related to the Office of the Comptroller of the Currency's Banking Circular 202, Accounting for Net Deferred Tax Charges. The amendments became effective May 7, 2018, and did not have an impact on Peoples' consolidated financial statements.

**ASU 2018-05 - Income Taxes (Topic 740):** The amendments in this ASU clarify required disclosures in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting under ASC 740 for certain income tax effects of the Tax Cuts and Jobs Act for the reporting period. As of December 31, 2017, Peoples partially completed the accounting for the tax effects of enactment of the Tax Cuts and Jobs Act; however, in certain cases, Peoples made reasonable estimates of the effects of a reduced federal corporate income tax rate on its existing deferred tax balances. In other cases, Peoples has not been able to make a reasonable estimate and continued to account for those items based on its existing accounting under ASC 740, and the provisions of the tax laws that were in effect immediately prior to enactment of the Tax Cuts and Jobs Act. In all cases, Peoples will continue to make and refine its calculations during the one-year remeasurement period as

additional analysis is completed. In addition, these estimates may be affected as Peoples gains a more thorough understanding of the new tax reform legislation.

ASU 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. Peoples early adopted ASU 2018-02, reclassifying income tax effects of the Tax Cuts and Jobs Act of \$0.9 million from accumulated other comprehensive loss to retained earnings as of December 31, 2017.

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ASU 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The objective of the amendments in this ASU is to better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships, and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components, and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019 for Peoples). Peoples will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' consolidated financial statements.

ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This accounting guidance replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model, referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, Peoples will be required to present certain financial assets carried at amortized cost, such as loans held-for-investment and held-to-maturity debt securities, at the net amount expected to be collected.

The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the "incurred loss" model required under current US GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, Peoples expects that the adoption of the CECL model will materially affect how the allowance for loan losses is determined and could require significant increases to the allowance for loan losses. Moreover, the CECL model may create more volatility in the level of Peoples' allowance for loan losses. If required to materially increase the level of allowance for loan losses for any reason, such increase could adversely affect Peoples' business, financial condition and results of operations. The new CECL standard will become effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020 for Peoples). Peoples is currently evaluating the impact that the CECL model will have on Peoples' financial statements and expects to recognize a one-time cumulative-effect adjustment to the allowance for loan loss provision as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. Peoples has not yet determined the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on Peoples' financial condition or results of operations.

ASU 2016-02 - Leases (Topic 842): This ASU 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. This ASU will require both finance and operating leases to be recognized on the balance sheet. This ASU will affect all companies and organizations that lease real estate. The FASB issued an update in January 2018 (ASU 2018-01) providing an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and were not previously accounted for as leases. This ASU will become effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019 for Peoples). Peoples is currently identifying the current leases and will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' consolidated financial statements.

#### Note 2 Fair Value of Assets and Liabilities

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Fair value represents the amount expected to be received to sell an asset or paid to transfer a liability in its principal or most advantageous market in an orderly transaction between market participants at the measurement date. In accordance with fair value accounting guidance, Peoples measures, records, and reports various types of assets and liabilities at fair value on either a recurring or a non-recurring basis in the Consolidated Financial Statements. Those assets and liabilities are presented below in the sections entitled "Assets and Liabilities Required to be Measured and Reported at Fair Value on a Recurring Basis" and "Assets and Liabilities Required to be Measured and Reported at Fair

Value on a Non-Recurring Basis.”

Depending on the nature of the asset or liability, Peoples uses various valuation methodologies and assumptions to estimate fair value. The measurement of fair value under US GAAP uses a hierarchy intended to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1: Quoted prices in active exchange markets for identical assets or liabilities; also includes certain U.S. Treasury and other U.S. government and agency securities actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes

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derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from, or corroborated by, observable market data. This category generally includes certain U.S. government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.

Level 3: Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

Assets and liabilities are assigned to a level within the fair value hierarchy based on the lowest level of significant input used to measure fair value. Assets and liabilities may change levels within the fair value hierarchy due to market conditions or other circumstances. Those transfers are recognized on the date of the event that prompted the transfer. There were no transfers of assets or liabilities required to be measured at fair value on a recurring basis between levels of the fair value hierarchy during the periods presented.

#### Assets and Liabilities Required to be Measured and Reported at Fair Value on a Recurring Basis

The following table provides the fair value for assets and liabilities required to be measured and reported at fair value on a recurring basis on the Consolidated Balance Sheets by level in the fair value hierarchy.

|   | Recurring Fair Value Measurements at Reporting Date |         |         |                   |         |         |
|---|---|---------|---------|-------------------|---------|---------|
|   | June 30, 2018                                       |         |         | December 31, 2017 |         |         |
|   | Level 1   | Level 2 | Level 3 | Level 1           | Level 2 | Level 3 |
| (Dollars in thousands)                    |   |         |         |                   |         |         |
| Assets:                                   |   |         |         |                   |         |         |
| Available-for-sale investment securities: |   |         |         |                   |         |         |
| Obligations of:                           |   |         |         |                   |         |         |
| U.S. Treasury and government agencies     | \$43  | \$      | \$—     | \$—               | \$      | \$—     |
| States and political subdivisions         | —   | 96,913  | —       | —                 | 101,569 | —       |
| Residential mortgage-backed securities    | —   | 688,002 | —       | —                 | 673,664 | —       |
| Commercial mortgage-backed securities     | —   | 6,799   | —       | —                 | 6,976   | —       |
| Bank-issued trust preferred securities    | —   | 4,167   | —       | —                 | 5,129   | —       |
| Equity securities (a)                     | —   | —       | —       | 7,694             | —       | —       |
| Total available-for-sale securities       | —   | 795,924 | —       | 7,694             | 789,493 | —       |
| Held-to-maturity investment securities:   |   |         |         |                   |         |         |
| Obligations of:                           |   |         |         |                   |         |         |
| States and political subdivisions         | \$5,026   | \$      | \$—     | \$4,417           | \$      | \$—     |
| Residential mortgage-backed securities    | —   | 29,853  | —       | —                 | 32,227  | —       |
| Commercial mortgage-backed securities     | —   | 3,547   | —       | —                 | 4,569   | —       |
| Total held-to-maturity securities         | —   | 38,426  | —       | —                 | 41,213  | —       |
| Equity securities (a)                     | 1,173   | —       | —       | —                 | —       | —       |
| Derivative assets (b)                     | —   | 8,404   | —       | —                 | 4,594   | —       |
| Liabilities:                              |   |         |         |                   |         |         |
| Derivative liabilities (c)                | \$5,125   | \$      | \$—     | \$3,241           | \$      | \$—     |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities. As of December 31, 2017, equity securities had a net unrealized gain of \$6.5 million.

(b) Included in Other assets on the Consolidated Balance Sheets. For additional information, see Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

(c) Included in Other liabilities on the Consolidated Balance Sheets. For additional information, see Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

**Investment Securities Available-for-Sale and Held-to-Maturity:** 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) 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).



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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.

**Equity Securities:** The fair values of Peoples' equity securities are obtained from quoted prices in active exchange markets for identical assets or liabilities (Level 1) or quoted prices in less active markets (Level 2).

**Derivative Assets and Liabilities:** Derivative assets and liabilities are recognized in the Consolidated Balance Sheets at their fair value within other assets/liabilities. 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).

**Assets and Liabilities Required to be Measured and Reported at Fair Value on a Non-Recurring Basis**

The following table provides the fair value for each class of assets and liabilities required to be measured and reported at fair value on a non-recurring basis on the Consolidated Balance Sheets by level in the fair value hierarchy.

| (Dollars in thousands)         | Non-Recurring Fair Value<br>Measurements at Reporting<br>Date |          |                      |          |
|--------------------------------|---|----------|----------------------|----------|
|                                | June 30, 2018   |          | December 31,<br>2017 |          |
|                                | Level<br>1 2  | Level 3  | Level<br>1 2         | Level 3  |
| Impaired loans                 | \$—   | \$27,261 | \$—                  | \$20,602 |
| Loans held for sale            | —   | 6,278    | —                    | 2,510    |
| Other real estate owned (OREO) | —   | 63       | —                    | 99       |

**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 the market value provided by independent, licensed or certified appraisers (Level 3), less estimated selling costs. At June 30, 2018, impaired loans had an aggregate outstanding principal balance of \$33.7 million. For the three and six months ended June 30, 2018, Peoples recognized a reduction in the specific reserve on impaired loans, through the allowance for loan losses, of \$12,000 and \$17,000, respectively.

**Loans Held for Sale:** Loans originated and intended to be sold in the secondary market, generally one-to-four family residential loans, are carried, in aggregate, at the lower of cost or estimated fair value. The use of a valuation model using quoted prices of similar instruments are significant inputs in arriving at the fair value (Level 3).

**Other Real Estate Owned:** Other real estate owned ("OREO"), included in Other assets on the Consolidated Balance Sheets, is comprised primarily of commercial and residential real estate properties acquired by Peoples in satisfaction of a loan. OREO obtained in satisfaction of a loan is recorded at the lower of cost or estimated fair value, less estimated selling costs. The carrying value of OREO is not re-measured to fair value on a recurring basis, but is based on recent real estate appraisals and is updated at least annually. These appraisals may utilize a single valuation approach or a combination of approaches including the comparable sales approach and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available (Level 3).

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## Financial Instruments Not Required to be Measured or Reported at Fair Value

The following table provides the carrying amount for each class of assets and liabilities and the fair value for certain financial instruments that are not required to be measured or reported at fair value on the Consolidated Balance Sheets.

| (Dollars in thousands)              | Fair Value Hierarchy Level | Fair Value Measurements of Other Financial Instruments |             |                   |             |
|-------------------------------------|----------------------------|--|-------------|-------------------|-------------|
|                                     |                            | June 30, 2018  |             | December 31, 2017 |             |
|                                     |                            | Carrying Amount  | Fair Value  | Carrying Amount   | Fair Value  |
| <b>Assets:</b>                      |                            |  |             |                   |             |
| Cash and cash equivalents           | 1                          | \$84,802   | \$84,802    | \$72,194          | \$72,194    |
| <b>Other investment securities:</b> |                            |  |             |                   |             |
| FHLB stock                          | 2                          | 29,728   | 29,728      | 28,132            | 28,132      |
| FRB stock                           | 2                          | 10,959   | 10,959      | 10,179            | 10,179      |
| Nonqualified deferred comp (a)      | 2                          | 966  | 966         | —                 | —           |
| FHLMC stock                         | 2                          | 60   | 60          | 60                | 60          |
| Total other investment securities   |                            | 41,713   | 41,713      | 38,371            | 38,371      |
| Loans                               | 3                          | 2,667,225  | 2,686,506   | 2,338,344         | 2,274,194   |
| Bank owned life insurance (BOLI)    | 3                          | 67,943   | 67,943      | 62,176            | 62,176      |
| Bank premises and equipment, net    | 3                          | 58,292   | 58,292      | 52,510            | 52,510      |
| Servicing rights (b)                | 3                          | 2,622  | 2,622       | 2,305             | 2,305       |
| <b>Liabilities:</b>                 |                            |  |             |                   |             |
| Deposits                            | 2                          | \$2,949,259  | \$2,943,138 | \$2,730,330       | \$2,730,071 |
| Short-term borrowings               | 2                          | 360,727  | 360,705     | 209,491           | 209,628     |
| Long-term borrowings                | 2                          | 113,085  | 109,104     | 144,019           | 142,108     |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity investment securities (including those held in participant accounts in the Peoples Bancorp Inc. Nonqualified Deferred Compensation Plan) from available-for-sale investment securities to other investment securities.

(b) Included in other intangible assets on the Consolidated Balance Sheets. Servicing rights are carried at the lower of cost or market value.

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:

**Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, balances due from other banks, interest-bearing deposits in other banks, federal funds sold and other short-term investments with original maturities of ninety days or less. The carrying amount for cash and due from banks is a reasonable estimate of fair value. (Level 1).

**Other Investment Securities:** Certain restricted equity securities that do not have readily determinable fair values and for which Peoples does not exercise significant influence, are carried at cost. These cost method securities are reported as Other investment securities on the Consolidated Balance Sheets and consist primarily of shares of the Federal Home Loan Bank of Cincinnati (the "FHLB") and the Federal Reserve Bank of Cleveland (the "FRB"). Other investment securities are measured at their respective redemption values (Level 2).

**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). Fair values for loans are estimated using a discounted cash flow methodology. The discount rates take into account interest rates currently being offered to customers for loans with similar terms, the credit risk associated with the loan and other market factors, including liquidity.

Bank Owned Life Insurance: Peoples' bank owned life insurance policies are recorded at their cash surrender value (Level 3). Peoples recognizes tax-exempt income from the periodic increases in the cash surrender value of these policies and from death benefits.

Bank Premises and Equipment: Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets owned. Major improvements to leased facilities are capitalized and included in bank premises at cost less accumulated

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depreciation, which is calculated on the straight-line method over the lesser of the remaining term of the leased facility or the estimated economic life of the improvement (Level 3).

Servicing Rights ("SRs"): SRs are recorded at fair value at the time of the sale of the loans to the third-party investor. Peoples follows the amortization method for the subsequent measurement of each class of separately recognized servicing assets and liabilities. Under the amortization method, Peoples amortizes the value of servicing assets or liabilities in proportion to, and over the period of, estimated net servicing income or net servicing loss, and assesses servicing assets or liabilities for impairment or increased obligation based on the fair value at each reporting date. The fair value of the SRs is determined by using a discounted cash flow model, which estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, expected prepayment speeds and discount rates (Level 3).

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).

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

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).

Certain financial assets and financial liabilities that are not required to be measured or reported at fair value can be subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These financial assets and liabilities include the following: customer relationships, deposit base, banking center networks, and other information required to compute Peoples' aggregate fair value that 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<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2018                          |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| U.S. Treasury and government agencies  | \$43              | \$ —                         | \$ —                          | \$43          |
| States and political subdivisions      | 96,629            | 919                          | (635)                         | 96,913        |
| Residential mortgage-backed securities | 708,419           | 2,115                        | (22,532)                      | 688,002       |
| Commercial mortgage-backed securities  | 6,929             | —                            | (130)                         | 6,799         |
| Bank-issued trust preferred securities | 4,197             | 122                          | (152)                         | 4,167         |
| Total available-for-sale securities    | \$816,217         | \$ 3,156                     | \$ (23,449)                   | \$795,924     |
| December 31, 2017                      |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| States and political subdivisions      | \$ 100,039        | \$ 1,786                     | \$ (256)                      | \$101,569     |
| Residential mortgage-backed securities | 684,100           | 2,582                        | (13,018)                      | 673,664       |
| Commercial mortgage-backed securities  | 7,004             | 11                           | (39)                          | 6,976         |
| Bank-issued trust preferred securities | 5,195             | 141                          | (207)                         | 5,129         |
| Equity securities (a)                  | 1,394             | 6,520                        | (65)                          | 7,849         |
| Total available-for-sale securities    | \$797,732         | \$ 11,040                    | \$ (13,585)                   | \$795,187     |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities.

At December 31, 2017, Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies.

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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<br>Months<br>Ended<br>June 30, |      | Six Months<br>Ended<br>June 30, |       |
|--------------------------|--------------------------------------|------|---------------------------------|-------|
| (Dollars in thousands)   | 2018                                 | 2017 | 2018                            | 2017  |
| Gross gains realized     | \$3                                  | \$18 | \$5                             | \$358 |
| Gross losses realized    | 150                                  | —    | 151                             | —     |
| Net (loss) gain realized | \$(147)                              | \$18 | \$(146)                         | \$358 |

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.

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<br>Value       | Unrealized<br>Loss | No. of<br>Securities | Fair<br>Value     | Unrealized<br>Loss | No. of<br>Securities | Fair<br>Value | Unrealized<br>Loss |
| June 30, 2018                          |                     |                    |                      |                   |                    |                      |               |                    |
| Obligations of:                        |                     |                    |                      |                   |                    |                      |               |                    |
| States and political subdivisions      | \$26,031            | \$330              | 39                   | \$4,902           | \$305              | 2                    | \$30,933      | \$635              |
| Residential mortgage-backed securities | 318,416             | 7,536              | 144                  | 303,265           | 14,996             | 96                   | 621,681       | 22,532             |
| Commercial mortgage-backed securities  | 5,577               | 113                | 2                    | 1,222             | 17                 | 1                    | 6,799         | 130                |
| Bank-issued trust preferred securities | —                   | —                  | —                    | 1,848             | 152                | 2                    | 1,848         | 152                |
| Total                                  | \$350,024           | \$7,979            | 185                  | \$311,237         | \$15,470           | 101                  | \$661,261     | \$23,449           |
| December 31, 2017                      |                     |                    |                      |                   |                    |                      |               |                    |
| Obligations of:                        |                     |                    |                      |                   |                    |                      |               |                    |
| States and political subdivisions      | \$16,985            | \$89               | 18                   | \$5,308           | \$167              | 1                    | \$22,293      | \$256              |
| Residential mortgage-backed securities | 274,998             | 3,462              | 77                   | 291,812           | 9,556              | 88                   | 566,810       | 13,018             |
| Commercial mortgage-backed securities  | 2,487               | 23                 | 1                    | 1,274             | 16                 | 1                    | 3,761         | 39                 |
| Bank-issued trust preferred securities | —                   | —                  | —                    | 2,792             | 207                | 3                    | 2,792         | 207                |
| Equity securities (a)                  | 276                 | 1                  | 1                    | 112               | 64                 | 1                    | 388           | 65                 |
| Total                                  | \$294,746           | \$3,575            | 97                   | \$301,298         | \$10,010           | 94                   | \$596,044     | \$13,585           |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities.

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At June 30, 2018, 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, 2018 and December 31, 2017 were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At June 30, 2018, approximately 99% of the mortgage-backed securities with a market value that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The

remaining 1%, or four positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the four positions had a fair value of less than 90% of their book value, with an aggregate book and fair value of \$0.2 million and \$0.1 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.

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Furthermore, the unrealized losses with respect to the two bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at June 30, 2018 were primarily attributable to the floating-rate nature of those investments, the current interest rate environment and spreads within that sector.

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, 2018. 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.

| (Dollars in thousands)                 | Within 1<br>Year | 1 to 5<br>Years | 5 to 10<br>Years | Over 10<br>Years | Total     |   |
|--|------------------|-----------------|------------------|------------------|-----------|---|
| Amortized cost                         |                  |                 |                  |                  |           |   |
| Obligations of:                        |                  |                 |                  |                  |           |   |
| U.S. Treasury and government agencies  | \$32             | \$5             | \$5              | \$1              | \$43      |   |
| States and political subdivisions      | 740              | 11,443          | 29,405           | 55,041           | 96,629    |   |
| Residential mortgage-backed securities | 438              | 13,759          | 47,692           | 646,530          | 708,419   |   |
| Commercial mortgage-backed securities  | —                | 5,690           | —                | 1,239            | 6,929     |   |
| Bank-issued trust preferred securities | —                | —               | 2,197            | 2,000            | 4,197     |   |
| Total available-for-sale securities    | \$1,210          | \$30,897        | \$79,299         | \$704,811        | \$816,217 |   |
| Fair value                             |                  |                 |                  |                  |           |   |
| Obligations of:                        |                  |                 |                  |                  |           |   |
| U.S. Treasury and government agencies  | \$32             | \$5             | \$5              | \$1              | \$43      |   |
| States and political subdivisions      | 744              | 11,450          | 29,414           | 55,305           | 96,913    |   |
| Residential mortgage-backed securities | 435              | 13,466          | 46,510           | 627,591          | 688,002   |   |
| Commercial mortgage-backed securities  | —                | 5,577           | —                | 1,222            | 6,799     |   |
| Bank-issued trust preferred securities | —                | —               | 2,319            | 1,848            | 4,167     |   |
| Total available-for-sale securities    | \$1,211          | \$30,498        | \$78,248         | \$685,967        | \$795,924 |   |
| Total weighted-average yield           | 3.45             | %2.39           | %2.81            | %2.78            | %2.77     | % |

**Held-to-Maturity**

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

| (Dollars in thousands)                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
|--|-------------------|------------------------------|-------------------------------|---------------|
| June 30, 2018                          |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| States and political subdivisions      | \$ 4,530          | \$ 496                       | \$ —                          | \$ 5,026      |
| Residential mortgage-backed securities | 30,668            | 126                          | (941)                         | 29,853        |
| Commercial mortgage-backed securities  | 3,636             | —                            | (89)                          | 3,547         |
| Total held-to-maturity securities      | \$ 38,834         | \$ 622                       | \$ (1,030)                    | \$ 38,426     |
| December 31, 2017                      |                   |                              |                               |               |
| Obligations of:                        |                   |                              |                               |               |
| States and political subdivisions      | \$ 3,810          | \$ 607                       | \$ —                          | \$ 4,417      |
| Residential mortgage-backed securities | 32,487            | 269                          | (529)                         | 32,227        |
| Commercial mortgage-backed securities  | 4,631             | —                            | (62)                          | 4,569         |
| Total held-to-maturity securities      | \$ 40,928         | \$ 876                       | \$ (591)                      | \$ 41,213     |

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three and six months ended June 30, 2018 and 2017.





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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, 2018                          |                     |                 |                   |                   |                 |                   |            |                 |
| Residential mortgage-backed securities | \$11,258            | \$ 107          | 5                 | \$11,511          | \$ 834          | 3                 | \$22,769   | \$ 941          |
| Commercial mortgage-backed securities  | —                   | —               | —                 | 3,547             | 89              | 1                 | 3,547      | 89              |
| Total                                  | \$11,258            | \$ 107          | 5                 | \$15,058          | \$ 923          | 4                 | \$26,316   | \$ 1,030        |
| December 31, 2017                      |                     |                 |                   |                   |                 |                   |            |                 |
| Residential mortgage-backed securities | \$1,476             | \$ 4            | 2                 | \$12,098          | \$ 525          | 3                 | \$13,574   | \$ 529          |
| Commercial mortgage-backed securities  | —                   | —               | —                 | 4,569             | 62              | 1                 | 4,569      | 62              |
| Total                                  | \$1,476             | \$ 4            | 2                 | \$16,667          | \$ 587          | 4                 | \$18,143   | \$ 591          |

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, 2018. 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.

| (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      | \$ —          | \$310        | \$2,982       | \$1,238       | \$4,530  |
| Residential mortgage-backed securities | —             | 433          | 8,093         | 22,142        | 30,668   |
| Commercial mortgage-backed securities  | —             | —            | —             | 3,636         | 3,636    |
| Total held-to-maturity securities      | \$ —          | \$743        | \$11,075      | \$27,016      | \$38,834 |
| Fair value                             |               |              |               |               |          |
| Obligations of:                        |               |              |               |               |          |
| States and political subdivisions      | \$ —          | \$312        | \$3,462       | \$1,252       | \$5,026  |
| Residential mortgage-backed securities | —             | 422          | 8,116         | 21,315        | 29,853   |
| Commercial mortgage-backed securities  | —             | —            | —             | 3,547         | 3,547    |
| Total held-to-maturity securities      | \$ —          | \$734        | \$11,578      | \$26,114      | \$38,426 |
| Total weighted-average yield           | —%            | 2.43%        | 2.89%         | 2.71%         | 2.76%    |

**Other Investment Securities**

Peoples' other investment securities on the Unaudited Consolidated Balance Sheet consist largely of shares of the Federal Home Loan Bank of Cincinnati (the "FHLB") and the Federal Reserve Bank of Cleveland (the "FRB"), and equity securities. As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities.

The following table summarizes the carrying value of Peoples' other investment securities:

| (Dollars in thousands)            | June 30, 2018 | December 31, 2017 |
|-----------------------------------|---------------|-------------------|
| June 30, 2018                     |               |                   |
| FHLB stock                        | \$29,728      | \$28,132          |
| FRB stock                         | 10,959        | 10,179            |
| Equity securities (a)             | 294           | —                 |
| Other                             | 1,026         | 60                |
| Total other investment securities | \$42,007      | \$38,371          |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities.

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At June 30, 2018, there were no equity securities of a single issuer that exceeded 10% of Peoples' stockholders' equity.

## Pledged Securities

Peoples had pledged available-for-sale investment securities with carrying values of \$528.6 million and \$522.7 million at June 30, 2018 and December 31, 2017, respectively, and held-to-maturity investment securities with carrying values of \$17.2 million and \$18.3 million at June 30, 2018 and December 31, 2017, 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 \$4.4 million and \$6.7 million at June 30, 2018 and December 31, 2017, respectively, and held-to-maturity securities with carrying values of \$18.2 million and \$19.9 million at June 30, 2018 and December 31, 2017, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

## 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. Loans that were acquired and subsequently re-underwritten, are reported as originated upon execution of such credit actions (for example, renewals and increases in lines of credit). The major classifications of loan balances (in each case, net of deferred fees and costs) excluding loans held for sale, were as follows:

| (Dollars in thousands)                | June 30,<br>2018 | December 31,<br>2017 |
|---------------------------------------|------------------|----------------------|
| Originated loans:                     |                  |                      |
| Commercial real estate, construction  | \$ 107,255       | \$ 107,118           |
| Commercial real estate, other         | 650,512          | 595,447              |
| Commercial real estate                | 757,767          | 702,565              |
| Commercial and industrial             | 471,270          | 438,051              |
| Residential real estate               | 299,934          | 304,523              |
| Home equity lines of credit           | 89,957           | 88,902               |
| Consumer, indirect                    | 373,384          | 340,390              |
| Consumer, direct                      | 71,545           | 67,010               |
| Consumer                              | 444,929          | 407,400              |
| Deposit account overdrafts            | 860              | 849                  |
| Total originated loans                | \$2,064,717      | \$ 1,942,290         |
| Acquired loans:                       |                  |                      |
| Commercial real estate, construction  | \$ 14,780        | \$ 8,319             |
| Commercial real estate, other         | 207,195          | 165,120              |
| Commercial real estate                | 221,975          | 173,439              |
| Commercial and industrial             | 40,938           | 34,493               |
| Residential real estate               | 309,629          | 184,864              |
| Home equity lines of credit           | 45,933           | 20,575               |
| Consumer, indirect                    | 198              | 329                  |
| Consumer, direct                      | 3,101            | 1,147                |
| Consumer                              | 3,299            | 1,476                |
| Total acquired loans                  | \$621,774        | \$ 414,847           |
| Loans, net of deferred fees and costs | \$2,686,491      | \$ 2,357,137         |



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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 purchased credit impaired loans included in the loan balances above are summarized as follows:

| (Dollars in thousands)        | June 30, December 31, |           |
|-------------------------------|-----------------------|-----------|
|                               | 2018                  | 2017      |
| Commercial real estate, other | \$13,279              | \$ 8,117  |
| Commercial and industrial     | 1,274                 | 767       |
| Residential real estate       | 21,842                | 19,532    |
| Consumer                      | 63                    | 33        |
| Total outstanding balance     | \$36,458              | \$ 28,449 |
| Net carrying amount           | \$25,710              | \$ 19,564 |

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

| (Dollars in thousands)       | June 30, June 30, |         |
|------------------------------|-------------------|---------|
|                              | 2018              | 2017    |
| Balance, beginning of period | \$6,704           | \$7,132 |
| Additions:                   |                   |         |
| ASB Financial Corp.          | 2,415             | —       |
| Accretion                    | (897)             | (876)   |
| Balance, June 30             | \$8,222           | \$6,256 |

Peoples completes annual re-estimations of cash flows on acquired purchased credit impaired loans in August of each year. At the end of each quarter, Peoples evaluates factors to determine if a material change has occurred in acquired loans accounted for and if a re-estimation is needed. Factors evaluated to determine if a re-estimation is needed include changes in: risk ratings, maturity dates, charge-offs, payoffs, nonaccrual status and loans that have become past due. Prepayments affect the estimated life of the loans and could change the amount of interest income, and possibly the amount of principal, expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary. Peoples evaluates changes quarterly and compares the new estimated cash flows to those at the previous cash flow re-estimation date and the related materiality of the changes, and when compared to the total loan portfolio, the differences in estimated cash flows at the most recent cash flow re-estimate date compared to the previous cash flow re-estimate date would not have a material impact on amounts recorded since the last re-estimation.

Cash flows expected to be collected on purchased credit impaired loans are estimated by incorporating several key assumptions, similar to the initial estimate of fair value. These key assumptions include probability of default and the amount of actual prepayments after the acquisition date. Prepayments affect the estimated life of the loans and could change the amount of interest income and possibly the principal expected to be collected. In re-forecasting future estimated cash flows, credit loss expectations are adjusted as necessary.

**Pledged Loans**

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 \$585.6 million and \$487.2 million at June 30, 2018 and December 31, 2017, respectively. Peoples also pledges commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$69.8 million and \$74.0 million at June 30, 2018 and December 31, 2017, 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, 2018    | December 31, 2017 | June 30, 2018                        | December 31, 2017 |
| Originated loans:                    |                  |                   |                                      |                   |
| Commercial real estate, construction | \$725            | \$ 754            | \$—                                  | \$ —              |
| Commercial real estate, other        | 6,406            | 6,877             | 213                                  | —                 |
| Commercial real estate               | 7,131            | 7,631             | 213                                  | —                 |
| Commercial and industrial            | 1,274            | 739               | —                                    | —                 |
| Residential real estate              | 4,056            | 3,546             | 282                                  | 548               |
| Home equity lines of credit          | 481              | 550               | 6                                    | 50                |
| Consumer, indirect                   | 314              | 256               | —                                    | —                 |
| Consumer, direct                     | 17               | 39                | 4                                    | 16                |
| Consumer                             | 331              | 295               | 4                                    | 16                |
| Total originated loans               | \$13,273         | \$ 12,761         | \$505                                | \$ 614            |
| Acquired loans:                      |                  |                   |                                      |                   |
| Commercial real estate, other        | \$252            | \$ 192            | \$402                                | \$ 215            |
| Commercial and industrial            | 427              | 259               | —                                    | 45                |
| Residential real estate              | 1,846            | 2,168             | 1,026                                | 730               |
| Home equity lines of credit          | 271              | 312               | —                                    | 22                |
| Consumer, direct                     | —                | —                 | 42                                   | —                 |
| Total acquired loans                 | \$2,796          | \$ 2,931          | \$1,470                              | \$ 1,012          |
| Total loans                          | \$16,069         | \$ 15,692         | \$1,975                              | \$ 1,626          |



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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<br>Loans | Total<br>Loans |
|--------------------------------------|-----------------|-----------------|--------------|----------|------------------|----------------|
|                                      | 30 - 59<br>days | 60 - 89<br>days | 90 +<br>Days |          |                  |                |
| June 30, 2018                        |                 |                 |              |          |                  |                |
| Originated loans:                    |                 |                 |              |          |                  |                |
| Commercial real estate, construction | \$—             | \$—             | \$725        | \$725    | \$106,530        | \$107,255      |
| Commercial real estate, other        | 972             | —               | 6,516        | 7,488    | 643,024          | 650,512        |
| Commercial real estate               | 972             | —               | 7,241        | 8,213    | 749,554          | 757,767        |
| Commercial and industrial            | 1,023           | —               | 1,225        | 2,248    | 469,022          | 471,270        |
| Residential real estate              | 1,451           | 682             | 2,180        | 4,313    | 295,621          | 299,934        |
| Home equity lines of credit          | 365             | 139             | 253          | 757      | 89,200           | 89,957         |
| Consumer, indirect                   | 2,051           | 248             | 85           | 2,384    | 371,000          | 373,384        |
| Consumer, direct                     | 199             | 36              | 12           | 247      | 71,298           | 71,545         |
| Consumer                             | 2,250           | 284             | 97           | 2,631    | 442,298          | 444,929        |
| Deposit account overdrafts           | —               | —               | —            | —        | 860              | 860            |
| Total originated loans               | \$6,061         | \$1,105         | \$10,996     | \$18,162 | \$2,046,555      | \$2,064,717    |
| Acquired loans:                      |                 |                 |              |          |                  |                |
| Commercial real estate, construction | \$—             | \$177           | \$—          | \$177    | \$14,603         | \$14,780       |
| Commercial real estate, other        | 350             | 205             | 485          | 1,040    | 206,155          | 207,195        |
| Commercial real estate               | 350             | 382             | 485          | 1,217    | 220,758          | 221,975        |
| Commercial and industrial            | 206             | 337             | 98           | 641      | 40,297           | 40,938         |
| Residential real estate              | 966             | 1,917           | 2,011        | 4,894    | 304,735          | 309,629        |
| Home equity lines of credit          | 116             | —               | 192          | 308      | 45,625           | 45,933         |
| Consumer, indirect                   | 2               | —               | —            | 2        | 196              | 198            |
| Consumer, direct                     | 38              | 8               | 42           | 88       | 3,013            | 3,101          |
| Consumer                             | 40              | 8               | 42           | 90       | 3,209            | 3,299          |
| Total acquired loans                 | \$1,678         | \$2,644         | \$2,828      | \$7,150  | \$614,624        | \$621,774      |
| Total loans                          | \$7,739         | \$3,749         | \$13,824     | \$25,312 | \$2,661,179      | \$2,686,491    |

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| (Dollars in thousands)               | Loans Past Due  |                 |              | Total    | Current<br>Loans | Total<br>Loans |
|--------------------------------------|-----------------|-----------------|--------------|----------|------------------|----------------|
|                                      | 30 - 59<br>days | 60 - 89<br>days | 90 +<br>Days |          |                  |                |
| December 31, 2017                    |                 |                 |              |          |                  |                |
| Originated loans:                    |                 |                 |              |          |                  |                |
| Commercial real estate, construction | \$—             | \$—             | \$—          | \$—      | \$107,118        | \$107,118      |
| Commercial real estate, other        | 990             | —               | 6,492        | 7,482    | 587,965          | 595,447        |
| Commercial real estate               | 990             | —               | 6,492        | 7,482    | 695,083          | 702,565        |
| Commercial and industrial            | 1,423           | 92              | 706          | 2,221    | 435,830          | 438,051        |
| Residential real estate              | 4,562           | 1,234           | 2,408        | 8,204    | 296,319          | 304,523        |
| Home equity lines of credit          | 502             | 80              | 395          | 977      | 87,925           | 88,902         |
| Consumer, indirect                   | 2,153           | 648             | 105          | 2,906    | 337,484          | 340,390        |
| Consumer, direct                     | 417             | 46              | 48           | 511      | 66,499           | 67,010         |
| Consumer                             | 2,570           | 694             | 153          | 3,417    | 403,983          | 407,400        |
| Deposit account overdrafts           | —               | —               | —            | —        | 849              | 849            |
| Total originated loans               | \$10,047        | \$2,100         | \$10,154     | \$22,301 | \$1,919,989      | \$1,942,290    |
| Acquired loans:                      |                 |                 |              |          |                  |                |
| Commercial real estate, construction | \$—             | \$—             | \$—          | \$—      | \$8,319          | \$8,319        |
| Commercial real estate, other        | 775             | 948             | 312          | 2,035    | 163,085          | 165,120        |
| Commercial real estate               | 775             | 948             | 312          | 2,035    | 171,404          | 173,439        |
| Commercial and industrial            | —               | 1               | 171          | 172      | 34,321           | 34,493         |
| Residential real estate              | 4,656           | 1,391           | 1,910        | 7,957    | 176,907          | 184,864        |
| Home equity lines of credit          | 126             | —               | 301          | 427      | 20,148           | 20,575         |
| Consumer, indirect                   | 3               | —               | —            | 3        | 326              | 329            |
| Consumer, direct                     | 10              | 11              | —            | 21       | 1,126            | 1,147          |
| Consumer                             | 13              | 11              | —            | 24       | 1,452            | 1,476          |
| Total acquired loans                 | \$5,570         | \$2,351         | \$2,694      | \$10,615 | \$404,232        | \$414,847      |
| Total loans                          | \$15,617        | \$4,451         | \$12,848     | \$32,916 | \$2,324,221      | \$2,357,137    |

During the first six months of 2018, Peoples' delinquency trends improved compared to the balances at December 31, 2017, as total loans past due declined in both the originated and acquired loan portfolios. Delinquency trends improved during the second quarter as approximately 99.0% of Peoples' portfolio was considered "current" at June 30, 2018, compared to 98.8% at March 31, 2018 and 98.9% at June 30, 2017.

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2017 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.

"Special Mention" (grade 5): Loans in this risk grade are the equivalent of the regulatory definition of "Other Assets Especially Mentioned." Loans in this risk 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 a 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 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

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

“Loss” (grade 8): Loans in this risk grade are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean a 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 loans within Peoples' loan portfolio based upon the most recent analysis performed:

| (Dollars in thousands)               | Pass Rated<br>(Grades 1 -<br>4) | Special<br>Mention<br>(Grade<br>5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade<br>7) | Not<br>Rated | Total<br>Loans |
|--------------------------------------|---------------------------------|------------------------------------|--------------------------|--------------------------|--------------|----------------|
| June 30, 2018                        |                                 |                                    |                          |                          |              |                |
| Originated loans:                    |                                 |                                    |                          |                          |              |                |
| Commercial real estate, construction | \$105,358                       | \$—                                | \$ 1,505                 | \$—                      | \$392        | \$107,255      |
| Commercial real estate, other        | 623,482                         | 6,055                              | 20,975                   | —                        | —            | 650,512        |
| Commercial real estate               | 728,840                         | 6,055                              | 22,480                   | —                        | 392          | 757,767        |
| Commercial and industrial            | 422,966                         | 44,346                             | 3,958                    | —                        | —            | 471,270        |
| Residential real estate              | 15,441                          | 519                                | 12,482                   | 222                      | 271,270      | 299,934        |
| Home equity lines of credit          | 502                             | —                                  | —                        | —                        | 89,455       | 89,957         |
| Consumer, indirect                   | 47                              | —                                  | —                        | —                        | 373,337      | 373,384        |
| Consumer, direct                     | 25                              | —                                  | —                        | —                        | 71,520       | 71,545         |
| Consumer                             | 72                              | —                                  | —                        | —                        | 444,857      | 444,929        |
| Deposit account overdrafts           | —                               | —                                  | —                        | —                        | 860          | 860            |
| Total originated loans               | \$1,167,821                     | \$50,920                           | \$ 38,920                | \$ 222                   | \$806,834    | \$2,064,717    |
| Acquired loans:                      |                                 |                                    |                          |                          |              |                |
| Commercial real estate, construction | \$11,348                        | \$ 1,291                           | \$ 2,141                 | \$—                      | \$—          | \$14,780       |
| Commercial real estate, other        | 186,989                         | 10,252                             | 9,511                    | 443                      | —            | 207,195        |
| Commercial real estate               | 198,337                         | 11,543                             | 11,652                   | 443                      | —            | 221,975        |
| Commercial and industrial            | 37,777                          | 781                                | 2,087                    | 293                      | —            | 40,938         |
| Residential real estate              | 20,134                          | 1,969                              | 1,803                    | 176                      | 285,547      | 309,629        |
| Home equity lines of credit          | 43                              | —                                  | —                        | —                        | 45,890       | 45,933         |
| Consumer, indirect                   | 4                               | —                                  | —                        | —                        | 194          | 198            |
| Consumer, direct                     | 44                              | —                                  | —                        | —                        | 3,057        | 3,101          |
| Consumer                             | 48                              | —                                  | —                        | —                        | 3,251        | 3,299          |
| Total acquired loans                 | \$256,339                       | \$ 14,293                          | \$ 15,542                | \$ 912                   | \$334,688    | \$621,774      |
| Total loans                          | \$1,424,160                     | \$65,213                           | \$ 54,462                | \$ 1,134                 | \$1,141,522  | \$2,686,491    |

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| (Dollars in thousands)               | Pass Rated<br>(Grades 1 -<br>4) | Special<br>Mention<br>(Grade<br>5) | Substandard<br>(Grade 6) | Doubtful<br>(Grade<br>7) | Not<br>Rated | Total<br>Loans |
|--------------------------------------|---------------------------------|------------------------------------|--------------------------|--------------------------|--------------|----------------|
| December 31, 2017                    |                                 |                                    |                          |                          |              |                |
| Originated loans:                    |                                 |                                    |                          |                          |              |                |
| Commercial real estate, construction | \$100,409                       | \$5,502                            | \$ 754                   | \$ —                     | \$453        | \$107,118      |
| Commercial real estate, other        | 561,320                         | 17,189                             | 16,938                   | —                        | —            | 595,447        |
| Commercial real estate               | 661,729                         | 22,691                             | 17,692                   | —                        | 453          | 702,565        |
| Commercial and industrial            | 420,477                         | 13,062                             | 4,512                    | —                        | —            | 438,051        |
| Residential real estate              | 17,896                          | 1,000                              | 11,371                   | 216                      | 274,040      | 304,523        |
| Home equity lines of credit          | 454                             | —                                  | —                        | —                        | 88,448       | 88,902         |
| Consumer, indirect                   | 55                              | 8                                  | —                        | —                        | 340,327      | 340,390        |
| Consumer, direct                     | 33                              | —                                  | —                        | —                        | 66,977       | 67,010         |
| Consumer                             | 88                              | 8                                  | —                        | —                        | 407,304      | 407,400        |
| Deposit account overdrafts           | —                               | —                                  | —                        | —                        | 849          | 849            |
| Total originated loans               | \$1,100,644                     | \$36,761                           | \$ 33,575                | \$ 216                   | \$771,094    | \$1,942,290    |
| Acquired loans:                      |                                 |                                    |                          |                          |              |                |
| Commercial real estate, construction | \$8,267                         | \$—                                | \$ 52                    | \$ —                     | \$—          | \$8,319        |
| Commercial real estate, other        | 149,486                         | 6,527                              | 9,107                    | —                        | —            | 165,120        |
| Commercial real estate               | 157,753                         | 6,527                              | 9,159                    | —                        | —            | 173,439        |
| Commercial and industrial            | 32,011                          | 157                                | 2,325                    | —                        | —            | 34,493         |
| Residential real estate              | 12,543                          | 593                                | 1,105                    | —                        | 170,623      | 184,864        |
| Home equity lines of credit          | 124                             | —                                  | —                        | —                        | 20,451       | 20,575         |
| Consumer, indirect                   | 12                              | —                                  | —                        | —                        | 317          | 329            |
| Consumer, direct                     | 35                              | —                                  | —                        | —                        | 1,112        | 1,147          |
| Consumer                             | 47                              | —                                  | —                        | —                        | 1,429        | 1,476          |
| Total acquired loans                 | \$202,478                       | \$7,277                            | \$ 12,589                | \$ —                     | \$192,503    | \$414,847      |
| Total loans                          | \$1,303,122                     | \$44,038                           | \$ 46,164                | \$ 216                   | \$963,597    | \$2,357,137    |

In the first six months of 2018, Peoples' classified loans, which are loans categorized as substandard or doubtful, increased compared to the balances at December 31, 2017 mostly due to acquired ASB Financial Corp. ("ASB") loans, which were partially offset by paydowns on classified loans.

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## Impaired Loans

The following table summarizes loans classified as impaired:

| (Dollars in thousands)               | Unpaid<br>Principal<br>Balance | Recorded<br>Investment |                      | Total<br>Recorded<br>Investment | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|--------------------------------------|--------------------------------|------------------------|----------------------|---------------------------------|----------------------|-----------------------------------|----------------------------------|
|                                      |                                | With<br>Allowance      | Without<br>Allowance |                                 |                      |                                   |                                  |
| June 30, 2018                        |                                |                        |                      |                                 |                      |                                   |                                  |
| Commercial real estate, construction | \$ 2,552                       | \$ —                   | \$ 2,465             | \$ 2,465                        | \$ —                 | \$ 1,317                          | \$ 22                            |
| Commercial real estate, other        | 18,010                         | 14                     | 16,683               | 16,697                          | 1                    | 14,132                            | 257                              |
| Commercial real estate               | 20,562                         | 14                     | 19,148               | 19,162                          | 1                    | 15,449                            | 279                              |
| Commercial and industrial            | 3,372                          | 1,481                  | 1,692                | 3,173                           | 191                  | 2,292                             | 51                               |
| Residential real estate              | 28,074                         | 523                    | 25,974               | 26,497                          | 47                   | 23,598                            | 661                              |
| Home equity lines of credit          | 1,739                          | 68                     | 1,668                | 1,736                           | 14                   | 1,676                             | 42                               |
| Consumer, indirect                   | 434                            | 133                    | 308                  | 441                             | 31                   | 286                               | 14                               |
| Consumer, direct                     | 150                            | 57                     | 93                   | 150                             | 45                   | 98                                | 4                                |
| Consumer                             | 584                            | 190                    | 401                  | 591                             | 76                   | 384                               | 18                               |
| Total                                | \$ 54,331                      | \$ 2,276               | \$ 48,883            | \$ 51,159                       | \$ 329               | \$ 43,399                         | \$ 1,051                         |
| December 31, 2017                    |                                |                        |                      |                                 |                      |                                   |                                  |
| Commercial real estate, construction | \$ 821                         | \$ —                   | \$ 754               | \$ 754                          | \$ —                 | \$ 788                            | \$ —                             |
| Commercial real estate, other        | 14,909                         | 14                     | 13,606               | 13,620                          | 1                    | 14,392                            | 503                              |
| Commercial real estate               | 15,730                         | 14                     | 14,360               | 14,374                          | 1                    | 15,180                            | 503                              |
| Commercial and industrial            | 1,690                          | 951                    | 572                  | 1,523                           | 199                  | 1,668                             | 65                               |
| Residential real estate              | 24,743                         | 477                    | 22,626               | 23,103                          | 58                   | 23,195                            | 1,246                            |
| Home equity lines of credit          | 1,707                          | 81                     | 1,624                | 1,705                           | 18                   | 1,505                             | 85                               |
| Consumer, indirect                   | 273                            | 70                     | 206                  | 276                             | 26                   | 184                               | 20                               |
| Consumer, direct                     | 87                             | 56                     | 28                   | 84                              | 37                   | 79                                | 7                                |
| Consumer                             | 360                            | 126                    | 234                  | 360                             | 63                   | 263                               | 27                               |
| Total                                | \$ 44,230                      | \$ 1,649               | \$ 39,416            | \$ 41,065                       | \$ 339               | \$ 41,811                         | \$ 1,926                         |

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 months ended June 30:

| (Dollars in thousands)        | Number<br>of<br>Contracts | Three Months Ended<br>Recorded Investment (a) |                   | Remaining<br>Recorded<br>Investment |
|-------------------------------|---------------------------|---|-------------------|-------------------------------------|
|                               |                           | Pre-Modification                              | Post-Modification |                                     |
| June 30, 2018                 |                           |   |                   |                                     |
| Originated loans:             |                           |   |                   |                                     |
| Residential real estate       | 5                         | \$717   | \$ 717            | \$ 717                              |
| Home equity lines of credit   | 3                         | 61  | 61                | 61                                  |
| Consumer, indirect            | 14                        | 230   | 230               | 230                                 |
| Consumer, direct              | 5                         | 27  | 27                | 27                                  |
| Consumer                      | 19                        | 257   | 257               | 257                                 |
| Total originated loans        | 27                        | \$1,035                                       | \$ 1,035          | \$ 1,035                            |
| Acquired loans:               |                           |   |                   |                                     |
| Residential real estate       | 11                        | 720   | 720               | 720                                 |
| Home equity lines of credit   | 4                         | 86  | 86                | 86                                  |
| Consumer, direct              | 3                         | 57  | 57                | 57                                  |
| Total acquired loans          | 18                        | \$863   | \$ 863            | \$ 863                              |
| June 30, 2017                 |                           |   |                   |                                     |
| Originated loans:             |                           |   |                   |                                     |
| Commercial real estate, other | 1                         | \$14  | \$ 14             | \$ 14                               |
| Commercial and industrial     | 2                         | 137   | 137               | 137                                 |
| Residential real estate       | 4                         | 288   | 288               | 288                                 |
| Home equity lines of credit   | 1                         | 43  | 43                | 45                                  |
| Consumer, indirect            | 4                         | 54  | 54                | 54                                  |
| Consumer, direct              | 5                         | 6   | 6                 | 6                                   |
| Consumer                      | 9                         | 60  | 60                | 60                                  |
| Total originated loans        | 17                        | \$542   | \$ 542            | \$ 544                              |
| Acquired loans:               |                           |   |                   |                                     |
| Residential real estate       | 5                         | \$179   | \$ 179            | \$ 179                              |
| Total acquired loans          | 5                         | \$179   | \$ 179            | \$ 179                              |

(a) 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 summarizes the loans that were modified as a TDR during the six months ended June 30:

| (Dollars in thousands)        | Number<br>of<br>Contracts | Six Months Ended<br>Recorded Investment (a) |                   | Remaining<br>Recorded<br>Investment |
|-------------------------------|---------------------------|---|-------------------|-------------------------------------|
|                               |                           | Pre-Modification                            | Post-Modification |                                     |
| June 30, 2018                 |                           |   |                   |                                     |
| Originated loans:             |                           |   |                   |                                     |
| Residential real estate       | 7                         | \$910                                       | \$ 910            | \$ 911                              |
| Home equity lines of credit   | 3                         | 61  | 61                | 61                                  |
| Consumer, indirect            | 21                        | 316   | 316               | 302                                 |
| Consumer, direct              | 7                         | 31  | 31                | 31                                  |
| Consumer                      | 28                        | 347   | 347               | 333                                 |
| Total originated loans        | 38                        | \$1,318                                     | \$ 1,318          | \$ 1,305                            |
| Acquired loans:               |                           |   |                   |                                     |
| Commercial real estate, other | 1                         | \$50  | \$ 50             | \$ 48                               |
| Residential real estate       | 13                        | 989   | 989               | 989                                 |
| Home equity lines of credit   | 4                         | 86  | 86                | 86                                  |
| Consumer, direct              | 3                         | 57  | 57                | 57                                  |
| Total acquired loans          | 21                        | \$1,182                                     | \$ 1,182          | \$ 1,180                            |
| June 30, 2017                 |                           |   |                   |                                     |
| Originated loans:             |                           |   |                   |                                     |
| Commercial real estate, other | 1                         | \$14  | \$ 14             | \$ 14                               |
| Commercial and industrial     | 2                         | 137   | 137               | 137                                 |
| Residential real estate       | 6                         | 393   | 393               | 392                                 |
| Home equity lines of credit   | 4                         | 269   | 269               | 268                                 |
| Consumer, indirect            | 7                         | 121   | 121               | 97                                  |
| Consumer, direct              | 5                         | 6   | 6                 | 6                                   |
| Consumer                      | 12                        | 127   | 127               | 103                                 |
| Total originated loans        | 25                        | \$940                                       | \$ 940            | \$ 914                              |
| Acquired loans:               |                           |   |                   |                                     |
| Commercial real estate, other | 2                         | \$271                                       | \$ 271            | \$ 267                              |
| Commercial and industrial     | 1                         | 38  | 38                | 38                                  |
| Residential real estate       | 7                         | 276   | 276               | 276                                 |
| Home equity lines of credit   | 4                         | 294   | 294               | 291                                 |
| Consumer, direct              | 2                         | 10  | 10                | 9                                   |
| Total acquired loans          | 16                        | \$889                                       | \$ 889            | \$ 881                              |

(a) 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 or acquired loans that were modified as a TDR during the last twelve months that subsequently defaulted. Peoples had no commitments to lend additional funds to the related debtors whose terms have been modified in a TDR.

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## Allowance for Originated Loan Losses

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

| (Dollars in thousands)                  | Commercial<br>Real Estate | Commercial<br>and<br>Industrial | Residential<br>Real<br>Estate | Home<br>Equity<br>Lines<br>of<br>Credit | Consumer<br>Indirect | Consumer<br>Direct | Deposit<br>Account<br>Overdrafts | Total     |
|---|---------------------------|---------------------------------|-------------------------------|---|----------------------|--------------------|----------------------------------|-----------|
| Balance, January 1, 2018                | \$ 7,797                  | \$ 5,813                        | \$ 904                        | \$ 693                                  | \$ 2,944             | \$ 464             | \$ 70                            | \$ 18,685 |
| Charge-offs                             | (849)                     | (38)                            | (227)                         | (57)                                    | (1,479)              | (219)              | (420)                            | (3,289)   |
| Recoveries                              | 43                        | —                               | 67                            | 9                                       | 272                  | 84                 | 116                              | 591       |
| Net charge-offs                         | (806)                     | (38)                            | (160)                         | (48)                                    | (1,207)              | (135)              | (304)                            | (2,698)   |
| Provision for (recovery of) loan losses | 1,280                     | (410)                           | 261                           | (27)                                    | 1,602                | 136                | 329                              | 3,171     |
| Balance, June 30, 2018                  | \$ 8,271                  | \$ 5,365                        | \$ 1,005                      | \$ 618                                  | \$ 3,339             | \$ 465             | \$ 95                            | \$ 19,158 |

## Period-end amount allocated to:

|   |          |          |          |        |          |        |       |           |
|---|----------|----------|----------|--------|----------|--------|-------|-----------|
| Loans individually evaluated for impairment | \$ 1     | \$ 191   | \$ 47    | \$ 14  | \$ 31    | \$ 45  | \$ —  | \$ 329    |
| Loans collectively evaluated for impairment | 8,270    | 5,174    | 958      | 604    | 3,308    | 420    | 95    | 18,829    |
| Ending balance                              | \$ 8,271 | \$ 5,365 | \$ 1,005 | \$ 618 | \$ 3,339 | \$ 465 | \$ 95 | \$ 19,158 |

|   |          |          |        |        |          |        |        |           |
|---|----------|----------|--------|--------|----------|--------|--------|-----------|
| Balance, January 1, 2017                | \$ 7,172 | \$ 6,353 | \$ 982 | \$ 688 | \$ 2,312 | \$ 518 | \$ 171 | \$ 18,196 |
| Charge-offs                             | (25)     | (117)    | (206)  | (20)   | (1,000)  | (169)  | (520)  | (2,057)   |
| Recoveries                              | 116      | —        | 109    | 6      | 424      | 106    | 111    | 872       |
| Net recoveries (charge-offs)            | 91       | (117)    | (97)   | (14)   | (576)    | (63)   | (409)  | (1,185)   |
| Provision for (recovery of) loan losses | 65       | 491      | 75     | 2      | 813      | (53)   | 321    | 1,714     |
| Balance, June 30, 2017                  | \$ 7,328 | \$ 6,727 | \$ 960 | \$ 676 | \$ 2,549 | \$ 402 | \$ 83  | \$ 18,725 |

## Period-end amount allocated to:

|   |          |          |        |        |          |        |       |           |
|---|----------|----------|--------|--------|----------|--------|-------|-----------|
| Loans individually evaluated for impairment | \$ 264   | \$ 423   | \$ 135 | \$ 62  | \$ 6     | \$ 2   | \$ —  | \$ 892    |
| Loans collectively evaluated for impairment | 7,064    | 6,304    | 825    | 614    | 2,543    | 400    | 83    | 17,833    |
| Ending balance                              | \$ 7,328 | \$ 6,727 | \$ 960 | \$ 676 | \$ 2,549 | \$ 402 | \$ 83 | \$ 18,725 |

## Allowance for Loan Losses for Acquired Loans

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 purchased 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.

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The following table presents activity in the allowance for loan losses for acquired loans for the three and six months ended June 30:

| (Dollars in thousands)           | Three Months Ended |               | Six Months Ended |               |
|----------------------------------|--------------------|---------------|------------------|---------------|
|                                  | June 30, 2018      | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| Purchased credit impaired loans: |                    |               |                  |               |
| Balance, beginning of period     | \$ 108             | \$ 90         | \$ 108           | \$ 233        |
| Recovery of loan losses          | —                  | —             | —                | (143 )        |
| Balance, June 30                 | \$ 108             | \$ 90         | \$ 108           | \$ 90         |

During the first quarter of 2017, Peoples recorded a recovery of loan losses that was related to an acquired purchased credit impaired loan that was paid off during the quarter.

## Note 5 Long-Term Borrowings

The following table summarizes Peoples' long-term borrowings:

| (Dollars in thousands)                            | June 30, 2018 |                       |  | December 31, 2017 |                       |  |
|---|---------------|-----------------------|--|-------------------|-----------------------|--|
|   | Balance       | Weighted-Average Rate |  | Balance           | Weighted-Average Rate |  |
| FHLB putable, non-amortizing, fixed-rate advances | \$85,000      | 2.05 %                |  | \$ 115,000        | 1.86 %                |  |
| FHLB amortizing, fixed-rate advances              | 20,890        | 2.03 %                |  | 21,939            | 2.02 %                |  |
| Junior subordinated debt securities               | 7,195         | 7.38 %                |  | 7,107             | 6.51 %                |  |
| Unamortized debt issuance costs                   | —             | — %                   |  | (27 )             | — %                   |  |
| Total long-term borrowings                        | \$ 113,085    | 2.38 %                |  | \$ 144,019        | 2.11 %                |  |

Peoples continually evaluates its overall balance sheet position given the interest rate environment. During the first six months of 2018, no additional borrowings were entered into and two long-term FHLB non-amortizing advances in the amount of \$30.0 million were reclassified to short-term borrowings as the maturity became less than one year.

As of June 30, 2018, Peoples' had one remaining FHLB putable option-based advance. The FHLB has the option, at its sole discretion, to terminate the advance after the initial fixed rate period of three months, requiring full repayment of the advance by Peoples, prior to the stated maturity. If the advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then offered by the FHLB, subject to normal FHLB credit and collateral requirements. Peoples is required to make quarterly interest payments. The amortizing, fixed-rate FHLB advances have a fixed rate for the term of each advance, with maturities ranging from two to thirteen 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 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. Additional information regarding the interest rate swaps can be found later in Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

Peoples maintains a multi-year unsecured \$15.0 million revolving credit facility (the "Credit Facility") with Raymond James Bank, N.A. that matures on March 4, 2019. Borrowings under the Credit Facility may be used: (i) to make acquisitions; (ii) to make stock repurchases; (iii) for working capital needs; and (iv) for other general corporate purposes. Each loan under the Credit Facility will bear interest per annum at a rate equal to 3.00% plus the one-month LIBOR rate, which rate will reset monthly. As of June 30, 2018, there were no borrowings outstanding under the Credit Facility. Additional information regarding the Credit Facility can be found later in Note 9 of the Notes to the Consolidated Financial Statements included in Peoples' 2017 Form 10-K.



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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, 2018 | \$3,440   | 1.58                  | % |
| Year ending December 31, 2019       | 3,512     | 1.56                  | % |
| Year ending December 31, 2020       | 25,564    | 1.83                  | % |
| Year ending December 31, 2021       | 21,979    | 1.74                  | % |
| Year ending December 31, 2022       | 16,521    | 1.95                  | % |
| Thereafter                          | 42,069    | 3.36                  | % |
| Total long-term borrowings          | \$113,085 | 2.38                  | % |

## Note 6 Stockholders' Equity

The following table details the progression in Peoples' common shares and treasury stock during the six months ended June 30, 2018:

|   | Common Shares | Treasury Stock |
|---|---------------|----------------|
| Shares at December 31, 2017   | 18,952,385    | 702,449        |
| Changes related to stock-based compensation awards:                         |               |                |
| Release of restricted common shares   | —             | 29,045         |
| Cancellation of restricted common shares                                    | —             | 1,235          |
| Exercise of stock appreciation rights                                       | —             | (102 )         |
| Grant of restricted common shares   | —             | (90,253 )      |
| Grant of common shares  | —             | (15,112 )      |
| Changes related to deferred compensation plan for Boards of Directors:      |               |                |
| Purchase of treasury stock  | —             | 2,975          |
| Disbursed out of treasury stock   | —             | (2,089 )       |
| Common shares issued under dividend reinvestment plan                       | 9,309         | —              |
| Common shares issued under compensation plan for Boards of Directors        | —             | (1,589 )       |
| Common shares issued under employee stock purchase plan                     | —             | (2,707 )       |
| Issuance of common shares related to the acquisition of ASB Financial Corp. | 1,152,711     | —              |
| Shares at June 30, 2018   | 20,114,405    | 623,852        |

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, 2018, Peoples had no preferred shares issued or outstanding. On April 13, 2018, Peoples issued 1,152,711 common shares to ASB shareholders.

## Accumulated Other Comprehensive Loss

The following table details the change in the components of Peoples' accumulated other comprehensive loss for the six months ended June 30, 2018:

| (Dollars in thousands)                          | Unrealized Loss on Securities | Unrecognized Net Pension and Postretirement Costs | Unrealized Loss on Cash Flow Hedge | Accumulated Other Comprehensive Loss |
|---|-------------------------------|---|------------------------------------|--------------------------------------|
| Balance, December 31, 2017                      | \$ (2,088 )                   | \$ (4,256 )                                       | \$ 1,129                           | \$ (5,215 )                          |
| Reclassification adjustments to net income:     |                               |   |                                    |                                      |
| Realized gain on sale of securities, net of tax | 115                           | —   | —                                  | 115                                  |

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|  |              |             |          |              |
|--|--------------|-------------|----------|--------------|
| Amounts reclassified out of accumulated other comprehensive loss per ASU 2016-01 | (5,020 )     | —           | —        | (5,020 )     |
| Other comprehensive (loss) income, net of reclassifications and tax              | (9,037 )     | 41          | 1,513    | (7,483 )     |
| Balance, June 30, 2018   | \$ (16,030 ) | \$ (4,215 ) | \$ 2,642 | \$ (17,603 ) |

Note 7 Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation 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 during the years 2003 through 2009, 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 Peoples 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 |        | Six Months Ended |        |
|                                | June 30,           |        | June 30,         |        |
|                                | 2018               | 2017   | 2018             | 2017   |
| Interest cost                  | \$ 105             | \$ 113 | \$ 210           | \$ 226 |
| Expected return on plan assets | (146 )             | (139 ) | (293 )           | (277 ) |
| Amortization of net loss       | 27                 | 26     | 55               | 51     |
| Net periodic cost              | \$(14 )            | \$—    | \$(28 )          | \$—    |

| (Dollars in thousands)   | Postretirement Benefits |         |                  |       |
|--------------------------|-------------------------|---------|------------------|-------|
|                          | Three Months Ended      |         | Six Months Ended |       |
|                          | June 30,                |         | June 30,         |       |
|                          | 2018                    | 2017    | 2018             | 2017  |
| Interest cost            | \$ 1                    | \$ 1    | \$ 2             | \$ 2  |
| Amortization of net gain | (1 )                    | (2 )    | (3 )             | (4 )  |
| Net periodic cost        | \$ —                    | \$ (1 ) | \$(1)            | \$(2) |

There were no settlement charges recorded in the three or six months ended June 30, 2018 or June 30, 2017 under the noncontributory defined benefit pension plan.

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## Note 8 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, 2018      | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands, except per common share data)     |                    |               |                  |               |
| Distributed earnings allocated to common shareholders    | \$5,407            | \$ 3,609      | \$ 10,123        | \$ 7,213      |
| Undistributed earnings allocated to common shareholders  | 2,427              | 6,100         | 9,389            | 11,262        |
| Net earnings allocated to common shareholders            | \$7,834            | \$ 9,709      | \$ 19,512        | \$ 18,475     |
| Weighted-average common shares outstanding               | 19,160,728         | 18,044,574    | 18,646,268       | 18,037,333    |
| Effect of potentially dilutive common shares             | 132,653            | 159,178       | 126,903          | 158,382       |
| Total weighted-average diluted common shares outstanding | 19,293,381         | 18,203,752    | 18,773,171       | 18,195,715    |
| Earnings per common share:                               |                    |               |                  |               |
| Basic  | \$0.41             | \$ 0.54       | \$ 1.05          | \$ 1.02       |
| Diluted  | \$0.41             | \$ 0.53       | \$ 1.04          | \$ 1.02       |

Anti-dilutive shares excluded from calculation:

|  |   |    |    |    |
|--|---|----|----|----|
| Restricted shares, stock options and stock appreciation rights | — | 14 | 32 | 63 |
|--|---|----|----|----|

Note 9 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 customer-related derivative financial 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 instruments was \$8.4 million in an asset position and \$5.1 million in a liability position at June 30, 2018, and there was \$4.6 million in an asset position and \$3.2 million in a liability position at December 31, 2017. The amounts are recorded in Other assets, and Accrued expenses and Other liabilities on the Consolidated Balance Sheet at the periods indicated.

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 these objectives, 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, 2018, Peoples had ten interest rate swaps, which included three interest rate swaps acquired with the ASB acquisition, for an aggregate notional value of \$67.0 million associated with Peoples' cash outflows for various FHLB



advances. The \$7.0 million increase in notional value during the second quarter of 2018 was due to the interest rate swaps acquired from the ASB acquisition. All three of the acquired swaps matured in July 2018.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of each derivative is reported in accumulated other comprehensive loss ("AOCL") (outside of earnings), net of tax, and subsequently reclassified to

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earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. Peoples assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transaction. The reset dates and the payment dates on the 90-day advances used to fund the swaps are matched to the reset dates and payment dates on the receipt of the 3-month LIBOR floating portion of the swaps to ensure effectiveness of the cash flow hedge. Effectiveness is measured by ensuring that reset dates and payment dates are matched.

Peoples entered into seven interest rate swap contracts and acquired three with the ASB acquisition. All three of the acquired interest rate swaps matured in July of 2018. For the remaining seven interest rate swaps, as described above, Peoples will pay a fixed rate of interest for up to ten years while receiving a floating rate component of interest equal to the three-month LIBOR rate. The received floating rate component is intended to offset the rate on the rolling three-month FHLB advances. Amounts reported in AOCL 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 three and six months ended June 30, 2018, and June 30, 2017, Peoples had no reclassifications to interest expense. During the next twelve months, Peoples estimates that no interest expense amount will be reclassified. During 2018, two of the remaining seven swaps became effective in January, with an additional two swaps becoming effective in April. Of the three remaining swaps, one became effective in July 2018 and two will become effective in October 2018. These dates roughly coincide with the maturity of existing FHLB advances.

The amount of accumulated other comprehensive pre-tax income for Peoples' cash flow hedges was \$3.3 million at June 30, 2018. There were no pre-tax net losses recorded for the six months ended June 30, 2018. Additionally, Peoples had no reclassifications to earnings in the three or six months ended June 30, 2018 or June 30, 2017.

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 \$388.9 million and fair value of \$5.1 million of equally offsetting assets and liabilities at June 30, 2018, and a notional value of \$363.3 million and fair value of \$3.0 million of equally offsetting assets and liabilities at December 31, 2017. These interest rate swaps did not have a material impact on Peoples' results of operation or financial condition.

Note 10 Stock-Based Compensation


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Under the Peoples Bancorp Inc. Third 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 currently available under the 2006 Equity Plan is 891,340. The maximum number of common shares that can be issued for incentive stock options is 500,000 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 2018, the Board of Directors granted unrestricted common shares to non-employee directors and to all full-time and part-time employees who did not already participate in the equity plans. 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.



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## 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 respective grant dates and expired ten years from the respective date of grant. The most recent grant of SARs occurred in 2008 and expired on February 20, 2018. The following table summarizes the changes to Peoples' SARs for the six months ended June 30, 2018:

|                          | Number<br>of<br>Common<br>Shares<br>Subject to<br>SARs | Weighted-<br>Average<br>Exercise<br>Price | Weighted-Average<br>Remaining<br>Contractual Life | Aggregate<br>Intrinsic<br>Value |
|--------------------------|--|---|---|---------------------------------|
| Outstanding at January 1 | 314  | \$ 23.77                                  |   |                                 |
| Exercised                | 314  | 23.77                                     |   |                                 |
| Outstanding at June 30   | —  | \$ —                                      | —   | \$ —                            |
| Exercisable at June 30   | —  | \$ —                                      | —   | \$ —                            |

## Restricted Common Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. Beginning in 2018, common shares awarded to non-employee directors vest immediately upon grant with no restrictions. Restrictions on restricted common shares awarded to employees expire after periods ranging from one to three years. In the first six months of 2018, Peoples granted an aggregate of 84,876 restricted common shares subject to performance-based vesting to officers and key employees with restrictions that will lapse three years after the grant date provided that in order for the restricted common shares to vest in full, Peoples must have reported positive net income and maintained a well capitalized status by regulatory standards for each of the three fiscal years preceding the vesting date. During the first six months of 2018, Peoples granted, to certain key employees, an aggregate of 5,377 restricted common shares subject to time-based vesting with restrictions that will lapse three years after the grant date.

The following table summarizes the changes to Peoples' restricted common shares for the six months ended June 30, 2018:

|                          | Time-Based Vesting               |  | Performance-Based Vesting        |  |
|--------------------------|----------------------------------|--|----------------------------------|--|
|                          | Number<br>of<br>Common<br>Shares | Weighted-Average<br>Grant Date Fair<br>Value | Number<br>of<br>Common<br>Shares | Weighted-Average<br>Grant Date Fair<br>Value |
| Outstanding at January 1 | 33,082                           | \$ 22.85                                     | 176,218                          | \$ 25.50                                     |
| Awarded                  | 5,377                            | 34.96  | 84,876                           | 35.43  |
| Released                 | 2,000                            | 23.85  | 82,861                           | 23.63  |
| Forfeited                | —                                | —  | 1,235                            | 34.48  |
| Outstanding at June 30   | 36,459                           | \$ 24.58                                     | 176,998                          | \$ 31.07                                     |

For the six months ended June 30, 2018, the total intrinsic value for restricted common shares released was \$3.2 million compared to \$0.7 million for the six months ended June 30, 2017.

## Stock-Based Compensation

Peoples recognizes stock-based compensation expense 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<br>Months<br>Ended | Six Months<br>Ended |
|--------------------------|---------------------|
|--------------------------|---------------------|

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| (Dollars in thousands)                 | June 30, |        | June 30, |         |
|--|----------|--------|----------|---------|
|  | 2018     | 2017   | 2018     | 2017    |
| Total stock-based compensation expense | \$538    | \$443  | \$1,610  | \$1,011 |
| Recognized tax benefit                 | (113 )   | (155 ) | (338 )   | (354 )  |
| Net expense recognized                 | \$425    | \$288  | \$1,272  | \$657   |

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Total unrecognized stock-based compensation expense related to unvested awards was \$2.7 million at June 30, 2018, which will be recognized over a weighted-average period of 2.0 years. On January 31, 2018, Peoples granted, to non-employee directors, an aggregate of 3,600 unrestricted common shares, which resulted in an additional \$128,000 of stock-based compensation expense being recognized. On February 14, 2018, the Board of Directors granted an aggregate of 11,112 unrestricted common shares to all full-time and part-time employees who did not already participate in the equity plans, which resulted in an additional \$388,000 of stock-based compensation expense being recognized.

## Performance Unit Award Agreement

Under the 2006 Equity Plan, Peoples may award performance unit awards to officers, key employees and non-employee directors. On July 26, 2017, Peoples granted a total of seven performance unit awards to officers with a maximum aggregate dollar amount of \$1.3 million represented by the performance units subject to such awards, with each performance unit representing \$1.00. The performance unit awards granted are for the performance period beginning January 1, 2018 and ending on December 31, 2019, and will be subject to two performance goals. Twenty-five percent of the performance units subject to each award will vest if, but only if, the related target performance goal is achieved. The remaining 75% of the performance units subject to each award will vest based on the relative performance (measured by percentile ranking) with respect to the related maximum performance goal. If for the performance period, the target level of achievement for the first performance goal and/or the maximum level of achievement for the second performance goal is not reached, the dollar amount represented by the performance units associated with each performance goal will be adjusted to reflect the level of performance achieved. After the vesting date, the participant will receive that number of common shares of Peoples equal to (i) the aggregate number of participant's performance units (and dollar value of such performance units) that vested based on the performance achieved under both performance goals (ii) divided by the fair market value of a common share of Peoples on the date of such vesting and rounded down to the nearest whole common share.

## Note 11 Revenue

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As of January 1, 2018, Peoples adopted ASU 2014-09 - Revenue from Contracts with Customers (Topic 606), and all subsequent updates that modified ASC 606. Peoples elected to adopt this new accounting guidance using the modified retrospective approach. The modified retrospective approach uses a cumulative-effect adjustment to retained earnings to reflect uncompleted contracts in the initial application of the guidance. As of January 1, 2018, Peoples recorded a cumulative-effect adjustment for uncompleted contracts, which resulted in a reduction to retained earnings and an increase in accrued expenses and other liabilities of \$3.1 million, which is net of federal income taxes. The impact during the second quarter of 2018 was a decrease in insurance income and an increase in retained earnings of \$346,000 as a result of applying ASC 606. During the first six months of 2018, the impact of ASC 606 resulted in an increase in insurance income and a decrease in retained earnings of \$45,000. Prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for those respective periods.

Peoples recognizes revenues as they are earned based on contractual terms, or as services are provided and collectability is reasonably assured. Estimates of variable consideration are included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur, once the uncertainty is resolved. Peoples recognizes revenue from contracts with customers under the following revenue streams:

**Insurance Income:** Insurance income generally consists of commissions and fees from the sale of insurance policies, third-party administration services and performance-based commissions from insurance companies.

Peoples recognizes commission income from the sale of insurance policies when it acts as an agent between the insurance carrier and policyholder, arranging for the insurance carrier to provide policies to policyholders, and acts on behalf of the insurance carrier by providing customer service to the policyholders during the respective policy periods. Commission income is recognized over time, using the output method of time elapsed, which corresponds with the underlying insurance policy period, for which Peoples is obligated to perform under contract with the insurance carrier. Commission income is variable, as it is comprised of a certain percentage of the underlying policy premium. Peoples estimates the variable consideration based upon the "most likely amount" method, and does not expect or anticipate a significant reversal of revenue in future periods, based upon historical experience. Payment is due from

the insurance carrier for commission income once the insurance policy has been sold. Peoples has elected to apply a practical expedient related to capitalizable costs, which are the commissions paid to insurance producers, and will expense these commissions paid to insurance producers as incurred, as these costs are related to the commission income and would have been amortized within one year or less if they had been capitalized, the same period over which the commission income was earned.

Fees related to third-party administration services performed are recognized over time, in the period in which services have been provided, and are recognized monthly in the month the services were performed.

Performance-based commissions from insurance companies are recognized at a point in time, when received, and no contingencies remain.

**Trust and Investment Income:** Trust and investment income consists of revenue from fiduciary and brokerage activities, which includes fees for services such as asset management, record keeping, retirement services and estate management, and investment commissions and fees related to the sale of investments. Trust and investment income is recognized over time which reflects the duration of the contract period for which services have been provided. Trust and investment income is variable as it is based on the value of assets under administration and management, and specific transactions. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. Payment is due from the customer when billed, which is typically a monthly or quarterly billing for services rendered in the most recent period, for which the performance obligation has been satisfied. Peoples has elected to apply a practical expedient of right to invoice when recognizing trust and investment income, as Peoples has fulfilled the performance obligation, the customer has consumed the service, and Peoples has a right to the related income. Peoples has also elected to apply a practical expedient related to capitalizable costs, which are the commissions paid to financial advisors, and will expense these commissions paid to financial advisors as incurred, as these costs are related to the trust and investment income and would have been amortized within one year or less if they had been capitalized, the same period over which the income was earned.

**Electronic Banking Income:** Electronic banking income consists of two revenue streams related to interchange income and promotional and usage income.

Peoples recognizes interchange income over time, on a monthly basis, which is based on the transactional volume of debit card activity completed by its customers during the month in which income is recognized. Peoples is obligated to certain debit card activity being performed by its customers over a certain period of time. Interchange income is variable as it is based on the transaction volume of debit card activity completed by Peoples' customers. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. Payment is due from the vendor within one month of the completed customer debit card activity. Peoples has elected to apply a practical expedient of right to invoice when recognizing interchange income, as Peoples has fulfilled the required performance obligations, the vendor has consumed the service, and Peoples has a right to the related income.

Peoples also recognizes promotional and usage income over time, on a monthly basis, which is related to branding of debit cards and promotion or use of certain services provided by third-party vendors. Peoples is obligated to brand its debit cards in a certain manner, and promote and use services provided by third-party vendors. Promotional and usage income is variable as it is based on certain metrics achieved for promotion and usage of services provided by the third-party vendors. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. Payment is due from the third-party vendors within 45 days of the monthly fulfillment of Peoples' performance obligation. Peoples has elected to apply a practical expedient of right to invoice when recognizing promotional and usage income, as Peoples has fulfilled the required performance obligations, the vendor has consumed the service, and Peoples has a right to the related income.

**Deposit Account Service Charges:** Deposit account service charges consist of two revenue streams related to ongoing maintenance fees for deposit accounts and certain transactional-based fees.

Ongoing maintenance fees are recognized on a monthly basis, generally with the monthly period beginning on the day of the month on which the account was opened. Ongoing maintenance fee income is variable as these fees can be reduced if a customer meets certain qualifying metrics. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. For accounts that are assessed maintenance fees through the account analysis process, payment is due from the customer

within one month of the monthly period in which the account was open. For all other accounts, monthly maintenance fees are assessed to the account on the last day of the monthly period. Peoples has elected to apply a practical expedient of right to invoice when recognizing ongoing maintenance fees for deposit accounts, as Peoples has fulfilled the required performance obligations, the customer has consumed the service, and Peoples has a right to the related income.

Transactional-based deposit account fees are recognized at a point in time, which is at the completion of the relevant transaction. Peoples is obligated to perform certain transactions as requested by its consumer and business deposit account customers, which are outside of the normal maintenance requirements. Transactional-based deposit



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account fee income is variable as these fees are directly related to a service request from the customer. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. Payment is due from the customer at the time of completion of the requested transaction.

**Commercial Loan Swap Fees:** Commercial loan swap fees consist of income related to transactions in which Peoples acts as an agent between a third-party vendor and certain Peoples commercial loan customers for which an interest rate swap occurs. Commercial loan swap fees are recognized at a point in time, when the transaction has been completed, and there is no recourse or further performance obligation required of Peoples. Commercial loan swap fee income is variable as these fees are a certain percentage of the total swap fee collected on a completed transaction. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. Payment is due from the customer at the time of completion of the requested transaction.

**Other Non-Interest Income:** Other non-interest income includes certain revenues that are transactional-based, such as wire transfer fees, money order fees and other ancillary fees or services. These transactional-based fees are recognized as income at a point in time, at the completion of the relevant transaction. Transactional-based other non-interest income is variable as these fees are directly related to a service request from the customer. Peoples estimates the variable consideration based upon the most likely amount method, and does not expect or anticipate a significant reversal of revenue in future periods. Payment is due from the customer at the time of completion of the requested transaction.

The following table details Peoples' revenue from contracts with customers for the three and six months ended June 30, 2018:

| (Dollars in thousands)                                  | Three<br>Months<br>Ended<br>June 30,<br>2018 | Six<br>Months<br>Ended<br>June 30,<br>2018 |
|---|--|--|
| <b>Insurance income:</b>                                |  |  |
| Commission and fees from sale of insurance policies (a) | \$3,193                                      | \$6,382                                    |
| Fees related to third-party administration services (a) | 173  | 292  |
| Performance-based commissions (b)                       | 3  | 1,350                                      |
| Trust and investment income (a)                         | 3,232  | 6,300                                      |
| <b>Electronic banking income:</b>                       |  |  |
| Interchange income (a)                                  | 2,520  | 4,784                                      |
| Promotional and usage income (a)                        | 265  | 786  |
| <b>Deposit account service charges:</b>                 |  |  |
| Ongoing maintenance fees for deposit accounts (a)       | 646  | 1,321                                      |
| Transactional-based fees (b)                            | 1,742  | 3,187                                      |
| Commercial loan swap fees (b)                           | 146  | 262  |
| Other non-interest income transactional-based fees (b)  | 262  | 543  |
| <b>Total</b>  | <b>\$12,182</b>                              | <b>\$25,207</b>                            |
| <b>Timing of revenue recognition:</b>                   |  |  |
| Services transferred over time                          | \$10,029                                     | \$19,865                                   |
| Services transferred at a point in time                 | 2,153  | 5,342                                      |
| <b>Total</b>  | <b>\$12,182</b>                              | <b>\$25,207</b>                            |

(a) Services transferred over time.

(b) Services transferred at a point in time.



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Peoples records contract liabilities for payments received for commission income related to the sale of insurance policies, for which the performance obligations have not yet been fulfilled. The contract liabilities are recognized as income over time, during the period in which the performance obligations are fulfilled, which is over the insurance policy period. The following table details the change in Peoples' contract liabilities for the period ended June 30, 2018:

| (Dollars in thousands)                    |        | Contract Liabilities |   |
|---|--------|----------------------|---|
| Balance, January 1, 2018 (a)              | \$     | 4,700                |   |
| Additional deferred income                |        | 3,696                |   |
| Recognition of income previously deferred | (3,741 |                      | ) |
| Balance, June 30, 2018                    | \$     | 4,655                |   |

(a) The amount of \$3.1 million reported elsewhere throughout the document is the \$4.7 million noted above, net of federal corporate income taxes.

The following table details the impact of the adoption of ASU 2014-09 to Peoples' consolidated statements of income and balance sheets, compared to amounts that would have been recognized under previous guidance:

| (Dollars in thousands)                 | At or For the Three Months Ended June 30, 2018 |                   |  | At or For the Six Months Ended June 30, 2018 |                   |  |
|--|--|-------------------|--|--|-------------------|--|
|  | As Reported                                    | Impact of ASC 606 | Amounts Recognized Under Previous Guidance | As Reported                                  | Impact of ASC 606 | Amounts Recognized Under Previous Guidance |
| Non-interest income:                   |  |                   |  |  |                   |  |
| Insurance income                       | \$3,369  | \$346             | \$ 3,715                                   | \$8,024                                      | \$(45 )           | \$ 7,979                                   |
| Liabilities:                           |  |                   |  |  |                   |  |
| Accrued expenses and other liabilities | 49,681   | 3,019             | 46,662                                     | 49,681                                       | 3,019             | 46,662                                     |
| Stockholders' equity:                  |  |                   |  |  |                   |  |
| Retained earnings                      | 145,723  | 3,019             | 148,742                                    | 145,723                                      | 3,019             | 148,742                                    |
| Note 12 Acquisitions                   |  |                   |  |  |                   |  |

On April 13, 2018, Peoples completed its acquisition of ASB for total consideration of \$41.5 million, which reflected the conversion of each of the 1,979,034 outstanding ASB common shares into \$20.00 in cash or 0.592 in Peoples' common shares. ASB merged into Peoples, and ASB's wholly-owned subsidiary, American Savings Bank, fsb, which operates six full-service branches in southern Ohio and northern Kentucky, merged into Peoples Bank.

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The following table provides the preliminary purchase price calculation as of the date of acquisition for the ASB acquisition, and the assets acquired and liabilities assumed at their estimated fair values.

| (Dollars in thousands, except per share data)                                       | ASB       |
|---|-----------|
| <b>Purchase Price</b>   |           |
| Common shares electing cash consideration   | 31,763    |
| Cash purchase price per share   | \$20.00   |
| Cash consideration  | \$635     |
| Common shares electing stock consideration  | 1,947,271 |
| Number of common shares of Peoples issued for each common share of acquired company | 0.592     |
| Price per Peoples common share, based on closing date                               | \$35.48   |
| Common share consideration  | \$40,898  |
| Cash in lieu of fractional common shares of Peoples                                 | \$2       |
| Total consideration   | \$41,533  |
| <b>Net Assets at Fair Value</b>   |           |
| <b>Assets</b>   |           |
| Total cash and cash equivalents   | \$5,332   |
| Available-for-sale investment securities  | 18,155    |
| Held-to-maturity investment securities  | 649       |
| Other investment securities   | 1,596     |
| Total investment securities   | 20,400    |
| Loans, net of deferred fees and costs   | 237,109   |
| Loans held for sale   | 2,539     |
| Net loans   | 239,648   |
| Bank premises and equipment, net  | 2,965     |
| Bank owned life insurance   | 4,803     |
| Other intangible assets   | 2,639     |
| Other assets  | 3,447     |
| Total assets  | \$279,234 |
| <b>Liabilities</b>  |           |
| <b>Deposits:</b>  |           |
| Non-interest-bearing  | \$29,487  |
| Interest-bearing  | 169,142   |
| Total deposits  | 198,629   |
| Short-term borrowings   | 54,824    |
| Accrued expenses and other liabilities  | 2,558     |
| Total liabilities   | \$256,011 |
| Net assets  | \$23,223  |
| Goodwill  | \$18,312  |

The estimated fair values presented in the above table reflect certain fair value estimates made as of the date of acquisition. Adjustments to acquisition date estimated fair values are recorded in the period in which the adjustment is determined and, as a result, previously recorded results may change.

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

(Dollars in thousands, except per share data) ASB

## Nonimpaired Loans

|                          |           |
|--------------------------|-----------|
| Contractual cash flows   | \$348,235 |
| Nonaccretable difference | 61,960    |
| Expected cash flows      | 286,275   |
| Accretable yield         | 57,469    |
| Fair value               | \$228,806 |

## Purchase Credit Impaired Loans

|                          |          |
|--------------------------|----------|
| Contractual cash flows   | \$18,562 |
| Nonaccretable difference | 5,305    |
| Expected cash flows      | 13,257   |
| Accretable yield         | 2,415    |
| Fair value               | \$10,842 |

Peoples recorded non-interest expense related to acquisitions of \$6.1 million and \$6.2 million for the three and six months ended June 30, 2018, respectively. Total non-interest income declined due to losses of \$205,000 associated with the ASB acquisition. Salaries and employee benefit costs contained \$1.9 million, for the three and six months ended June 30, 2018 related to change in control agreements, retention and severance bonuses, and regular payroll and taxes after conversion, professional fees contained \$652,000 and \$712,000 for the three and six months ended June 30, 2018, respectively, and other non-interest expenses contained \$3.4 million for the three and six months ended June 30, 2018.

## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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## SELECTED FINANCIAL DATA

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

|  | At or For the Three<br>Months Ended<br>June 30, |            | At or For the Six<br>Months Ended<br>June 30, |            |   |
|--|---|------------|---|------------|---|
|  | 2018  | 2017       | 2018  | 2017       |   |
| Per Common Share Data  |   |            |   |            |   |
| Earnings per common share – basic  | \$0.41  | \$ 0.54    | \$ 1.05                                       | 1.02       |   |
| Earnings per common share – diluted  | 0.41  | 0.53       | 1.04  | 1.02       |   |
| Cash dividends declared per common share   | 0.28  | 0.20       | 0.54  | 0.40       |   |
| Book value per common share (a)  | 25.57   | 24.69      | 25.57   | 24.69      |   |
| Tangible book value per common share (a)(b)  | \$17.17   | \$ 16.78   | \$17.17                                       | 16.78      |   |
| Weighted-average number of common shares outstanding – basic                                 | 19,160,728                                      | 18,044,574 | 18,646,268                                    | 18,037,333 |   |
| Weighted-average number of common shares outstanding – diluted                               | 19,293,381                                      | 18,203,752 | 18,773,168                                    | 18,195,715 |   |
| Common shares outstanding at end of period   | 19,528,952                                      | 18,279,036 | 19,528,952                                    | 18,297,036 |   |
| Closing stock price at end of period   | \$37.78   | \$ 32.13   | \$37.78                                       | \$ 32.13   |   |
| Significant Ratios   |   |            |   |            |   |
| Return on average stockholders' equity (c)   | 6.46  | % 8.76     | % 8.39  | % 8.45     | % |
| Return on average tangible stockholders' equity (c)(d)                                       | 10.47   | % 13.71    | % 13.21                                       | % 13.34    | % |
| Return on average assets (c)   | 0.81  | % 1.12     | % 1.06  | % 1.08     | % |
| Average stockholders' equity to average assets   | 12.57   | % 12.82    | % 12.60                                       | % 12.78    | % |
| Average loans to average deposits  | 89.57   | % 85.08    | % 88.37                                       | % 85.78    | % |
| Net interest margin (c)(e)   | 3.74  | % 3.62     | % 3.70  | % 3.58     | % |
| Efficiency ratio (f)   | 74.96   | % 61.19    | % 68.53                                       | % 63.01    | % |
| Pre-provision net revenue to total average assets (c)(g)                                     | 1.10  | % 1.72     | % 1.44  | % 1.63     | % |
| Dividend payout ratio  | 69.27   | % 37.32    | % 52.15                                       | % 39.19    | % |
| Total investment securities as percentage of total assets (a)                                | 22.07   | % 24.98    | % 22.07                                       | % 24.98    | % |
| Asset Quality Ratios   |   |            |   |            |   |
| Nonperforming loans as a percent of total loans (a)(h)                                       | 0.67  | % 0.85     | % 0.67  | % 0.85     | % |
| Nonperforming assets as a percent of total assets (a)(h)                                     | 0.46  | % 0.57     | % 0.46  | % 0.57     | % |
| Nonperforming assets as a percent of total loans and other real estate owned ("OREO") (a)(h) | 0.67  | % 0.88     | % 0.67  | % 0.88     | % |
| Criticized loans as a percent of total loans (a)(i)  | 4.50  | % 4.86     | % 4.50  | % 4.86     | % |
| Classified loans as a percent of total loans (a)(j)  | 2.07  | % 2.31     | % 2.07  | % 2.31     | % |
| Allowance for loan losses as a percent of total loans (a)                                    | 0.72  | % 0.82     | % 0.72  | % 0.82     | % |
| Allowance for loan losses as a percent of nonperforming loans (a)(h)                         | 106.77  | % 96.47    | % 106.77                                      | % 96.47    | % |
| Provision for loan losses as a percent of average total loans                                | 0.18  | % 0.17     | % 0.26  | % 0.14     | % |
| Net charge-offs as a percentage of average total loans (c)                                   | 0.11  | % 0.11     | % 0.22  | % 0.11     | % |
| Capital Information (a)  |   |            |   |            |   |
| Common equity tier 1 capital ratio (k)   | 13.00   | % 13.18    | % 13.00                                       | % 13.18    | % |
| Tier 1 risk-based capital ratio  | 13.26   | % 13.47    | % 13.26                                       | % 13.47    | % |
| Total risk-based capital ratio (tier 1 and tier 2)   | 13.96   | % 14.40    | % 13.96                                       | % 14.40    | % |
| Leverage ratio   | 9.75  | % 9.71     | % 9.75  | % 9.71     | % |
| Common equity tier 1 capital   | 359,645   | 318,849    | 359,645                                       | 318,849    |   |
| Tier 1 capital   | 366,840   | 325,865    | 366,840                                       | 325,865    |   |
| Total capital (tier 1 and tier 2)  | 386,105   | 348,309    | 386,105                                       | 348,309    |   |
| Total risk-weighted assets   | 2,765,769                                       | 2,419,335  | 2,765,769                                     | 2,419,335  |   |
| Tangible equity to tangible assets (b)   | 8.81  | % 9.07     | % 8.81  | % 9.07     | % |

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

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

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

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(c) Ratios are presented on an annualized basis.

These amounts represent non-GAAP financial measures since they exclude the after-tax impact of amortization of other intangible assets from earnings and exclude the balance sheet impact of goodwill and other intangible assets

(d) acquired through acquisitions on stockholders' equity. Additional information regarding the calculation of these non-GAAP financial measures can be found under the caption "Return on Average Tangible Stockholders' Equity Ratio."

(e) Information presented on a fully tax-equivalent basis.

These amounts represent non-GAAP financial measures and include total non-interest expense (less

(f) amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus total non-interest income (excluding all gains and all losses). 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 (recovery of) loan

(g) losses and all gains and losses included in earnings. Additional information regarding the calculation of these non-GAAP financial measures can be found under the caption "Pre-Provision Net Revenue."

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

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

(i) Includes loans categorized as special mention, substandard and doubtful.

(j) Includes loans categorized as substandard and doubtful.

(k) Peoples' capital conservation buffer was 5.96% at June 30, 2018 and 6.40% at June 30, 2017, compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019.

Forward-Looking Statements

Certain statements in this Form 10-Q, which are not historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. These forward-looking statements are identified by the fact they are not historical facts and include words such as "anticipate," "estimate," "may," "feel," "expect," "believe," "plan," "will," "would," "should," "could," "project," "goal," "target," "potential," "seek," "intend," and similar expressions.

These forward-looking statements reflect management's current expectations based on all information available to management and its knowledge of Peoples' business and operations. Additionally, Peoples' financial condition, results of operations, plans, objectives, future performance and business are subject to risks and uncertainties that may cause actual results to differ materially. These factors include, but are not limited to:

- (1) 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;
- (2) Peoples' ability to integrate acquisitions, including the merger with ASB and any future acquisitions, which may be unsuccessful, or may be more difficult, time-consuming or costly than expected; competitive pressures among financial institutions or from non-financial institutions which may increase
- (3) significantly, including product and pricing pressures, changes to third-party relationships and revenues, and Peoples' ability to attract, develop and retain qualified professionals; changes in the interest rate environment due to economic conditions and/or the fiscal policies of the United States
- (4) ("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, loan demand and interest rate sensitivity; uncertainty regarding the nature, timing, cost and effect of legislative or regulatory changes or actions, promulgated and to be promulgated by governmental and regulatory agencies in the State of Ohio, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Consumer Financial Protection Bureau, which
- (5) 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, and the Basel III regulatory capital reform;
- (6) uncertainties in Peoples' preliminary review of, and additional analysis of, the impact of the Tax Cuts and Jobs Act;



- local, regional, national and international economic conditions (including the impact of tariffs, a U.S. withdrawal from or significant renegotiation of trade agreements, trade wars and other changes in trade regulations) and the effect these conditions may have on Peoples, its customers and its counterparties, and Peoples' assessment of the impact, which may be different than anticipated;
- (7) changes in policy and other regulatory and legal developments accompanying the current presidential administration, including the recently-enacted Tax Cuts and Jobs Act, and uncertainty or speculation pending the enactment of such changes;
- (8)

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- (9) Peoples may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to Peoples' current shareholders;
- (10) 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;
- (11) adverse changes in economic conditions and/or activities, including, but not limited to, continued economic uncertainty in the U.S., the European Union (including uncertainty surrounding the actions to be taken to implement the 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;
- (12) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;
- (13) changes in accounting standards, policies, estimates or procedures which may adversely affect Peoples' reported financial condition or results of operations;
- (14) Peoples' assumptions and estimates used in applying critical accounting policies, which may prove unreliable, inaccurate or not predictive of actual results;
- (15) adverse changes in the conditions and trends in the financial markets, including political developments, which may adversely affect the fair value of securities within Peoples' investment portfolio, the interest rate sensitivity of Peoples' consolidated balance sheet, and the income generated by Peoples' trust and investment activities;
- (16) Peoples' ability to receive dividends from its subsidiaries;
- (17) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;
- (18) the impact of minimum capital thresholds established as a part of the implementation of Basel III;
- (19) 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;
- (20) the costs and effects of new federal and state laws, and other regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;
- (21) 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, which may prove inadequate, and could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;
- (22) Peoples' reliance on, and the potential failure of, a number of third-party vendors to perform as expected, including its primary core banking system provider;
- (23) Peoples' ability to anticipate and respond to technological changes which can impact Peoples' ability to respond to customer needs and meet competitive demands;
- (24) changes in consumer spending, borrowing and saving habits, whether due to the recently enacted tax reform legislation, changes in business and economic conditions, legislative or regulatory initiatives, or other factors, which may be different than anticipated;
- (25) the overall adequacy of Peoples' risk management program;
- (26) the impact on Peoples' businesses, as well as on the risks described above, of various domestic or international widespread natural or other disasters, pandemics, cyber attacks, civil unrest, military or terrorist activities or international conflicts;
- (27) significant changes in the tax laws, which may adversely affect the fair values of deferred tax assets and obligations of states and political subdivisions held in Peoples' investment securities portfolio;
- (28) Peoples' continued ability to grow deposits; and

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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 (29) disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and under the heading "ITEM 1A. RISK FACTORS" in Part II of this Form 10-Q.

All forward-looking statements speak only as of the filing date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management's knowledge of Peoples' business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to update these forward-looking statements to reflect events or circumstances after the filing date of this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at [www.sec.gov](http://www.sec.gov) and/or from Peoples' website – [www.peoplesbancorp.com](http://www.peoplesbancorp.com) under the "Investor Relations" section. This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and Notes thereto, contained in Peoples' 2017 Form 10-K, as well as the Unaudited Consolidated Financial Statements, Notes to the Unaudited Consolidated Financial Statements, ratios, statistics and discussions contained elsewhere in this Form 10-Q.

### Business Overview

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

Peoples offers diversified financial products and services through 82 locations, including 71 full-service bank branches, and 78 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"), the Federal Reserve Bank of Cleveland and the Federal Deposit Insurance Corporation (the "FDIC"). Peoples Bank is also subject to regulations of the Consumer Financial Protection Bureau (the "CFPB") which regulates consumer financial products and services and certain financial services providers. Peoples Insurance is subject to regulation by the Ohio Department of Insurance and the state insurance regulatory agencies of those states in which Peoples Insurance 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 and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary, employee benefit plan and asset management services. Brokerage services are offered by Peoples exclusively through an unaffiliated registered broker-dealer located at Peoples Bank's offices.

### 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, 2018, which were unchanged from the policies disclosed in Peoples' 2017 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:

At the close of business on April 13, 2018, Peoples completed the acquisition of ASB Financial Corp. ("ASB"). ASB merged into Peoples, and ASB's wholly-owned subsidiary, American Savings Bank, fsb, which operated six full-service bank branches and two loan production offices in southern Ohio and northern Kentucky, merged into Peoples Bank. Under the terms of the merger agreement, Peoples paid total consideration of \$41.5 million. The

acquisition added \$239.6 million of loans and \$198.6 million of deposits at the acquisition date, after preliminary acquisition accounting adjustments. Refer to Note 12 of the Notes to the Unaudited Consolidated Financial Statements for additional information.

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In the second quarter of 2018, Peoples incurred \$6.3 million of acquisition-related costs, compared to \$149,000 in the first quarter of 2018 and none in the second quarter of 2017. For the six months ended June 30, 2018, Peoples incurred \$6.4 million of acquisition-related costs, compared to none for the same period in 2017. The acquisition-related costs incurred in 2018 were primarily related to fees associated with early termination of contracts, severance costs and write-offs associated with assets acquired.

In the second quarter of 2018, Peoples released a valuation allowance which reduced income tax expense by \$805,000. The valuation allowance was related to a historical tax credit that Peoples had invested in during 2015. Peoples sold \$6.7 million of equity investment securities in the second quarter of 2018, which resulted in a capital gain for tax purposes. These capital gains were large enough to offset the anticipated future capital loss, which is expected to be recognized due to the structure of the historical tax credit investment, resulting in the release of the valuation allowance.

During the second half of 2017, Peoples reduced its position in certain equity investment securities. This action was taken as a result of the high appreciation in the market value of these securities. The sales completed resulted in a net gain on investment securities of \$1.9 million in the second half of 2017. On January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities which also resulted in changes in the fair value of the equity securities being recorded in non-interest income.

As of December 31, 2017, Peoples recorded a revaluation of its deferred tax assets and liabilities in light of the applicable provisions of the Tax Cuts and Jobs Act. Previously, Peoples had recognized its deferred tax assets and deferred tax liabilities at a federal corporate income tax rate of 35%, and the new law required the use of a 21% federal corporate income tax rate. As a result, Peoples wrote down its net deferred tax assets by \$0.9 million in the fourth quarter of 2017, which had a direct impact on income tax expense recorded during that period. Beginning on January 1, 2018, in accordance with the Tax Cuts and Jobs Act, Peoples began recognizing income tax expense at the 21% statutory federal corporate income tax rate, which has resulted in lower income tax expense in 2018, compared to the 35% statutory federal corporate income tax rate in 2017.

On October 2, 2017, Peoples Insurance acquired a property and casualty focused independent insurance agency with annual net revenue of \$0.8 million located in the Cleveland, Ohio area. The acquisition did not materially impact Peoples' financial position, results of operations, or cash flows.

During the second quarter of 2017, Peoples borrowed an additional \$45.0 million of long-term FHLB non-amortizing advances, which have interest rates ranging from 1.74% to 2.03% and mature between 2020 and 2022.

During the first quarter of 2017, Peoples borrowed an additional \$30.0 million of long-term FHLB non-amortizing advances, which have interest rates ranging from 1.20% to 1.46% and mature between 2018 and 2019.

During 2017, Peoples closed six full-service bank branches, four located in Ohio, and two located in West Virginia. Peoples continues to evaluate its bank branch network in an effort to optimize efficiency.

On January 31, 2017, Peoples Insurance acquired a third-party insurance administration company located in Piketon, 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 January 27, 2017, Peoples entered into two \$10.0 million forward starting interest rate swaps, which became effective in January and April of 2018 and mature between 2025 and 2027, with interest rates ranging from 2.47% to 2.53%. For additional information regarding Peoples' interest rate swaps, refer to Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

The Federal Reserve Board began tightening monetary policy in December 2015 by raising the benchmark Federal Funds Target Rate. Since then, the rate has increased seven times from a range of 0%-.25% to its current range of 1.75%-2.00%. Expectations are for two more rate hikes in 2018 and three in 2019. The Federal Reserve Board has also begun to reduce the size of its \$4.5 trillion balance sheet, which could result in higher interest rates as well. However, there has been no indication that the Federal Reserve Board would alter its current posture of tightening monetary policy at future meetings. Peoples is closely monitoring interest rates, both foreign and domestic; and potential impacts of changes in interest rates to Peoples Bank's operations.

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

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## EXECUTIVE SUMMARY

Peoples recorded net income of \$7.9 million for the second quarter of 2018, representing earnings per diluted share of \$0.41, compared to \$11.7 million, or \$0.64 per diluted share, in the first quarter of 2018, and \$9.8 million, or \$0.53 per diluted share, in the second quarter of 2017. During the second quarter of 2018, earnings per diluted share were negatively impacted by \$0.25 per share in acquisition-related costs, and were positively impacted by \$0.04 per share due to the release of a tax valuation allowance.

During the first six months of 2018, net income was \$19.6 million, or \$1.04 per diluted share, compared to \$18.6 million, or \$1.02 per diluted share, for the same period in 2017. The increased earnings were primarily due to increases in net interest income, trust and investment income, mortgage banking income, and other non-interest income, which were partially offset by increased salaries and employee benefit costs, professional fees and other fees related to acquisition-related costs which were primarily related to fees associated with early termination of contracts, in 2018 compared to 2017.

Net interest income was \$32.8 million in the second quarter of 2018, compared to \$29.4 million in the first quarter of 2018 and \$28.1 million in the second quarter of 2017. Net interest margin was 3.74% during the second quarter of 2018, an increase from 3.66% in the first quarter of 2018 and 3.62% in the second quarter of 2017. The increase in net interest margin compared to both prior periods was due primarily to loan growth, both organic and acquired. For the first six months of 2018, net interest income was \$62.2 million, and net interest margin was 3.70% compared to \$55.0 million and 3.58%, respectively, during the same period in 2017. Loan growth, coupled with higher loan yields as a result of rising interest rates and relatively low deposit costs, has improved net interest income and margin during the first six months of 2018 compared to 2017. Peoples also recognized proceeds of \$248,000 during the second quarter of 2018 on an investment security that had previously been written down due to an other-than-temporary impairment ("OTTI"), compared to \$341,000 in the first quarter of 2018 and \$203,000 during the second quarter of 2017.

Accretion income from acquisitions, net of amortization expense, was \$523,000 in the second quarter of 2018, compared to \$566,000 in the first quarter of 2018 and \$735,000 in the second quarter of 2017. Accretion income added 6 basis points to net interest margin during the second quarter of 2018, compared to 7 basis points in the first quarter of 2018 and 10 basis points in the second quarter of 2017. For the first six months of 2018, accretion income, net of amortization expense, was \$1.1 million, and added 6 basis points to net interest margin, compared to \$1.6 million, and 10 basis points, in 2017.

During the second quarter of 2018, provision for loan losses was \$1.2 million, compared to \$2.0 million in the first quarter of 2018 and \$947,000 in the second quarter of 2017. The decline in provision for loan losses in the second quarter of 2018 compared to the first quarter of 2018 was due to the charge-off of a single acquired commercial loan relationship impacting provision for loan losses during the first quarter of 2018. The higher provision for loan losses recorded during the second quarter of 2018 compared to the second quarter of 2017 was due to loan growth, which was partially offset by the impact of improved asset quality metrics. Provision for loan losses during the first six months of 2018 was \$3.2 million compared to \$1.6 million for the same period in 2017. The increase was partially due to the acquired commercial loan relationship that was charged-off in the first quarter of 2018, coupled with loan growth.

For the second quarter of 2018, total non-interest income declined 11% compared to the first quarter of 2018. The reduction in total non-interest income was largely due to the performance-based insurance commissions that are received annually in the first quarter, coupled with declines in the market value of equity investment securities of \$236,000. This decrease was partially offset by higher mortgage banking income, which nearly tripled compared to the first quarter of 2018, and was related to the mortgage origination business acquired in the ASB transaction. Total non-interest income declined 3% compared to the second quarter of 2017, and was primarily due to losses on fixed assets, which included \$192,000 of write-offs associated with the ASB acquisition, while higher mortgage banking income was offset by reductions in commercial loan swap fee income. For the first six months of 2018, total non-interest income grew 3%, as growth in most categories, and improvements in the market value of equity investment securities, offset reductions in commercial loan swap fee income compared to 2017.

Total non-interest expense grew 27% in the second quarter of 2018 compared to the first quarter of 2018, and 35% compared to the second quarter of 2017. The majority of both increases was due to acquisition-related expenses of

ASB, coupled with the ongoing cost of running the ASB franchise. Also contributing to the increase compared to the linked quarter and prior year quarter were fraud-related expenses in the second quarter of 2018 related to an ATM skimming incident, which resulted in \$207,000 of losses. Actions have been taken to prevent future fraudulent ATM activity. During the first six months of 2018, total non-interest expense increased 19% compared to 2017. This increase was led by acquisition-related expenses of \$6.3 million, coupled with the additional ongoing costs. Salaries and employee benefits also increased, due to the one-time stock award to employees and merit increases during 2018.



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Peoples' efficiency ratio, calculated as total non-interest expense less amortization of other intangible assets divided by fully tax-equivalent ("FTE") net interest income, plus total non-interest income, excluding all gains and losses, for the second quarter of 2018 was 75.0%, an increase from 61.8% in the first quarter of 2018 and 61.2% in the second quarter of 2017. During the first six months of 2018, the efficiency ratio was 68.5%, compared to 63.0% for the same period in 2017. The efficiency ratio, when adjusted for non-core expenses, during the second quarter of 2018 was 62.0% and was 61.7% for the first six months of 2018.

During the second quarter of 2018, income tax expense was reduced by \$805,000 as Peoples released a valuation allowance on a deferred tax asset that it had been carrying. This valuation allowance was related to a historical tax credit that Peoples invested in during 2015. The recent sales of equity investment securities, and the related capital gains realized, were large enough to offset the anticipated future capital loss, which is expected to be recognized due to the structure of the historical tax credit investment, resulting in the release of the valuation allowance.

At June 30, 2018, total assets were \$3.97 billion, compared to \$3.58 billion at December 31, 2017. The 11% increase compared to December 31, 2017 was primarily due to the ASB acquisition, which added \$279.2 million of assets, after preliminary fair value adjustments. In addition, excluding the impact of the acquisition, period-end loan balances, net of deferred fees and costs, grew \$100.5 million, or 9% annualized. Commercial loan balances increased \$68.3 million, mostly driven by higher commercial real estate loans, while consumer loans grew \$32.2 million, with consumer indirect lending providing most of the increase.

Total liabilities were \$3.47 billion at June 30, 2018, up \$349.7 million, or 11%, since December 31, 2017. The increase in liabilities during the first six months of 2018 was primarily due to an increase in deposits of \$218.9 million, while borrowings increased \$120.3 million. The growth in deposits compared to December 31, 2017, was mostly due to acquired ASB deposit balances, which totaled \$168.4 million at June 30, 2018.

At June 30, 2018, total stockholders' equity was \$499.3 million, an increase of \$40.7 million, compared to December 31, 2017. The increase in total stockholders' equity was mostly due to the \$40.9 million of common shares issued in connection with the ASB acquisition. In addition, net income earned during 2018 exceeded dividends, and was offset by an increase in accumulated other comprehensive loss.

**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, 2018              |                |            | March 31, 2018  |                |            | June 30, 2017   |                |            |
|                                      | Average Balance            | Income/Expense | Yield/Cost | Average Balance | Income/Expense | Yield/Cost | Average Balance | Income/Expense | Yield/Cost |
| Short-term investments               | \$10,815                   | \$54           | 2.00 %     | \$11,291        | \$52           | 1.87 %     | \$12,275        | \$26           | 0.85 %     |
| Investment securities                |                            |                |            |                 |                |            |                 |                |            |
| (a)(b):                              |                            |                |            |                 |                |            |                 |                |            |
| Taxable                              | 793,497                    | 5,868          | 2.96 %     | 775,659         | 5,687          | 2.93 %     | 768,495         | 5,002          | 2.60 %     |
| Nontaxable                           | 96,991                     | 804            | 3.32 %     | 97,134          | 814            | 3.35 %     | 111,003         | 1,172          | 4.22 %     |
| Total investment securities          | 890,488                    | 6,672          | 3.00 %     | 872,793         | 6,501          | 2.98 %     | 879,498         | 6,174          | 2.81 %     |
| Loans (b)(c):                        |                            |                |            |                 |                |            |                 |                |            |
| Commercial real estate, construction | 118,206                    | 1,438          | 4.81 %     | 118,589         | 1,333          | 4.50 %     | 107,224         | 1,158          | 4.27 %     |
| Commercial real estate, other        | 840,677                    | 10,434         | 4.91 %     | 765,076         | 9,124          | 4.77 %     | 735,915         | 8,892          | 4.78 %     |
| Commercial and industrial            | 503,364                    | 6,216          | 4.89 %     | 479,792         | 5,571          | 4.64 %     | 433,277         | 4,858          | 4.44 %     |
| Residential real estate (d)          | 600,799                    | 6,749          | 4.49 %     | 491,713         | 5,309          | 4.32 %     | 520,863         | 5,564          | 4.27 %     |
| Home equity lines of credit          | 131,970                    | 1,701          | 5.17 %     | 108,620         | 1,271          | 4.75 %     | 111,185         | 1,233          | 4.45 %     |
| Consumer, indirect                   | 359,941                    | 3,498          | 3.90 %     | 343,128         | 3,130          | 3.70 %     | 293,917         | 2,570          | 3.51 %     |
| Consumer, direct                     | 72,820                     | 1,230          | 6.77 %     | 68,422          | 1,162          | 6.89 %     | 69,329          | 1,229          | 7.11 %     |
| Total loans                          | 2,627,777                  | 31,266         | 4.73 %     | 2,375,340       | 26,900         | 4.54 %     | 2,271,710       | 25,504         | 4.46 %     |
| Less: Allowance for loan losses      | (19,071 )                  |                |            | (18,683 )       |                |            | (18,554 )       |                |            |
| Net loans                            | 2,608,706                  | 31,266         | 4.77 %     | 2,356,657       | 26,900         | 4.58 %     | 2,253,156       | 25,504         | 4.50 %     |
| Total earning assets                 | 3,510,009                  | 37,992         | 4.31 %     | 3,240,741       | 33,453         | 4.14 %     | 3,144,929       | 31,704         | 4.01 %     |
| Intangible assets                    | 161,600                    |                |            | 144,190         |                |            | 145,052         |                |            |
| Other assets                         | 226,348                    |                |            | 212,112         |                |            | 199,720         |                |            |
| Total assets                         | \$3,897,957                |                |            | \$3,597,043     |                |            | \$3,489,701     |                |            |
| Deposits:                            |                            |                |            |                 |                |            |                 |                |            |
| Savings accounts                     | \$477,167                  | \$69           | 0.06 %     | \$452,882       | \$64           | 0.06 %     | \$444,824       | \$61           | 0.06 %     |
| Governmental deposit accounts        | 312,999                    | 273            | 0.35 %     | 291,454         | 217            | 0.30 %     | 301,448         | 168            | 0.22 %     |
| Interest-bearing demand accounts     | 581,600                    | 202            | 0.14 %     | 567,252         | 221            | 0.16 %     | 295,080         | 98             | 0.13 %     |
| Money market accounts                | 393,580                    | 323            | 0.33 %     | 367,945         | 226            | 0.25 %     | 393,807         | 197            | 0.20 %     |
| Retail certificates of deposit       | 395,304                    | 1,242          | 1.26 %     | 338,226         | 765            | 0.92 %     | 355,256         | 746            | 0.84 %     |
| Brokered certificates of deposit     | 187,387                    | 992            | 2.13 %     | 156,645         | 720            | 1.86 %     | 110,160         | 459            | 1.67 %     |
| Total interest-bearing deposits      | 2,348,037                  | 3,101          | 0.53 %     | 2,174,404       | 2,213          | 0.41 %     | 1,900,575       | 1,729          | 0.36 %     |
| Borrowed funds:                      |                            |                |            |                 |                |            |                 |                |            |
| Short-term FHLB advances             | 225,635                    | 966            | 1.72 %     | 144,306         | 663            | 1.86 %     | 83,352          | 201            | 0.96 %     |
|                                      | 85,188                     | 209            | 0.98 %     | 102,175         | 305            | 1.20 %     | 76,153          | 32             | 0.17 %     |

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|  |             |          |        |             |          |        |             |          |        |  |
|--|-------------|----------|--------|-------------|----------|--------|-------------|----------|--------|--|
| Retail repurchase agreements               |             |          |        |             |          |        |             |          |        |  |
| Total short-term borrowings                | 310,823     | 1,175    | 1.52 % | 246,481     | 968      | 1.59 % | 159,505     | 233      | 0.58 % |  |
| Long-term FHLB advances                    | 114,287     | 559      | 1.96 % | 118,995     | 564      | 1.92 % | 131,179     | 690      | 2.11 % |  |
| Wholesale repurchase agreements            | —           | —        | — %    | —           | —        | — %    | 40,000      | 367      | 3.67 % |  |
| Other borrowings                           | 7,766       | 126      | 6.49 % | 7,106       | 122      | 6.87 % | 6,952       | 99       | 5.70 % |  |
| Total long-term borrowings                 | 122,053     | 685      | 2.25 % | 126,101     | 686      | 2.20 % | 178,131     | 1,156    | 2.60 % |  |
| Total borrowed funds                       | 432,876     | 1,860    | 1.72 % | 372,582     | 1,654    | 1.80 % | 337,636     | 1,389    | 1.65 % |  |
| Total interest-bearing liabilities         | 2,780,913   | 4,961    | 0.71 % | 2,546,986   | 3,867    | 0.61 % | 2,238,211   | 3,118    | 0.56 % |  |
| Non-interest-bearing deposits              | 585,800     |          |        | 553,444     |          |        | 769,406     |          |        |  |
| Other liabilities                          | 41,368      |          |        | 42,381      |          |        | 34,685      |          |        |  |
| Total liabilities                          | 3,408,081   |          |        | 3,142,811   |          |        | 3,042,302   |          |        |  |
| Total stockholders' equity                 | 489,876     |          |        | 454,232     |          |        | 447,399     |          |        |  |
| Total liabilities and stockholders' equity | \$3,897,957 |          |        | \$3,597,043 |          |        | \$3,489,701 |          |        |  |
| Interest rate spread (b)                   |             | \$33,031 | 3.60 % |             | \$29,586 | 3.53 % |             | \$28,586 | 3.45 % |  |
| Net interest margin (b)                    |             |          | 3.74 % |             |          | 3.66 % |             |          | 3.62 % |  |

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| (Dollars in thousands)               | For the Six Months Ended |                |            |   | June 30, 2017   |                |            |   |
|--------------------------------------|--------------------------|----------------|------------|---|-----------------|----------------|------------|---|
|                                      | June 30, 2018            |                | Yield/Cost |   | June 30, 2017   |                | Yield/Cost |   |
|                                      | Average Balance          | Income/Expense | Yield/Cost | % | Average Balance | Income/Expense | Yield/Cost | % |
| Short-term investments               | \$11,052                 | \$ 106         | 1.93       | % | \$9,859         | \$41           | 0.84       | % |
| Investment securities (a)(b):        |                          |                |            |   |                 |                |            |   |
| Taxable                              | 784,628                  | 11,555         | 2.95       | % | 758,719         | 9,756          | 2.57       | % |
| Nontaxable                           | 97,062                   | 1,618          | 3.33       | % | 112,384         | 2,394          | 4.26       | % |
| Total investment securities          | 881,690                  | 13,173         | 2.99       | % | 871,103         | 12,150         | 2.79       | % |
| Loans (b)(c):                        |                          |                |            |   |                 |                |            |   |
| Commercial real estate, construction | 118,396                  | 2,771          | 4.66       | % | 100,755         | 2,151          | 4.25       | % |
| Commercial real estate, other        | 803,085                  | 19,558         | 4.84       | % | 735,182         | 17,315         | 4.68       | % |
| Commercial and industrial            | 491,643                  | 11,787         | 4.77       | % | 433,173         | 9,403          | 4.32       | % |
| Residential real estate (d)          | 546,558                  | 12,058         | 4.41       | % | 526,131         | 11,333         | 4.31       | % |
| Home equity lines of credit          | 120,360                  | 2,972          | 4.98       | % | 111,149         | 2,392          | 4.34       | % |
| Consumer, indirect                   | 351,581                  | 6,628          | 3.80       | % | 281,935         | 4,802          | 3.43       | % |
| Consumer, other                      | 70,633                   | 2,392          | 6.83       | % | 69,766          | 2,447          | 7.07       | % |
| Total loans                          | 2,502,256                | 58,166         | 4.64       | % | 2,258,091       | 49,843         | 4.42       | % |
| Less: Allowance for loan losses      | (18,878 )                |                |            |   | (18,570 )       |                |            |   |
| Net loans                            | 2,483,378                | 58,166         | 4.68       | % | 2,239,521       | 49,843         | 4.44       | % |
| Total earning assets                 | 3,376,120                | 71,445         | 4.23       | % | 3,120,483       | 62,034         | 3.97       | % |
| Intangible assets                    | 152,943                  |                |            |   | 145,298         |                |            |   |
| Other assets                         | 219,268                  |                |            |   | 202,365         |                |            |   |
| Total assets                         | \$3,748,331              |                |            |   | \$3,468,146     |                |            |   |
| Deposits:                            |                          |                |            |   |                 |                |            |   |
| Savings accounts                     | \$465,091                | \$ 133         | 0.06       | % | \$442,030       | \$ 120         | 0.05       | % |
| Governmental deposit accounts        | 302,286                  | 490            | 0.33       | % | 292,576         | 299            | 0.21       | % |
| Interest-bearing demand accounts     | 574,465                  | 423            | 0.15       | % | 290,807         | 176            | 0.12       | % |
| Money market accounts                | 380,834                  | 549            | 0.29       | % | 396,309         | 384            | 0.20       | % |
| Retail certificates of deposit       | 366,923                  | 2,007          | 1.10       | % | 371,728         | 1,473          | 0.80       | % |
| Brokered certificates of deposit     | 172,101                  | 1,712          | 2.01       | % | 74,967          | 764            | 2.06       | % |
| Total interest-bearing deposits      | 2,261,700                | 5,314          | 0.47       | % | 1,868,417       | 3,216          | 0.35       | % |
| Borrowed funds:                      |                          |                |            |   |                 |                |            |   |
| Short-term FHLB advances             | 185,195                  | 1,629          | 1.77       | % | 108,740         | 422            | 0.78       | % |
| Retail repurchase agreements         | 93,634                   | 514            | 1.10       | % | 73,534          | 62             | 0.17       | % |
| Total short-term borrowings          | 278,829                  | 2,143          | 1.55       | % | 182,274         | 484            | 0.53       | % |
| Long-term FHLB advances              | 116,628                  | 1,123          | 1.94       | % | 128,183         | 1,352          | 2.13       | % |
| Wholesale repurchase agreements      | —                        | —              | —          | % | 40,000          | 729            | 3.65       | % |
| Other borrowings                     | 7,439                    | 248            | 6.67       | % | 6,925           | 209            | 6.04       | % |
| Total long-term borrowings           | 124,067                  | 1,371          | 2.22       | % | 175,108         | 2,290          | 2.63       | % |
| Total borrowed funds                 | 402,896                  | 3,514          | 1.75       | % | 357,382         | 2,774          | 1.56       | % |
| Total interest-bearing liabilities   | 2,664,596                | 8,828          | 0.67       | % | 2,225,799       | 5,990          | 0.54       | % |
| Non-interest-bearing deposits        | 569,711                  |                |            |   | 763,956         |                |            |   |
| Other liabilities                    | 41,872                   |                |            |   | 35,173          |                |            |   |
| Total liabilities                    | 3,276,179                |                |            |   | 3,024,928       |                |            |   |
| Total stockholders' equity           | 472,152                  |                |            |   | 443,218         |                |            |   |

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|  |             |      |   |             |      |   |
|--|-------------|------|---|-------------|------|---|
| Total liabilities and stockholders' equity | \$3,748,331 |      |   | \$3,468,146 |      |   |
| Interest rate spread (b)                   | \$62,617    | 3.56 | % | \$56,044    | 3.43 | % |
| Net interest margin (b)                    |             | 3.70 | % |             | 3.58 | % |

(a) Average balances are based on carrying value.

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(b) Interest income and yields are presented on a fully tax-equivalent basis using a 21% federal corporate income tax rate for the first and second quarters of 2018 and 35% for all other previously reported periods.

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

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

The following table provides an analysis of the changes in fully tax-equivalent ("FTE") net interest income:

| (Dollars in thousands)               | Three Months Ended June 30, 2018 |               |           | June 30, 2018 Compared to |         |               | Six Months Ended June 30, 2018 |         |           |
|--------------------------------------|----------------------------------|---------------|-----------|---------------------------|---------|---------------|--------------------------------|---------|-----------|
|                                      | March 31, 2018                   | June 30, 2017 |           | June 30, 2017             |         | June 30, 2017 |                                |         |           |
| Increase (decrease) in:              | Rate                             | Volume        | Total (a) | Rate                      | Volume  | Total (a)     | Rate                           | Volume  | Total (a) |
| <b>INTEREST INCOME:</b>              |                                  |               |           |                           |         |               |                                |         |           |
| Short-term investments               | \$11                             | \$(9)         | \$2       | \$48                      | \$(20)  | \$28          | \$59                           | \$6     | \$65      |
| Investment Securities (b):           |                                  |               |           |                           |         |               |                                |         |           |
| Taxable                              | (43)                             | )224          | 181       | 699                       | 167     | 866           | 1,753                          | 46      | 1,799     |
| Nontaxable                           | (9)                              | )(1)          | )(10)     | (232)                     | )(136)  | )(368)        | (100)                          | )(676)  | )(776)    |
| Total investment income              | (52)                             | )223          | 171       | 467                       | 31      | 498           | 1,653                          | (630)   | )1,023    |
| Loans (b):                           |                                  |               |           |                           |         |               |                                |         |           |
| Commercial real estate, construction | 133                              | (28)          | )105      | 155                       | 125     | 280           | 220                            | 400     | 620       |
| Commercial real estate, other        | 299                              | 1,011         | 1,310     | 247                       | 1,295   | 1,542         | 604                            | 1,639   | 2,243     |
| Commercial and industrial            | 332                              | 313           | 645       | 524                       | 835     | 1,359         | 1,040                          | 1,344   | 2,384     |
| Residential real estate              | 222                              | 1,218         | 1,440     | 298                       | 887     | 1,185         | 279                            | 446     | 725       |
| Home equity lines of credit          | 127                              | 303           | 430       | 218                       | 251     | 469           | 371                            | 209     | 580       |
| Consumer, indirect                   | 192                              | 176           | 368       | 308                       | 620     | 928           | 551                            | 1,275   | 1,826     |
| Consumer, direct                     | (108)                            | )176          | 68        | (262)                     | )264    | 2             | (54)                           | )(1)    | )(55)     |
| Total loan income                    | 1,197                            | 3,169         | 4,366     | 1,488                     | 4,277   | 5,765         | 3,011                          | 5,312   | 8,323     |
| Total interest income                | 1,156                            | 3,383         | 4,539     | 2,003                     | 4,288   | 6,291         | 4,723                          | 4,688   | 9,411     |
| <b>INTEREST EXPENSE:</b>             |                                  |               |           |                           |         |               |                                |         |           |
| Deposits:                            |                                  |               |           |                           |         |               |                                |         |           |
| Savings accounts                     | 1                                | 4             | 5         | 3                         | 5       | 8             | 6                              | 7       | 13        |
| Governmental deposit accounts        | 39                               | 17            | 56        | 98                        | 7       | 105           | 181                            | 10      | 191       |
| Interest-bearing demand accounts     | (53)                             | )34           | (19)      | 5                         | 99      | 104           | 45                             | 202     | 247       |
| Money market accounts                | 80                               | 17            | 97        | 127                       | (1)     | )126          | 208                            | (43)    | )165      |
| Brokered certificates of deposit     | 115                              | 157           | 272       | 149                       | 384     | 533           | (55)                           | )1,003  | 948       |
| Retail certificates of deposit       | 330                              | 147           | 477       | 404                       | 92      | 496           | 590                            | (56)    | )534      |
| Total deposit cost                   | 512                              | 376           | 888       | 786                       | 586     | 1,372         | 975                            | 1,123   | 2,098     |
| Borrowed funds:                      |                                  |               |           |                           |         |               |                                |         |           |
| Short-term borrowings                | (383)                            | )590          | 207       | 413                       | 529     | 942           | 882                            | 777     | 1,659     |
| Long-term borrowings                 | 25                               | (26)          | )(1)      | 655                       | (1,126) | )(471)        | (441)                          | )(478)  | )(919)    |
| Total borrowed funds cost            | (358)                            | )564          | 206       | 1,068                     | (597)   | )471          | 441                            | 299     | 740       |
| Total interest expense               | 154                              | 940           | 1,094     | 1,854                     | (11)    | )1,843        | 1,416                          | 1,422   | 2,838     |
| Net interest income                  | \$1,002                          | \$2,443       | \$3,445   | \$149                     | \$4,299 | \$4,448       | \$3,307                        | \$3,266 | \$6,573   |

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

- (b) Interest income and yields are presented on a fully tax-equivalent basis using a 21% federal corporate income tax rate for the three and six months of 2018 and 35% for the three and six months of 2017.

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Quarterly average gross loan balances, including acquired loans from the ASB acquisition, increased \$252.4 million, or 11%, compared to the linked quarter, and \$356.1 million, or 16%, compared to the second quarter of 2017. For the six months ended June 30, 2018, average gross loan balances, including the ASB acquisition, increased \$244.2 million, or 11%, compared to the same period in the prior year. Average loan balances associated with the ASB acquisition contributed to the growth compared to all periods, with the most significant impact occurring in the quarterly comparisons. Commercial lending, including both commercial real estate and commercial and industrial loans, as well as indirect consumer lending, were among the largest contributors to the comparative growth. Compared to the first quarter of 2018, average balances in commercial real estate loans increased \$75.6 million, or 10%. Compared to the second quarter of 2017, average balances in commercial real estate loans increased \$104.8 million, or 14%, while average balances in consumer indirect loans increased \$66.0 million, or 22%. Compared to the first six months of 2017, average commercial real estate loan balances grew \$67.9 million, or 9%, and average commercial and industrial loan balances grew \$58.5 million, or 13%, while average consumer indirect loan balances grew \$69.6 million, or 25%. In addition, a significant contributor to the growth in average loan balance in the second quarter of 2018 compared to the linked quarter was an \$109.1 million, or 22%, increase in average residential real estate loan balances and \$20.4 million, or 4%, for the first six months of 2018 compared to the first six months of 2017. Net interest margin, which is calculated by dividing FTE net interest income by average interest-earning assets, serves as an important measurement of the net revenue stream generated by the volume, mix and pricing of interest-earning assets and interest-bearing liabilities. FTE net interest income is calculated by increasing interest income to convert tax-exempt income earned on obligations of states and political subdivisions to the pre-tax equivalent of taxable income using a federal corporate income tax rate of 21% for the 2018 periods and 35% for the 2017 periods. The following table details the calculation of FTE net interest income:

|  | Three Months Ended |                |               | Six Months Ended |               |
|--|--------------------|----------------|---------------|------------------|---------------|
|  | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                   |                    |                |               |                  |               |
| Net interest income, as reported         | \$32,808           | \$29,359       | \$28,090      | \$62,167         | \$55,035      |
| Taxable equivalent adjustments           | 223                | 227            | 496           | 450              | 1,009         |
| Fully tax-equivalent net interest income | \$33,031           | \$29,586       | \$28,586      | \$62,617         | \$56,044      |

Loan growth, and the previous increases in interest rates, positively impacted net interest income and the net interest margin for the 2018 periods, compared to the previous periods. The ASB acquisition also impacted net interest income and net interest margin during the second quarter of 2018 and six months ended June 30, 2018. During the second and first quarter of 2018, proceeds of \$248,000 and \$341,000, respectively, were received on an investment security that had been previously written down due to an other-than-temporary impairment, which added 3 basis points and 4 basis points to the net interest margin, respectively. The increase in net interest income compared to the first quarter of 2018 was also impacted by one additional day of interest in which interest was earned during the second quarter of 2018. The decline in the taxable equivalent adjustments was a result of the change in the federal corporate income tax rate, which was 21% for the periods reported in 2018 compared to 35% for the 2017 periods. The accretion income from acquisitions, net of amortization expense, was \$523,000 for the second quarter of 2018, compared to \$566,000 for the first quarter of 2018, and \$735,000 for the second quarter of 2017, which added 6 basis points, 7 basis points, and 10 basis points, respectively, to net interest margin. On a year-to-date basis, the accretion income, net of amortization expense, from acquisitions added 6 basis points to net interest margin for the first six months of 2018 compared to 10 basis points for the first six months of 2017.

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





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## Provision for Loan Losses

The following table details Peoples' provision for loan losses:

|  | Three Months Ended |                |               | Six Months Ended |               |
|--|--------------------|----------------|---------------|------------------|---------------|
|  | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                     | 2018               | 2018           | 2017          | 2018             | 2017          |
| Loan losses                                | \$1,000            | \$1,842        | \$850         | 2,842            | 1,250         |
| Checking account overdrafts                | 188                | 141            | 97            | \$329            | \$321         |
| Provision for loan losses                  | \$1,188            | \$1,983        | \$947         | \$3,171          | \$1,571       |
| As a percentage of average total loans (a) | 0.18 %             | 0.34 %         | 0.17 %        | 0.26 %           | 0.14 %        |

(a) Presented on an annualized basis.

The provision for loan losses recorded represents the amount needed to maintain the adequacy of the allowance for loan losses based on management's quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples' loan quality, historical loss experience and current economic conditions. Provision for loan losses was higher in the first quarter and the first six months of 2018 due to one acquired commercial loan relationship, which was charged-off in the amount of \$827,000 in the first quarter of 2018. The increases compared to the prior year periods are also attributed to loan growth, partially offset by improvements in certain asset quality metrics.

The decline in the provision for loan losses to average total loans ratio for the second quarter of 2018 compared to the first quarter of 2018 was attributable to the reduced provision for loan losses.

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

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

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

|   | Three Months Ended |                |               | Six Months Ended |               |
|---|--------------------|----------------|---------------|------------------|---------------|
|   | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                                    | 2018               | 2018           | 2017          | 2018             | 2017          |
| Net (loss) gain on other assets                           | \$(330)            | \$ 79          | \$ 133        | \$(251)          | \$130         |
| Net gain (loss) on other real estate owned ("OREO")       | 14                 | (5 )           | (24 )         | 9                | (24 )         |
| Net loss on debt extinguishment                           | (13 )              | —              | —             | (13 )            | —             |
| Net loss on other transactions                            | (76 )              | —              | —             | (76 )            | —             |
| Net (loss) gain on asset disposals and other transactions | \$(405)            | \$ 74          | \$ 109        | \$(331)          | \$106         |

During the second quarter of 2018, net loss on other assets was primarily due to the disposal of \$192,000 in ASB fixed assets acquired coupled with \$147,000 of market value write-downs related to closed offices that were held for sale.

The net gain on other assets in the first quarter of 2018 related to increased indirect lending activity in connection with which assets had been repossessed and sold at a gain and/or loss.

For the year-to-date period in 2018, the net loss related to fixed asset disposals was partially offset by net gains on repossessed assets that were recorded. In the year-to-date period in 2017, net gain on other assets was related to the sale of a previously closed branch location.

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## Non-Interest Income

Insurance income comprised the largest portion of the second quarter 2018 total non-interest income. The following table details Peoples' insurance income:

|   | Three Months Ended |                |               | Six Months Ended |               |
|---|--------------------|----------------|---------------|------------------|---------------|
|   | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                      |                    |                |               |                  |               |
| Property and casualty insurance commissions | \$2,597            | \$2,645        | \$2,753       | \$5,242          | \$4,995       |
| Life and health insurance commissions       | 596                | 544            | 467           | 1,140            | 877           |
| Performance-based commissions               | 3                  | 1,347          | 2             | 1,350            | 1,308         |
| Credit life and A&H insurance commissions   | 4                  | —              | 17            | 9                | 25            |
| Other fees and charges                      | 169                | 119            | 175           | 283              | 311           |
| Insurance income                            | \$3,369            | \$4,655        | \$3,414       | \$8,024          | \$7,516       |

The decrease in property and casualty insurance commissions for the second quarter of 2018 compared to the first quarter of 2018 was primarily due to timing of revenue recognition attributable to the implementation of ASU 2014-09. This guidance primarily impacted recognition of insurance income and will create some volatility in insurance income on a quarterly basis going forward. The decrease in performance-based commissions was largely due to annual performance-based insurance commissions, which are primarily recognized in the first quarter of each year. Insurance income is higher in the first quarter as the majority of performance-based commissions typically are recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers.

Also impacting the increase for the first six months of 2018, was the continued growth resulting from the acquisition of a third-party insurance administration company on January 31, 2017 and a property and casualty focused independent insurance agency on October 2, 2017.

Peoples' fiduciary and brokerage revenues continued to be based primarily upon the value of assets under administration and management, with additional income generated from transaction commissions, cross-selling of products and additional retirement plan services business. The following tables detail Peoples' trust and investment income and related assets under administration and management:

|                             | Three Months Ended |                |               | Six Months Ended |               |
|-----------------------------|--------------------|----------------|---------------|------------------|---------------|
|                             | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)      |                    |                |               |                  |               |
| Fiduciary                   | \$1,767            | \$1,606        | \$1,714       | \$3,374          | \$3,217       |
| Brokerage                   | 989                | 964            | 884           | 1,952            | 1,693         |
| Employee benefits           | 476                | 498            | 379           | 974              | \$749         |
| Trust and investment income | \$3,232            | \$3,068        | \$2,977       | \$6,300          | \$5,659       |

|  | June 30,    | March 31,   | December    | September   | June 30,    |
|--|-------------|-------------|-------------|-------------|-------------|
|  | 2018        | 2018        | 31, 2017    | 30, 2017    | 2017        |
| (Dollars in thousands)                               |             |             |             |             |             |
| Trust assets under administration and management     | \$1,454,009 | \$1,447,636 | \$1,452,959 | \$1,418,360 | \$1,393,435 |
| Brokerage assets under administration and management | 881,839     | 882,018     | 887,303     | 862,530     | 836,192     |
| Total assets under administration and management     | \$2,335,848 | \$2,329,654 | \$2,340,262 | \$2,280,890 | \$2,229,627 |
| Quarterly average                                    | \$2,331,529 | \$2,352,798 | \$2,314,015 | \$2,254,997 | \$2,199,162 |

Deposit account service charges, which are based on the recovery of costs associated with services provided, comprised a significant portion of People's non-interest income. The following table details Peoples' deposit account service charges:



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| (Dollars in thousands)                  | Three Months Ended |               |               | Six Months Ended |          |
|---|--------------------|---------------|---------------|------------------|----------|
|   | June 30, 2018      |               |               | June 30, 2017    |          |
|   | March 31, 2018     | June 30, 2017 | June 30, 2018 | June 30, 2017    |          |
| Overdraft and non-sufficient funds fees | \$ 1,584           | \$ 1,439      | \$ 1,642      | \$ 3,023         | \$ 3,256 |
| Account maintenance fees                | 646                | 675           | 545           | 1,321            | 1,081    |
| Other fees and charges                  | 158                | 6             | 107           | 164              | 386      |
| Deposit account service charges         | \$ 2,388           | \$ 2,120      | \$ 2,294      | \$ 4,508         | \$ 4,723 |

The decline in overdrafts and non-sufficient funds fees from 2017 was partially due to changes made to the calculation of fees to be more in-line with industry practices. The increase in account maintenance fees in 2018 compared to the prior year periods was largely due to implementation of new consumer checking products that occurred during the second half of 2017. The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Management periodically evaluates its cost recovery fees to ensure they are reasonable based on operational costs and similar to fees charged in Peoples' markets by competitors.

The following table details the other items included within Peoples' total non-interest income:

| (Dollars in thousands)           | Three Months Ended |               |               | Six Months Ended |          |
|----------------------------------|--------------------|---------------|---------------|------------------|----------|
|                                  | June 30, 2018      |               |               | June 30, 2017    |          |
|                                  | March 31, 2018     | June 30, 2017 | June 30, 2018 | June 30, 2017    |          |
| Electronic banking income        | \$ 2,785           | \$ 2,785      | \$ 2,587      | \$ 5,570         | \$ 5,148 |
| Bank owned life insurance income | 497                | 468           | 496           | 965              | 989      |
| Mortgage banking income          | 969                | 351           | 467           | 1,320            | 854      |
| Commercial loan swap fees        | 146                | 116           | 651           | 262              | 919      |
| Other non-interest income (a)    | 421                | 1,331         | 704           | 1,752            | 1,116    |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in a net loss of \$236,000 during the three months ended June 30, 2018 and a net gain of \$224,000 for the six months ended June 30, 2018.

Peoples' electronic banking ("e-banking") services include ATM and debit cards, direct deposit services, internet and mobile banking, and remote deposit capture and serve as alternative delivery channels to traditional sales offices for providing services to clients. Revenue is derived largely from ATM and debit cards, as other services are mainly provided at no charge to the customers. The amount of e-banking income is largely dependent on the timing and volume of customer activity.

Mortgage banking income is comprised mostly of net gains from the origination and sale of long-term, fixed-rate real estate loans in the secondary market, servicing income for sold loans as well as servicing released premiums for sold loans. As a result, the amount of income recognized by Peoples is largely dependent on customer demand and long-term interest rates for residential real estate loans offered in the secondary market. In the second quarter and six months ended June 30, 2018, the increase in mortgage banking income was largely attributable to gains on sale of real estate loans originated by the mortgage origination operation acquired as part of the ASB acquisition.

In the second quarter of 2018, Peoples sold approximately \$19.1 million in loans to the secondary market compared to \$10.1 million in the linked quarter and \$14.4 million in the second quarter of 2017. The volume of sales has a direct impact on the amount of mortgage banking income. Peoples sold approximately \$13.6 million in loans with servicing released premiums.

Commercial loan swap fee income is largely dependent on the timing and volume of customer activity. Demand has decreased in the current year due largely to the current interest rate environment.

Other non-interest income decreased \$283,000 from the second quarter of 2017, and \$910,000 from the linked quarter. The decreases were primarily due to the implementation of a new accounting standard, which changed how the fair value of equity securities was to be recognized beginning January 1, 2018, coupled with a decrease in the gain on sale of Small Business Administrations ("SBA") loans in the second quarter of 2018. The accounting change reduced non-interest income by \$236,000 in the second quarter of 2018, compared to an increase of \$460,000 during the first

quarter of 2018. Peoples sold most of the remaining positions in equity securities during the second quarter; therefore, continued fluctuations in market value will have minimal impact on the income statement. Also contributing to the increase was \$313,000 of income from SBA loans, primarily due to the gain on sale of SBA loans, recorded in the first quarter of 2018, compared to no income

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reported in the first or fourth quarters of 2017. Peoples continues to review income opportunities and has identified the sale of SBA loans as a source of other non-interest income.

## Non-Interest Expense

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

|  | Three Months Ended |                |               | Six Months Ended |               |
|--|--------------------|----------------|---------------|------------------|---------------|
|  | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                   |                    |                |               |                  |               |
| Base salaries and wages                  | \$12,656           | \$10,372       | \$9,750       | \$23,028         | \$19,817      |
| Sales-based and incentive compensation   | 3,003              | 2,236          | 2,878         | 5,239            | 4,977         |
| Employee benefits                        | 1,513              | 1,571          | 1,509         | 3,084            | 3,436         |
| Payroll taxes and other employment costs | 1,022              | 1,170          | 916           | 2,192            | 2,111         |
| Stock-based compensation                 | 410                | 1,072          | 443           | 1,482            | 1,011         |
| Deferred personnel costs                 | (579)              | (431)          | (447)         | (1,010)          | (807)         |
| Salaries and employee benefit costs      | \$18,025           | \$15,990       | \$15,049      | \$34,015         | \$30,545      |
| Full-time equivalent employees:          |                    |                |               |                  |               |
| Actual at end of period                  | 862                | 802            | 775           | 862              | 775           |
| Average during the period                | 844                | 792            | 774           | 820              | 777           |

The increases in base salaries and wages compared to the first quarter of 2018 were primarily due to acquisition-related expenses of \$1.9 million, related to change in control agreements, retention and severance bonuses.

The increase was also attributable to the ongoing expenses associated with the acquisition, including an increased employee count due to the addition of ASB employees in the second quarter of 2018, and annual merit increases in January 2018, which resulted in increased expense compared to the second quarter and first six months of 2017.

The increase in sales-based and incentive compensation for both the second quarter of 2018 and first six months of 2018, compared to the 2017 periods, was due to higher incentive compensation, which is tied to corporate performance for 2018. The reduction in employee benefits for the first six months of 2018 compared to the first six months of 2017 was due to lower medical insurance costs.

The decrease in stock-based compensation compared to the first quarter of 2018 was due primarily to the Board of Directors' grant in the first quarter of a one-time stock award of unrestricted common shares to all full-time and part-time employees who did not already participate in the equity plans, which resulted in expense of \$388,000.

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

|   | Three Months Ended |                |               | Six Months Ended |               |
|---|--------------------|----------------|---------------|------------------|---------------|
|   | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                    |                    |                |               |                  |               |
| Depreciation                              | \$1,248            | \$1,218        | \$1,200       | \$2,466          | \$2,443       |
| Repairs and maintenance costs             | 659                | 848            | 682           | 1,507            | 1,354         |
| Net rent expense                          | 235                | 209            | 205           | 444              | 424           |
| Property taxes, utilities and other costs | 661                | 591            | 561           | 1,252            | 1,140         |
| Net occupancy and equipment expense       | \$2,803            | \$2,866        | \$2,648       | \$5,669          | \$5,361       |

The increase in repairs and maintenance costs during the first quarter of 2018 was due to the increased maintenance costs associated with snow removal and other weather conditions. The increases in net rent expense and property taxes, utilities and other costs in the second quarter of 2018 were primarily related to the ASB addition of six full-service bank branches and two loan production offices.

The following table details the other items included in total non-interest expense:





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|  | Three Months Ended |                |               | Six Months Ended |               |
|--|--------------------|----------------|---------------|------------------|---------------|
|  | June 30, 2018      | March 31, 2018 | June 30, 2017 | June 30, 2018    | June 30, 2017 |
| (Dollars in thousands)                         |                    |                |               |                  |               |
| Professional fees                              | \$3,022            | \$ 1,718       | \$ 1,529      | \$4,740          | \$3,139       |
| Electronic banking expense                     | 1,448              | 1,528          | 1,525         | 2,976            | 3,039         |
| Data processing and software expense           | 1,359              | 1,322          | 1,096         | 2,681            | 2,238         |
| Amortization of other intangible assets        | 861                | 754            | 871           | 1,615            | 1,734         |
| Marketing expense                              | 656                | 325            | 354           | 981              | 634           |
| Franchise tax expense                          | 614                | 644            | 584           | 1,258            | 1,167         |
| FDIC insurance expense                         | 416                | 366            | 457           | 782              | 890           |
| Foreclosed real estate and other loan expenses | 338                | 212            | 179           | 550              | 375           |
| Communication expense                          | 300                | 344            | 390           | 644              | 800           |
| Other non-interest expense                     | 6,129              | 2,152          | 1,998         | 8,281            | 4,089         |

Professional fees for the second quarter and six months ended June 30, 2018 increased \$1.3 million and \$1.6 million, respectively. The increases from all previous periods included \$652,000 of ASB acquisition-related expenses coupled with increased consulting and legal fees.

Data processing and software expense increased \$37,000 from the linked quarter and \$263,000 from the second quarter of 2017. The increases in data processing and software expense included \$25,000 of acquisition-related expenses for the second quarter of 2018, compared to \$34,000 in the first quarter of 2018. The additional increase was driven by the implementation of enhanced functionalities for Peoples' core banking system, including making certain mobile banking tools available to customers.

Marketing expense increased \$331,000 from the linked quarter, \$302,000 compared to the second quarter of 2017 and \$347,000 compared to the first six months of 2017. For the first and second quarter of 2018, marketing expense increased related to the timing of the ASB acquisition and additional marketing campaigns in the new market areas. Other non-interest expense increased \$4.0 million compared to the linked quarter, \$4.1 million compared to the second quarter of 2017 and \$4.2 million compared to the first six months of 2017. For the second quarter and six months ended June 30, 2018, other non-interest expense included \$3.4 million of acquisition-related expenses, primarily related to fees associated with early termination of contracts and de-conversion fees, coupled with fraud-related expenses related to an ATM skimming incident which resulted in operational losses of \$207,000 and was recorded during the second quarter of 2018. Actions have been taken to prevent future fraudulent ATM activity.

**Income Tax Expense**

For the second quarter of 2018, Peoples recorded income tax expense of \$1.0 million, compared to \$2.4 million for the linked quarter, and \$4.4 million for the second quarter of 2017. Income tax expense decreased during the second quarter of 2018 in part due to the release of a valuation allowance of \$0.8 million. This valuation allowance was related to a historical tax credit Peoples invested in during 2015. Peoples' recent sell off of equity investment securities, and the related capital gains realized, were large enough to offset the capital loss Peoples anticipates in 2021, which is expected to be recognized due to the structure of the historical tax credit investment, resulting in the release of the valuation allowances related to this tax credit. Income tax expense in the first quarter of 2018 was positively impacted by \$290,000 for stock awards that settled or vested during the quarter. The majority of stock awards vest in the first quarter of each year at which time the related tax benefit is recorded. The reduction in the income tax expense reported in the second quarter of 2018 compared to the second quarter of 2017 was also attributable to the decrease in the federal statutory corporate income tax rate from 35% to 21% as a result of the Tax Cuts and Jobs Act enacted in December 2017, and its impact on Peoples effective tax rate, which was 11.4% for the second quarter of 2018, compared to 16.9% for the first quarter of 2018 and 31.1% for the second quarter of 2017. For the six months ended June 30, 2018, Peoples recorded income tax expense of \$3.4 million, compared to \$8.3 million for the same period in the prior year and the effective tax rate for the first six months of 2018 was 14.7%, compared to 30.8% for the first six months of 2017.

Additional information regarding Income Taxes can be found in Note 12 of the Notes to the Consolidated Financial Statements included in Peoples' 2017 Form 10-K.

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## Pre-Provision Net Revenue

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

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

| (Dollars in thousands)                                | Three Months Ended |                   |                  | Six Months Ended |             |   |
|---|--------------------|-------------------|------------------|------------------|-------------|---|
|   | June 30,<br>2018   | March 31,<br>2018 | June 30,<br>2017 | June 30,<br>2018 | 2017        |   |
| Pre-provision net revenue:                            |                    |                   |                  |                  |             |   |
| Income before income taxes                            | \$8,904            | \$14,124          | \$14,180         | \$23,028         | \$26,841    |   |
| Add: provision for loan losses                        | 1,188              | 1,983             | 947              | 3,171            | 1,571       |   |
| Add: loss on debt extinguishment                      | 13                 | —                 | —                | 13               | —           |   |
| Add: net loss on OREO                                 | —                  | 5                 | 24               | —                | 24          |   |
| Add: net loss on investment securities                | 147                | —                 | —                | 146              | —           |   |
| Add: net loss on other assets                         | 330                | —                 | —                | 251              | —           |   |
| Add: net loss on other transactions                   | 76                 | —                 | —                | 76               | —           |   |
| Less: net gain on OREO                                | 14                 | —                 | —                | 9                | —           |   |
| Less: net gain on investment securities               | —                  | 1                 | 18               | —                | 358         |   |
| Less: net gain on other assets                        | —                  | 79                | 133              | —                | 130         |   |
| Pre-provision net revenue                             | \$10,644           | \$16,032          | \$15,000         | \$26,676         | \$27,948    |   |
| Total average assets                                  | \$3,897,957        | \$3,597,043       | \$3,489,701      | \$3,748,331      | \$3,468,146 |   |
| Pre-provision net revenue to total average assets (a) | 1.10               | % 1.81            | % 1.72           | % 1.44           | % 1.63      | % |

(a) Presented on an annualized basis.

The pre-provision net revenue decreased in the second quarter and first six months ended June 30, 2018 compared to previous periods due primarily to decreased income before income taxes which included acquisition-related expenses of \$6.1 million and \$6.2 million, respectively.

## Core Non-Interest Expense

Core non-interest expense is a financial measure used to evaluate Peoples' recurring expense stream. This measure is non-GAAP since it excludes the impact of acquisition-related expenses.

The following table provides a reconciliation of this non-GAAP financial measure to the comparable GAAP amounts reported in Peoples' Unaudited Consolidated Financial Statements for the periods presented:

| (Dollars in thousands)             | Three Months Ended |                   |                  | Six Months Ended |          |
|------------------------------------|--------------------|-------------------|------------------|------------------|----------|
|                                    | June 30,<br>2018   | March 31,<br>2018 | June 30,<br>2017 | June 30,<br>2018 | 2017     |
| Core non-interest expense:         |                    |                   |                  |                  |          |
| Total non-interest expense         | \$35,971           | \$28,221          | \$26,680         | \$64,192         | \$54,011 |
| Less: acquisition-related expenses | 6,056              | 149               | —                | 6,205            | —        |
| Core non-interest expense          | \$29,915           | \$28,072          | \$26,680         | \$57,987         | \$54,011 |

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## Efficiency Ratio

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

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

| (Dollars in thousands)   | Three Months Ended |                   |                  | Six Months Ended |                  |
|--|--------------------|-------------------|------------------|------------------|------------------|
|  | June 30,<br>2018   | March 31,<br>2018 | June 30,<br>2017 | June 30,<br>2018 | June 30,<br>2017 |
| Efficiency ratio:  |                    |                   |                  |                  |                  |
| Total non-interest expense                                     | \$35,971           | \$28,221          | \$26,680         | \$64,192         | \$54,011         |
| Less: Amortization of other intangible assets                  | 861                | 754               | 871              | 1,615            | 1,734            |
| Adjusted total non-interest expense                            | \$35,110           | \$27,467          | \$25,809         | \$62,577         | \$52,277         |
| Total non-interest income                                      | 13,255             | 14,969            | 13,717           | 28,224           | 27,388           |
| Less net (loss) gain on investment securities                  | (147 )             | 1                 | 18               | (146 )           | 358              |
| Less net (loss) gain on asset disposals and other transactions | (405 )             | 74                | 109              | (331 )           | 106              |
| Total fee-based income   | \$13,807           | \$14,894          | \$13,590         | \$28,701         | \$26,924         |
| Net interest income  | \$32,808           | \$29,359          | \$28,090         | \$62,167         | \$55,035         |
| Add: Fully tax-equivalent adjustment (a)                       | 223                | 227               | 496              | 450              | 1,009            |
| Net interest income on a fully tax-equivalent basis            | \$33,031           | \$29,586          | \$28,586         | \$62,617         | \$56,044         |
| Adjusted revenue   | \$46,838           | \$44,480          | \$42,176         | \$91,318         | \$82,968         |
| Efficiency ratio   | 74.96              | %61.75            | %61.19           | %68.53           | %63.01           |
| Core non-interest expense                                      | \$29,915           | \$28,072          | \$26,680         | \$57,987         | \$54,011         |
| Less: Amortization of other intangible assets                  | 861                | 754               | 871              | 1,615            | 1,734            |
| Adjusted core non-interest expense                             | \$29,054           | \$27,318          | \$25,809         | \$56,372         | \$52,277         |
| Adjusted revenue   | 46,838             | 44,480            | 42,176           | 91,318           | 82,968           |
| Efficiency ratio adjusted for non-core items                   | 62.03              | %61.42            | %61.19           | %61.73           | %63.01           |

(a) Used a 21% federal corporate income tax rate for 2018 periods and 35% for the 2017 periods.

The efficiency ratio, when adjusted for non-core expenses, increased due primarily to the increase in total non-interest expense. For the first six months of 2018, the efficiency ratio was 68.5%, compared to 63.0% for the same period in the prior year. Management is targeting an efficiency ratio of 61% to 63% for the second half of 2018, absent acquisition-related expenses and other non-core expenses.

## Return on Average Tangible Stockholders' Equity

The return on average tangible stockholders' equity ratio is a key financial measure used to monitor performance. The return on tangible stockholders' equity is calculated as net income (less after-tax impact of amortization of other intangible assets) divided by tangible stockholders' equity. This measure is non-GAAP since it excludes amortization of other intangible assets from earnings and the impact of goodwill and other intangible assets acquired through acquisitions on total stockholders' equity.

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| (Dollars in thousands)   | Three Months Ended |                   |                  | Six Months Ended |           |
|--|--------------------|-------------------|------------------|------------------|-----------|
|  | June 30,<br>2018   | March 31,<br>2018 | June 30,<br>2017 | June 30,<br>2018 | 2017      |
| Annualized net income excluding amortization of other intangible assets: |                    |                   |                  |                  |           |
| Net income   | \$7,892            | \$11,741          | \$9,766          | \$19,633         | \$18,575  |
| Add: amortization of other intangible assets                             | 861                | 754               | 871              | 1,615            | 1,734     |
| Less: tax effect of amortization of other intangible assets (a)          | 181                | 158               | 305              | 339              | 607       |
| Net income excluding amortization of other intangible assets             | \$8,572            | \$12,337          | \$10,332         | \$20,909         | \$19,702  |
| Days in the quarter  | 91                 | 90                | 91               | 181              | 181       |
| Days in the year   | 365                | 365               | 365              | 365              | 365       |
| Annualized net income  | \$31,655           | \$47,616          | \$39,171         | \$39,591         | \$37,458  |
| Annualized net income excluding amortization of other intangible assets  | \$34,382           | \$50,033          | \$41,442         | \$42,165         | \$39,731  |
| Average tangible stockholders' equity:                                   |                    |                   |                  |                  |           |
| Total average stockholders' equity                                       | \$489,876          | \$454,232         | \$447,399        | \$472,152        | \$443,218 |
| Less: average goodwill and other intangible assets                       | 161,600            | 144,190           | 145,052          | 152,943          | 145,298   |
| Average tangible stockholders' equity                                    | \$328,276          | \$310,042         | \$302,347        | \$319,209        | \$297,920 |
| Return on average stockholders' equity ratio:                            |                    |                   |                  |                  |           |
| Annualized net income  | \$31,655           | \$47,616          | \$39,171         | \$39,591         | \$37,458  |
| Average stockholders' equity   | \$489,876          | \$454,232         | \$447,399        | \$472,152        | \$443,218 |
| Return on average stockholders' equity                                   | 6.46               | % 10.48           | % 8.76           | % 8.39           | % 8.45    |
| Return on average tangible stockholders' equity ratio:                   |                    |                   |                  |                  |           |
| Annualized net income excluding amortization of other intangible assets  | \$34,382           | \$50,033          | \$41,442         | \$42,165         | \$39,731  |
| Average tangible stockholders' equity                                    | \$328,276          | \$310,042         | \$302,347        | \$319,209        | \$297,920 |
| Return on average tangible stockholders' equity                          | 10.47              | % 16.14           | % 13.71          | % 13.21          | % 13.34   |

(a) Used a 21% federal corporate income tax rate for 2018 periods and 35% for the 2017 periods.

The return on average stockholders' equity and average tangible stockholders' equity ratios were impacted by the ASB acquisition, which created increases in capital and decreased income for the 2018 periods due to the acquisition-related costs. In addition, net income earned during the second quarter of 2018 exceeded the dividends declared and paid during the quarter by \$2.4 million.

**FINANCIAL CONDITION****Cash and Cash Equivalents**

At June 30, 2018, Peoples' interest-bearing deposits in other banks increased \$7.4 million from December 31, 2017. The total cash and cash equivalent balance included \$13.0 million of excess cash reserves being maintained at the Federal Reserve Bank of Cleveland at June 30, 2018, compared to \$9.3 million at December 31, 2017. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

Through the first six months of 2018, Peoples' total cash and cash equivalents increased \$12.6 million as Peoples' net cash used in investing activities of \$89.0 million was less than the sum of net cash provided by financing and operating activities of \$74.1 million and \$27.5 million, respectively. Peoples' investing activities reflected a net increase of \$92.6 million in loans and purchases of \$81.4 million in available-for-sale investment securities, which were partially offset by \$77.2 million in net proceeds from sales, principal payments, calls and prepayments on available-for-sale and held-to-



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maturity investment securities. Financing activities included a net increase of \$20.1 million in deposits and a net increase of \$65.4 million in borrowings offset partially by \$10.0 million of cash dividends paid.

Through the first six months of 2017, Peoples' total cash and cash equivalents increased \$6.3 million as Peoples' net cash provided by financing and operating activities of \$97.4 million exceeded cash used in investing activities of \$91.1 million. Peoples' investing activities reflected purchases of \$96.2 million in available-for-sale investment securities and a net increase of \$67.7 million in loans, which were partially offset by \$74.9 million in net proceeds from principal payments, calls and prepayments on available-for-sale investment securities. Financing activities included a net increase of \$167.4 million in deposits which was offset partially by a net decrease of \$88.1 million in borrowings and \$7.0 million of cash dividends paid.

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

**Investment Securities**

The following table provides information regarding Peoples' investment portfolio:

| (Dollars in thousands)                          | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|
| Available-for-sale securities, at fair value:   |                  |                   |                      |                       |                  |
| Obligations of:                                 |                  |                   |                      |                       |                  |
| U.S. Treasury and government agencies           | \$43             | \$—               | \$ —                 | \$ —                  | \$—              |
| States and political subdivisions               | 96,913           | 97,205            | 101,569              | 104,560               | 111,390          |
| Residential mortgage-backed securities          | 688,002          | 681,746           | 673,664              | 672,106               | 664,341          |
| Commercial mortgage-backed securities           | 6,799            | 6,864             | 6,976                | 7,128                 | 8,092            |
| Bank-issued trust preferred securities          | 4,167            | 5,095             | 5,129                | 5,154                 | 5,144            |
| Equity securities (a)                           | —                | —                 | 7,849                | 8,073                 | 10,121           |
| Total fair value                                | \$795,924        | \$790,910         | \$ 795,187           | \$ 797,021            | \$799,088        |
| Total amortized cost                            | \$816,217        | \$808,689         | \$ 797,732           | \$ 792,810            | \$792,803        |
| Net unrealized (loss) gain                      | \$(20,293)       | \$(17,779)        | \$( 2,545            | ) \$ 4,211            | \$6,285          |
| Held-to-maturity securities, at amortized cost: |                  |                   |                      |                       |                  |
| Obligations of:                                 |                  |                   |                      |                       |                  |
| States and political subdivisions               | \$4,530          | \$3,807           | \$ 3,810             | \$ 3,812              | \$3,815          |
| Residential mortgage-backed securities          | 30,668           | 31,590            | 32,487               | 33,648                | 34,264           |
| Commercial mortgage-backed securities           | 3,636            | 4,254             | 4,631                | 4,703                 | 4,981            |
| Total amortized cost                            | \$38,834         | \$39,651          | \$ 40,928            | \$ 42,163             | \$43,060         |
| Other investment securities (a)                 | \$42,007         | \$46,756          | \$ 38,371            | \$ 38,371             | \$38,371         |
| Total investment portfolio:                     |                  |                   |                      |                       |                  |
| Amortized cost                                  | \$897,058        | \$895,096         | \$ 877,031           | \$ 873,344            | \$874,234        |
| Carrying value                                  | \$876,765        | \$877,317         | \$ 874,486           | \$ 877,555            | \$880,519        |

(a) As of January 1, 2018, Peoples adopted ASU 2016-01, resulting in the reclassification of equity securities from available-for-sale investment securities to other investment securities. At December 31, 2017, \$7.8 million of equity securities were included in available-for-sale investment securities, and at June 30, 2018, \$294,000 of equity securities were included in other investments compared to \$7.5 million at March 31, 2018.

During the second quarter of 2018, Peoples acquired, in the ASB acquisition, investment securities totaling approximately \$18.8 million and subsequently sold approximately \$14.6 million of acquired available-for-sale investment securities.

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

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

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| (Dollars in thousands) | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 |
|------------------------|---------------|----------------|-------------------|--------------------|---------------|
| Total fair value       | \$ 1,162      | \$ 1,478       | \$ 1,924          | \$ 2,067           | \$ 2,502      |
| Total amortized cost   | 1,225         | 1,607          | 2,109             | 2,253              | 2,703         |
| Net unrealized loss    | \$(63 )       | \$(129 )       | \$(185 )          | \$(186 )           | \$(201 )      |

Management continues to reinvest the principal runoff from the non-agency securities in U.S. agency investments, which accounted for the decline in the past year. At June 30, 2018, Peoples' non-agency portfolio consisted entirely of first lien residential mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary. Additional information regarding Peoples' investment portfolio can be found in Note 3 of the Notes to the Unaudited Consolidated Financial Statements.

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## Loans

The following table provides information regarding outstanding loan balances:

| (Dollars in thousands)                                  | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |   |
|---|------------------|-------------------|----------------------|-----------------------|------------------|---|
| Gross originated loans:                                 |                  |                   |                      |                       |                  |   |
| Commercial real estate, construction                    | \$ 107,255       | \$ 99,757         | \$ 107,118           | \$ 111,187            | \$ 103,039       |   |
| Commercial real estate, other                           | 650,512          | 627,932           | 595,447              | 573,256               | 567,537          |   |
| Commercial real estate                                  | 757,767          | 727,689           | 702,565              | 684,443               | 670,576          |   |
| Commercial and industrial                               | 471,270          | 455,243           | 438,051              | 407,468               | 392,097          |   |
| Residential real estate                                 | 299,934          | 302,890           | 304,523              | 304,094               | 306,385          |   |
| Home equity lines of credit                             | 89,957           | 87,722            | 88,902               | 88,421                | 88,229           |   |
| Consumer, indirect                                      | 373,384          | 347,607           | 340,390              | 335,436               | 305,580          |   |
| Consumer, direct  | 71,545           | 67,386            | 67,010               | 68,286                | 67,287           |   |
| Consumer  | 444,929          | 414,993           | 407,400              | 403,722               | 372,867          |   |
| Deposit account overdrafts                              | 860              | 543               | 849                  | 507                   | 521              |   |
| Total originated loans                                  | \$ 2,064,717     | \$ 1,989,080      | \$ 1,942,290         | \$ 1,888,655          | \$ 1,830,675     |   |
| Gross acquired loans (a):                               |                  |                   |                      |                       |                  |   |
| Commercial real estate, construction                    | \$ 14,780        | \$ 8,054          | \$ 8,319             | \$ 8,565              | \$ 9,130         |   |
| Commercial real estate, other                           | 207,195          | 156,115           | 165,120              | 174,157               | 182,682          |   |
| Commercial real estate                                  | 221,975          | 164,169           | 173,439              | 182,722               | 191,812          |   |
| Commercial and industrial                               | 40,938           | 33,815            | 34,493               | 36,462                | 39,376           |   |
| Residential real estate                                 | 309,629          | 194,063           | 184,864              | 194,950               | 206,502          |   |
| Home equity lines of credit                             | 45,933           | 20,008            | 20,575               | 22,366                | 23,481           |   |
| Consumer, indirect                                      | 198              | 253               | 329                  | 408                   | 533              |   |
| Consumer, direct  | 3,101            | 940               | 1,147                | 1,472                 | 1,980            |   |
| Consumer  | 3,299            | 1,193             | 1,476                | 1,880                 | 2,513            |   |
| Total acquired loans                                    | \$ 621,774       | \$ 413,248        | \$ 414,847           | \$ 438,380            | \$ 463,684       |   |
| Total loans   | \$ 2,686,491     | \$ 2,402,328      | \$ 2,357,137         | \$ 2,327,035          | \$ 2,294,359     |   |
| Percent of loans to total loans:                        |                  |                   |                      |                       |                  |   |
| Commercial real estate, construction                    | 4.5              | % 4.5             | % 4.9                | % 5.1                 | % 4.9            | % |
| Commercial real estate, other                           | 31.9             | % 32.6            | % 32.3               | % 32.2                | % 32.7           | % |
| Commercial real estate                                  | 36.4             | % 37.1            | % 37.2               | % 37.3                | % 37.6           | % |
| Commercial and industrial                               | 19.1             | % 20.4            | % 20.0               | % 19.1                | % 18.8           | % |
| Residential real estate                                 | 22.7             | % 20.7            | % 20.8               | % 21.4                | % 22.4           | % |
| Home equity lines of credit                             | 5.1              | % 4.5             | % 4.6                | % 4.8                 | % 4.9            | % |
| Consumer, indirect                                      | 13.9             | % 14.5            | % 14.5               | % 14.4                | % 13.3           | % |
| Consumer, direct  | 2.8              | % 2.8             | % 2.9                | % 3.0                 | % 3.0            | % |
| Consumer  | 16.7             | % 17.3            | % 17.4               | % 17.4                | % 16.3           | % |
| Deposit account overdrafts (b)                          | NM               | NM                | NM                   | NM                    | NM               |   |
| Total percentage  | 100.0            | % 100.0           | % 100.0              | % 100.0               | % 100.0          | % |
| Residential real estate loans being serviced for others | \$ 451,391       | \$ 412,154        | \$ 412,965           | \$ 409,199            | \$ 402,516       |   |

Includes all loans acquired, and related loan discount or premium recorded in 2012 and thereafter. Loans that were (a) acquired and subsequently re-underwritten, are reported as originated upon execution of such credit actions (for example, renewals and increases in lines of credit).

(b) Not meaningful.

As of June 30, 2018, balances in loan accounts acquired from ASB totaled \$228.9 million, including \$124.1 million in residential real estate loans, \$53.9 million in commercial real estate loans, \$27.3 million in home equity lines of credit,

\$11.9 million in commercial and industrial loans, \$9.3 million in construction loans, and \$2.4 million in indirect consumer loans.

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Period-end total loan balances at June 30, 2018 increased \$284.2 million, compared to March 31, 2018, \$329.4 million compared to December 31, 2017, and \$392.1 million compared to June 30, 2017. Compared to the end of the linked quarter, excluding the balances acquired from ASB, loan balances were up \$55.3 million, or 9% on an annualized basis, with an increase of \$35.9 million, or 10% annualized, in commercial loans, and an increase of \$23.4 million, or 27% annualized, in indirect consumer loans. The increase in commercial loans included \$19.7 million, or 10% annualized, in commercial real estate and \$11.3 million, or 9% annualized, in commercial and industrial loans. Compared to December 31, 2017, excluding the impact of the ASB acquisition, period-end loan balances grew \$100.5 million, or 9% on an annualized basis. Commercial loan balances grew \$68.3 million, or 10% annualized, including \$43.2 million in commercial real estate and \$27.8 million in commercial and industrial loan balances. Indirect consumer loan balances increased \$30.5 million, or 18% annualized, at June 30, 2018 compared to December 31, 2017.

Compared to June 30, 2017, excluding the impact of the ASB acquisition, loan balances were up \$163.3 million, or 7%, with an increase of \$123.0 million, or 10%, in commercial loans, and an increase of \$65.1 million, or 21%, in indirect consumer loans. The growth in commercial loans included \$68.8 million, or 16%, in commercial and industrial loans, and \$53.5 million, or 7%, in commercial real estate.

**Loan Concentration**

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

Loans secured by commercial real estate, including commercial construction loans, continued to comprise the largest portion of Peoples' loan portfolio. The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at June 30, 2018:

| (Dollars in thousands)                       | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of<br>Total |
|--|------------------------|---------------------|-------------------|---------------|
| Commercial real estate, construction:        |                        |                     |                   |               |
| Apartment complexes                          | \$ 42,002              | \$ 42,573           | \$ 84,575         | 37.2 %        |
| Office buildings                             | 7,914                  | 19,205              | 27,119            | 11.9 %        |
| Mixed-use facilities                         | 11,910                 | 14,266              | 26,176            | 11.5 %        |
| Assisted living facilities and nursing homes | 3,945                  | 21,195              | 25,140            | 11.1 %        |
| Light industrial                             | 12,813                 | 233                 | 13,046            | 5.7 %         |
| Educational services                         | 8,840                  | 269                 | 9,109             | 4.0 %         |
| Child care                                   | 3,518                  | 2,599               | 6,117             | 2.7 %         |
| Residential Property                         | 3,307                  | 2,404               | 5,711             | 2.5 %         |
| Other (a)                                    | 27,786                 | 2,572               | 30,358            | 13.4 %        |
| Total commercial real estate, construction   | \$ 122,035             | \$ 105,316          | \$ 227,351        | 100.0 %       |

(a) All other outstanding balances are less than 2% of the total loan portfolio.

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| (Dollars in thousands)                       | Outstanding<br>Balance | Loan<br>Commitments | Total<br>Exposure | % of<br>Total |   |
|--|------------------------|---------------------|-------------------|---------------|---|
| Commercial real estate, other:               |                        |                     |                   |               |   |
| Mixed-use facilities:                        |                        |                     |                   |               |   |
| Owner occupied                               | 37,715                 | 770                 | 38,485            | 4.3           | % |
| Non-owner occupied                           | 75,484                 | 2,860               | 78,344            | 8.7           | % |
| Total mixed-use facilities                   | 113,199                | 3,630               | 116,829           | 13.0          | % |
| Office buildings and complexes:              |                        |                     |                   |               |   |
| Owner occupied                               | \$ 46,681              | \$ 2,791            | \$ 49,472         | 5.5           | % |
| Non-owner occupied                           | 49,131                 | 874                 | 50,005            | 5.6           | % |
| Total office buildings and complexes         | 95,812                 | 3,665               | 99,477            | 11.1          | % |
| Apartment complexes                          | 91,545                 | 1,359               | 92,904            | 10.4          | % |
| Light industrial facilities:                 |                        |                     |                   |               |   |
| Owner occupied                               | 47,993                 | 4,980               | 52,973            | 5.9           | % |
| Non-owner occupied                           | 11,760                 | —                   | 11,760            | 1.3           | % |
| Total light industrial facilities            | 59,753                 | 4,980               | 64,733            | 7.2           | % |
| Retail facilities:                           |                        |                     |                   |               |   |
| Owner occupied                               | 26,984                 | 629                 | 27,613            | 3.1           | % |
| Non-owner occupied                           | 33,746                 | 98                  | 33,844            | 3.8           | % |
| Total retail facilities                      | 60,730                 | 727                 | 61,457            | 6.9           | % |
| Lodging and lodging related                  | 39,974                 | 472                 | 40,446            | 4.5           | % |
| Assisted living facilities and nursing homes | 39,405                 | 851                 | 40,256            | 4.5           | % |
| Warehouse facilities                         | 30,066                 | 516                 | 30,582            | 3.4           | % |
| Land only                                    | 15,735                 | 3,025               | 18,760            | 2.1           | % |
| Other  | 311,488                | 18,977              | 330,465           | 36.9          | % |
| Total commercial real estate, other          | \$ 857,707             | \$ 38,202           | \$ 895,909        | 100.0         | % |

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balances of commercial loans in each state were not material at either June 30, 2018 or December 31, 2017.

Allowance for Loan Losses

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

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

| (Dollars in thousands)               | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |
|--------------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Commercial real estate               | \$ 8,271         | \$ 8,062          | \$ 7,797             | \$ 7,534              | \$ 7,328         |
| Commercial and industrial            | 5,365            | 5,269             | 5,813                | 6,415                 | 6,727            |
| Total commercial                     | 13,636           | 13,331            | 13,610               | 13,949                | 14,055           |
| Residential real estate              | 1,005            | 1,086             | 904                  | 924                   | 960              |
| Home equity lines of credit          | 618              | 690               | 693                  | 679                   | 676              |
| Consumer, indirect                   | 3,339            | 3,034             | 2,944                | 2,814                 | 2,549            |
| Consumer, direct                     | 465              | 473               | 464                  | 441                   | 402              |
| Consumer                             | 3,804            | 3,507             | 3,408                | 3,255                 | 2,951            |
| Deposit account overdrafts           | 95               | 76                | 70                   | 70                    | 83               |
| Originated allowance for loan losses | 19,158           | 18,690            | 18,685               | 18,877                | 18,725           |
| Acquired allowance for loan losses   | 108              | 108               | 108                  | 115                   | 90               |
| Allowance for loan losses            | \$ 19,266        | \$ 18,798         | \$ 18,793            | \$ 18,992             | \$ 18,815        |

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As a percent of total loans, net of deferred fees and costs 0.72 %0.78 %0.80 % 0.82 % 0.82 %

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At June 30, 2018, the allowance for loan losses was \$19.3 million, compared to \$18.8 million at both June 30, 2017 and December 31, 2017. The ratio of the allowance for loan losses as a percent of total loans net of deferred fees and costs, was 0.72% at June 30, 2018, compared to 0.82% at June 30, 2017 and 0.80% at December 31, 2017. The ratio includes all acquired loans, from both ASB and previous acquisitions, of \$621.8 million and allowance for acquired loan losses of \$0.1 million. The decline in the ratio was attributable to improvement in asset quality metrics, and to the ASB acquisition, as the loans acquired from ASB were recorded at a preliminary fair value, in accordance with generally accepted accounting principles, and no allowance for loan loss related to these loans was recorded as of June 30, 2018 based on analysis of the loans as of that date.

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

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

| (Dollars in thousands)   | Three Months Ended |                |                   |                    |               |          |
|--|--------------------|----------------|-------------------|--------------------|---------------|----------|
|  | June 30, 2018      | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 |          |
| <b>Gross charge-offs:</b>  |                    |                |                   |                    |               |          |
| Commercial real estate, other  | \$7                | \$842          | \$383             | \$—                | \$25          |          |
| Commercial and industrial  | 7                  | 31             | 10                | 48                 | —             |          |
| Residential real estate  | 82                 | 145            | 186               | 245                | 98            |          |
| Home equity lines of credit  | 20                 | 37             | 31                | 80                 | 17            |          |
| Consumer, indirect   | 550                | 929            | 617               | 494                | 516           |          |
| Consumer, direct   | 109                | 110            | 104               | 106                | 129           |          |
| Consumer   | 659                | 1,039          | 721               | 600                | 645           |          |
| Deposit account overdrafts   | 215                | 205            | 271               | 246                | 172           |          |
| <b>Total gross charge-offs</b>                                       | <b>\$990</b>       | <b>\$2,299</b> | <b>\$1,602</b>    | <b>\$1,219</b>     | <b>\$957</b>  |          |
| <b>Recoveries:</b>   |                    |                |                   |                    |               |          |
| Commercial real estate, other  | \$28               | \$15           | \$11              | \$19               | \$14          |          |
| Commercial and industrial  | —                  | —              | —                 | 1                  | —             |          |
| Residential real estate  | 41                 | 26             | 24                | 19                 | 20            |          |
| Home equity lines of credit  | 2                  | 7              | 4                 | 3                  | 3             |          |
| Consumer, indirect   | 138                | 134            | 166               | 175                | 217           |          |
| Consumer, direct   | 15                 | 69             | 27                | 46                 | 56            |          |
| Consumer   | 153                | 203            | 193               | 221                | 273           |          |
| Deposit account overdrafts   | 46                 | 70             | 56                | 47                 | 47            |          |
| <b>Total recoveries</b>  | <b>\$270</b>       | <b>\$321</b>   | <b>\$288</b>      | <b>\$310</b>       | <b>\$357</b>  |          |
| <b>Net charge-offs (recoveries):</b>                                 |                    |                |                   |                    |               |          |
| Commercial real estate, other  | \$(21)             | \$827          | \$372             | \$(19)             | \$11          |          |
| Commercial and industrial  | 7                  | 31             | 10                | 47                 | —             |          |
| Residential real estate  | 41                 | 119            | 162               | 226                | 78            |          |
| Home equity lines of credit  | 18                 | 30             | 27                | 77                 | 14            |          |
| Consumer, indirect   | 412                | 795            | 451               | 319                | 299           |          |
| Consumer, direct   | 94                 | 41             | 77                | 60                 | 73            |          |
| Consumer   | 506                | 836            | 528               | 379                | 372           |          |
| Deposit account overdrafts   | 169                | 135            | 215               | 199                | 125           |          |
| <b>Total net charge-offs</b>   | <b>\$720</b>       | <b>\$1,978</b> | <b>\$1,314</b>    | <b>\$909</b>       | <b>\$600</b>  |          |
| <b>Ratio of net charge-offs to average total loans (annualized):</b> |                    |                |                   |                    |               |          |
| Commercial real estate   | —                  | %0.14          | %0.06             | %—                 | %0.01         | %        |
| Commercial and industrial  | —                  | %0.01          | %—                | %0.01              | %—            | %        |
| Residential real estate  | 0.01               | %0.02          | %0.03             | %0.04              | %0.01         | %        |
| Home equity lines of credit  | —                  | %0.01          | %—                | %0.02              | %0.01         | %        |
| Consumer, indirect   | 0.06               | %0.13          | %0.08             | %0.05              | %0.05         | %        |
| Consumer, other  | 0.01               | %0.01          | %0.01             | %0.01              | %0.01         | %        |
| Consumer   | 0.07               | %0.14          | %0.09             | %0.06              | %0.06         | %        |
| Deposit account overdrafts   | 0.03               | %0.02          | %0.04             | %0.03              | %0.02         | %        |
| <b>Total</b>   | <b>0.11</b>        | <b>%0.34</b>   | <b>%0.22</b>      | <b>%0.16</b>       | <b>%0.11</b>  | <b>%</b> |



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The increase in net charge-offs during the first quarter of 2018 had been primarily related to one acquired commercial loan relationship and increased consumer indirect charge-offs related to the increased portfolio.

The following table details Peoples' nonperforming assets:

| (Dollars in thousands)                          | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |
|---|------------------|-------------------|----------------------|-----------------------|------------------|
| Loans 90+ days past due and accruing:           |                  |                   |                      |                       |                  |
| Commercial real estate, other                   | \$615            | \$71              | \$ 215               | \$ 1,272              | \$224            |
| Commercial and industrial                       | —                | —                 | 45                   | 832                   | 919              |
| Residential real estate                         | 1,308            | 930               | 1,278                | 1,415                 | 1,406            |
| Home equity lines of credit                     | 6                | 29                | 72                   | 15                    | 34               |
| Consumer, indirect                              | —                | —                 | —                    | —                     | —                |
| Consumer, direct                                | 46               | —                 | 16                   | 8                     | —                |
| Consumer  | 46               | —                 | 16                   | 8                     | —                |
| Total loans 90+ days past due and accruing      | \$1,975          | \$1,030           | \$ 1,626             | \$ 3,542              | \$2,583          |
| Nonaccrual loans:                               |                  |                   |                      |                       |                  |
| Commercial real estate, construction            | \$725            | \$732             | \$ 754               | \$ 776                | \$797            |
| Commercial real estate, other                   | 6,422            | 6,268             | 6,348                | 7,321                 | 7,711            |
| Commercial real estate                          | 7,147            | 7,000             | 7,102                | 8,097                 | 8,508            |
| Commercial and industrial                       | 1,265            | 1,252             | 506                  | 584                   | 626              |
| Residential real estate                         | 3,770            | 3,967             | 4,267                | 4,055                 | 4,271            |
| Home equity lines of credit                     | 681              | 656               | 772                  | 589                   | 450              |
| Consumer, indirect                              | 221              | 180               | 158                  | 79                    | 138              |
| Consumer, direct                                | 12               | 11                | 32                   | 31                    | 23               |
| Consumer  | 233              | 191               | 190                  | 110                   | 161              |
| Total nonaccrual loans                          | \$13,096         | \$13,066          | \$ 12,837            | \$ 13,435             | \$14,016         |
| Nonaccrual troubled debt restructurings (TDRs): |                  |                   |                      |                       |                  |
| Commercial real estate, other                   | 236              | 674               | \$ 721               | \$ 336                | \$335            |
| Commercial and industrial                       | 436              | 487               | 492                  | 694                   | 821              |
| Residential real estate                         | 2,132            | 1,761             | 1,447                | 1,592                 | 1,543            |
| Home equity lines of credit                     | 71               | 81                | 90                   | 85                    | 101              |
| Consumer, indirect                              | 93               | 126               | 98                   | 75                    | 102              |
| Consumer, direct                                | 5                | 7                 | 7                    | 2                     | 3                |
| Consumer  | 98               | 133               | 105                  | 77                    | 105              |
| Total nonaccrual TDRs                           | \$2,973          | \$3,136           | \$ 2,855             | \$ 2,784              | \$2,905          |
| Total nonperforming loans (NPLs)                | \$18,044         | \$17,232          | \$ 17,318            | \$ 19,761             | \$19,504         |
| Other real estate owned (OREO):                 |                  |                   |                      |                       |                  |
| Commercial                                      | \$—              | \$—               | \$ —                 | \$ 167                | \$545            |
| Residential                                     | 63               | 99                | 208                  | 109                   | 107              |
| Total OREO                                      | \$63             | \$99              | \$ 208               | \$ 276                | \$652            |
| Total nonperforming assets (NPAs)               | \$18,107         | \$17,331          | \$ 17,526            | \$ 20,037             | \$20,156         |
| Criticized loans (a)                            | \$120,809        | \$116,243         | \$ 90,418            | \$ 96,671             | \$111,480        |
| Classified loans (b)                            | 55,596           | 44,661            | 46,380               | 41,233                | 53,041           |

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| (Dollars in thousands)                             | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |
|--|------------------|-------------------|----------------------|-----------------------|------------------|
| Asset Quality Ratios:                              |                  |                   |                      |                       |                  |
| NPLs as a percent of total loans (c)(d)            | 0.67             | %0.72             | % 0.73               | % 0.85                | % 0.85           |
| NPAs as a percent of total assets (c)(d)           | 0.46             | %0.48             | % 0.49               | % 0.56                | % 0.57           |
| NPAs as a percent of total loans and OREO (c)(d)   | 0.67             | %0.72             | % 0.74               | % 0.86                | % 0.88           |
| Allowance for loan losses as a percent of NPLs (c) | 106.77           | %109.08           | % 108.52             | % 96.11               | % 96.47          |
| Criticized loans as a percent of total loans (c)   | 4.50             | %4.84             | % 3.84               | % 4.15                | % 4.86           |
| Classified loans as a percent of total loans (c)   | 2.07             | %1.86             | % 1.97               | % 1.77                | % 2.31           |

(a) Includes loans categorized as special mention, substandard or doubtful.

(b) Includes loans categorized as substandard or doubtful.

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

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

Nonperforming assets include nonperforming loans and OREO.

## Deposits

The following table details Peoples' deposit balances:

| (Dollars in thousands)               | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |
|--------------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Non-interest-bearing deposits (a)    | \$585,861        | \$570,804         | \$ 556,010           | \$ 724,846            | \$772,061        |
| Interest-bearing deposits:           |                  |                   |                      |                       |                  |
| Interest-bearing demand accounts (a) | 570,359          | 584,563           | 593,415              | 384,261               | 303,501          |
| Savings accounts                     | 480,615          | 461,440           | 446,714              | 440,633               | 443,110          |
| Money market deposit accounts        | 389,893          | 364,232           | 371,376              | 388,876               | 397,211          |
| Governmental deposit accounts        | 305,255          | 341,920           | 264,524              | 289,895               | 297,560          |
| Retail certificates of deposit (CDs) | 406,214          | 335,843           | 338,673              | 343,122               | 352,758          |
| Brokered certificates of deposit     | 211,062          | 154,379           | 159,618              | 93,049                | 110,943          |
| Total interest-bearing deposits      | 2,363,398        | 2,242,377         | 2,174,320            | 1,939,836             | 1,905,083        |
| Total deposits                       | \$2,949,259      | \$2,813,181       | \$ 2,730,330         | \$ 2,664,682          | \$ 2,677,144     |

(a) The sum of amounts presented is considered total demand deposits.

As of June 30, 2018, period-end deposits increased \$218.9 million, or 8%, compared to December 31, 2017, and \$272.1 million, or 10%, compared to June 30, 2017. Compared to the end of the linked quarter, the growth was largely due to \$198.6 million of balances in deposit accounts acquired from ASB.

At June 30, 2018, period-end deposits increased \$136.1 million, or 5%, compared to March 31, 2018, and \$272.1 million, or 10%, compared to June 30, 2017. Compared to the end of the linked quarter, excluding the balances acquired from ASB, deposit balances were down \$32.3 million, due in part to a decrease of \$36.7 million in governmental deposit accounts, as balances in governmental deposits are seasonally higher in the first quarter of each year compared to the other quarters. Compared to the end of the second quarter of 2017, excluding the impact of the ASB acquisition, the increase in period-end deposits at June 30, 2018 was \$103.8 million, primarily due to a \$91.5 million increase in certificates of deposit.

Total demand deposit accounts comprised 39% of total deposits at June 30, 2018, compared to 41% at March 31, 2018 and 40% at June 30, 2017. Peoples continues its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and relying less on higher-cost, non-core deposits, such as retail CDs.

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## Borrowed Funds

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

| (Dollars in thousands)                | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |
|---------------------------------------|------------------|-------------------|----------------------|-----------------------|------------------|
| Short-term borrowings:                |                  |                   |                      |                       |                  |
| FHLB advances                         | \$284,566        | \$104,579         | \$ 92,592            | \$ 116,597            | \$65,000         |
| Retail repurchase agreements          | 76,177           | 98,896            | 116,899              | 77,120                | 77,532           |
| Unamortized debt issuance cost        | (16              | )—                | —                    | —                     | —                |
| Total short-term borrowings           | 360,727          | 203,475           | 209,491              | 193,717               | 142,532          |
| Long-term borrowings:                 |                  |                   |                      |                       |                  |
| FHLB advances                         | 105,890          | 116,352           | 136,939              | 148,862               | 172,038          |
| National market repurchase agreements | —                | —                 | —                    | 40,000                | 40,000           |
| Unamortized debt issuance costs       | —                | (22               | )(27                 | )(33                  | )(39             |
| Junior subordinated debt securities   | 7,195            | 7,151             | 7,107                | 7,061                 | 7,015            |
| Total long-term borrowings            | 113,085          | 123,481           | 144,019              | 195,890               | 219,014          |
| Total borrowed funds                  | \$473,812        | \$326,956         | \$ 353,510           | \$ 389,607            | \$361,546        |

Peoples' short-term FHLB advances generally consist of overnight borrowings maintained in connection with the management of Peoples' daily liquidity position. Peoples' short-term FHLB advances at June 30, 2018 increased \$157.3 million and \$151.2 million compared to March 31, 2018 and December 31, 2017, respectively. The increase in short-term borrowings in all periods was primarily related to long-term FHLB advances being reclassified to short-term borrowings due to the advances maturing within one year, coupled with loan growth out-pacing deposit growth. The increase at June 30, 2018 from March 31, 2018 also includes \$21.0 million in short-term FHLB advances acquired from ASB. Peoples continually evaluates the overall balance sheet position given the interest rate environment.

As of June 30, 2018, Peoples had a total of ten interest rate swaps with an aggregate notional value of \$67.0 million. Peoples acquired three interest rate swaps with the ASB acquisition, which had a notional value of \$7.0 million, and all of which matured in July 2018. The seven interest rate swaps are associated with Peoples' cash outflows for various short-term FHLB advances. Four of the seven swaps became effective in the first six months of 2018, two in January 2018 and two in April 2018. Of the three remaining swaps, one became effective in July 2018 and two will become effective in October 2018. These dates roughly coincide with the maturity of existing FHLB advances.

Additional information regarding Peoples' interest rate swaps can be found in Note 9 of the Notes to the Unconsolidated Financial Statements.

## Capital/Stockholders' Equity

At June 30, 2018, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered "well capitalized" institutions under applicable banking regulations. These higher capital levels reflect Peoples' desire to maintain a strong capital position. In order to avoid limitations on dividends, equity repurchases and compensation, Peoples must exceed the three minimum required ratios by at least the capital conservation buffer. The capital conservation buffer is being phased in from 0.625% beginning January 1, 2016 to 2.50% by January 1, 2019, and applies to the common equity tier 1 ("CET1") ratio, the tier 1 capital ratio and the total risk-based capital ratio. At June 30, 2018, Peoples' had a capital conservation buffer of 5.96%, compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019. As such, Peoples exceeded the minimum ratios including the capital conservation buffer at June 30, 2018.

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

| (Dollars in thousands)    | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |   |
|---------------------------|------------------|-------------------|----------------------|-----------------------|------------------|---|
| <b>Capital Amounts:</b>   |                  |                   |                      |                       |                  |   |
| Common Equity Tier 1      | \$359,645        | \$335,393         | \$327,172            | \$326,966             | \$318,849        |   |
| Tier 1                    | 366,840          | 342,544           | 334,279              | 334,027               | 325,865          |   |
| Total (Tier 1 and Tier 2) | 386,105          | 361,343           | 355,977              | 355,951               | 348,309          |   |
| Net risk-weighted assets  | \$2,765,769      | \$2,524,970       | \$2,473,329          | \$2,456,797           | \$2,419,335      |   |
| <b>Capital Ratios:</b>    |                  |                   |                      |                       |                  |   |
| Common Equity Tier 1      | 13.00            | % 13.28           | % 13.23              | % 13.31               | % 13.18          | % |
| Tier 1                    | 13.26            | % 13.57           | % 13.52              | % 13.60               | % 13.47          | % |
| Total (Tier 1 and Tier 2) | 13.96            | % 14.31           | % 14.39              | % 14.49               | % 14.40          | % |
| Leverage ratio            | 9.75             | % 9.86            | % 9.75               | % 9.81                | % 9.71           | % |

Many of Peoples' capital ratios at June 30, 2018 decreased compared to the linked quarter and December 31, 2017 largely due to the percentage of risk-weighted assets acquired from the ASB acquisition that were greater than capital added, net of goodwill, from the ASB acquisition. In addition, net income earned during the second quarter of 2018 exceeded the dividends declared and paid during the quarter by \$2.4 million.

In addition to traditional capital measurements, management uses tangible capital measures to evaluate the adequacy of Peoples' stockholders' equity. Such ratios represent non-GAAP financial measures since their calculation removes the impact of goodwill and other intangible assets acquired through acquisitions on amounts reported in the Unaudited Consolidated Balance Sheets. Management believes this information is useful to investors since it facilitates the comparison of Peoples' operating performance, financial condition and trends to peers, especially those without a similar level of intangible assets to that of Peoples. Further, intangible assets generally are difficult to convert into cash, especially during a financial crisis, and could decrease substantially in value should there be deterioration in the overall franchise value. As a result, tangible equity represents a conservative measure of the capacity for Peoples to incur losses but remain solvent.

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

| (Dollars in thousands)                           | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 | September 30,<br>2017 | June 30,<br>2017 |   |
|--|------------------|-------------------|----------------------|-----------------------|------------------|---|
| <b>Tangible equity:</b>                          |                  |                   |                      |                       |                  |   |
| Total stockholders' equity                       | \$499,339        | \$456,815         | \$458,592            | \$457,386             | \$451,353        |   |
| Less: goodwill and other intangible assets       | 163,953          | 143,820           | 144,576              | 143,859               | 144,692          |   |
| Tangible equity                                  | \$335,386        | \$312,995         | \$314,016            | \$313,527             | \$306,661        |   |
| <b>Tangible assets:</b>                          |                  |                   |                      |                       |                  |   |
| Total assets                                     | \$3,972,091      | \$3,634,929       | \$3,581,686          | \$3,552,412           | \$3,525,126      |   |
| Less: goodwill and other intangible assets       | 163,953          | 143,820           | 144,576              | 143,859               | 144,692          |   |
| Tangible assets                                  | \$3,808,138      | \$3,491,109       | \$3,437,110          | \$3,408,553           | \$3,380,434      |   |
| <b>Tangible book value per common share:</b>     |                  |                   |                      |                       |                  |   |
| Tangible equity                                  | \$335,386        | \$312,995         | \$314,016            | \$313,527             | \$306,661        |   |
| Common shares outstanding                        | 19,528,952       | 18,365,035        | 18,287,449           | 18,281,194            | 18,279,036       |   |
| Tangible book value per common share             | \$17.17          | \$17.04           | \$17.17              | \$17.15               | \$16.78          |   |
| <b>Tangible equity to tangible assets ratio:</b> |                  |                   |                      |                       |                  |   |
| Tangible equity                                  | \$335,386        | \$312,995         | \$314,016            | \$313,527             | \$306,661        |   |
| Tangible assets                                  | \$3,808,138      | \$3,491,109       | \$3,437,110          | \$3,408,553           | \$3,380,434      |   |
| Tangible equity to tangible assets               | 8.81             | % 8.97            | % 9.14               | % 9.20                | % 9.07           | % |



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The decrease in the tangible equity to tangible assets ratio at June 30, 2018 compared to March 31, 2018, and June 30, 2017 was due largely to higher tangible assets attributable to loan growth and the ASB acquisition, offset partially by the issuance of equity in the form of common shares in connection with the ASB acquisition.

**Interest Rate Sensitivity and Liquidity**

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

**Interest Rate Risk**

Interest rate risk ("IRR") is one of the most significant risks arising in the normal course of business of financial services companies like Peoples. IRR is the potential for economic loss due to future interest rate changes that can impact the earnings stream as well as market values of financial assets and liabilities. Peoples' exposure to IRR is due primarily to differences in the maturity or repricing of interest-earning assets and interest-bearing liabilities. In addition, other factors, such as prepayments of loans and investment securities, or early withdrawal of deposits, can expose Peoples to IRR and increase interest costs or reduce revenue streams.

Peoples has assigned overall management of IRR to its Asset-Liability Committee (the "ALCO"), which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level of IRR. The methods used by the ALCO to assess IRR remain unchanged from those disclosed in Peoples' 2017 Form 10-K.

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

| Increase (Decrease) in Interest Rate<br>(in Basis Points) | Estimated Increase (Decrease)<br>in<br>Net Interest Income |                      | Estimated (Decrease) Increase in<br>Economic Value of Equity |                      |
|---|--|----------------------|--|----------------------|
|   | June 30, 2018  | December 31,<br>2017 | June 30, 2018  | December 31,<br>2017 |
| 300   | \$ (15) — %  | \$ 4,114 3.5 %       | \$ (124,374) (18.0)%   | \$ (83,466) (11.9)%  |
| 200   | 453 0.3 %  | 3,368 2.9 %          | (84,670 ) (12.2)%  | (56,377 ) (8.0 )%    |
| 100   | 670 0.5 %  | 2,252 1.9 %          | (43,254 ) (6.2 )%  | (27,710 ) (4.0 )%    |
| (100)   | (6,213) (4.6)%   | (8,352 ) (7.1)%      | 25,294 3.7 %   | 10,317 1.5 %         |

Estimated changes in net interest income and economic value of equity are partially driven by assumptions regarding the rate at which non-maturity deposits will reprice given a move in short-term interest rates. Peoples takes a historically conservative approach when determining what repricing rates (deposit betas) are used in modeling interest rate risk. These assumptions are monitored closely by Peoples and are updated at least annually. The actual deposit betas experienced recently by Peoples in the repricing of non-maturity deposits are lower than those used in Peoples' current interest rate risk modeling. Peoples has benefited from this trend in the current interest rate and competitor environment as it has provided for growth in Peoples' net interest income and net interest margin as change in interest expense has been lower than anticipated in a rising rate environment. However, the trend is subject to change with increased competition in deposit pricing from other banks and shifts in the yield curve.

At June 30, 2018, Peoples' unaudited consolidated balance sheet was relatively neutral in terms of potential impact of interest rate moves on net interest income. The table above illustrates this point as changes to net interest income are relatively modest in the rising interest rate scenarios. This was largely attributable to Peoples' increased use of short-term wholesale funding as of June 30, 2018 compared to December 31, 2017. It was also partially attributable to a reduction of asset sensitivity as a result of the ASB acquisition, which occurred on April 13, 2018. While parallel

interest rate shock scenarios are useful in assessing the level of IRR inherent in the balance sheet, interest rates typically move in a non-parallel manner with differences in the timing, direction, and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that might occur as a result of the Federal Reserve increasing short-term interest rates in the future could be offset by an inverse movement in long-term interest rates.

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Peoples 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, 2018, Peoples had ten interest rate swaps with a notional value of \$67.0 million. Additional information regarding Peoples' interest rate swaps can be found in Note 14 of the Notes to the Consolidated Financial Statements included in Peoples' 2017 Form 10-K.

Liquidity

In addition to IRR management, another major objective of the ALCO is to maintain a sufficient level of liquidity at Peoples Bank. The methods used by the ALCO to monitor and evaluate the adequacy of Peoples Bank's liquidity position remain unchanged from those disclosed in Peoples' 2017 Form 10-K.

At June 30, 2018, Peoples Bank had liquid assets of \$197.9 million, which represented 4.6% of total assets and unfunded commitments. This amount exceeded the minimal level by \$86.8 million, or 2.0% of total loans and unfunded commitments, currently required under Peoples' liquidity policy. Peoples also had an additional \$78.5 million of unpledged investment securities not included in the measurement of liquid assets.

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

Off-Balance Sheet Activities and Contractual Obligations

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

Loan Commitments and Standby Letters of Credit

Loan commitments are made to accommodate the financial needs of Peoples' customers. Standby letters of credit are instruments issued by Peoples Bank guaranteeing the beneficiary payment by Peoples Bank in the event of default by Peoples Bank's customer in the performance of an obligation or service. Historically, most loan commitments and standby letters of credit expire unused. Peoples Bank's exposure to credit loss in the event of nonperformance by the counter-party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments. Peoples Bank uses the same underwriting standards in making commitments and conditional obligations as it does for on-balance sheet instruments. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Peoples Bank routinely engages in activities that involve, to varying degrees, elements of risk that are not reflected in whole or in part in the consolidated financial statements. These activities are part of Peoples Bank's normal course of business and include traditional off-balance sheet credit-related financial instruments, interest rate contracts and commitments to make additional capital contributions in low-income housing tax credit investments. Traditional off-balance sheet credit-related financial instruments continue to represent the most significant off-balance sheet exposure.

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

| (Dollars in thousands)        | June 30, 2018 | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 |
|-------------------------------|---------------|----------------|-------------------|--------------------|---------------|
| Home equity lines of credit   | \$103,975     | \$86,787       | \$ 83,949         | \$ 84,101          | \$86,086      |
| Unadvanced construction loans | 87,477        | 106,410        | 112,475           | 103,732            | 92,669        |
| Other loan commitments        | 319,519       | 267,482        | 260,552           | 280,974            | 302,710       |
| Loan commitments              | \$510,971     | \$460,679      | \$ 456,976        | \$ 468,807         | \$481,465     |
| Standby letters of credit     | \$20,354      | \$20,481       | \$ 20,873         | \$ 21,788          | \$26,458      |

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





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

The information called for by this Item 3 is provided under the caption “Interest Rate Sensitivity and Liquidity” under “ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” in this Form 10-Q, and is incorporated herein by reference.

**ITEM 4 CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Peoples' management, with the participation of Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of June 30, 2018. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

- (a) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be accumulated and communicated to Peoples' management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;
- (b) information required to be disclosed by Peoples in this Quarterly Report on Form 10-Q and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- (c) Peoples' disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

**Changes in Internal Control Over Financial Reporting**

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during Peoples' fiscal quarter ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting.

**PART II**

**ITEM 1 LEGAL PROCEEDINGS**

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

**ITEM 1A RISK FACTORS**

The accounting treatment of the interest rate swaps entered into by Peoples as part of its interest rate management strategy, may change if the hedging relationship is not as effective as currently anticipated. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. As of June 30, 2018, Peoples had 10 interest rate swaps with an aggregate notional value of \$67.0 million. Seven of the swaps relate to the interest rate management strategy. Of the seven swaps, two became effective in January 2018, two became effective in April 2018, and one became effective in July 2018, with the two remaining swaps becoming effective in October 2018. These dates roughly coincide with the maturity of existing FHLB advances. The increase in the notional value was reflective of three swaps in the amount of \$7.0 million which were acquired with the ASB acquisition in the second quarter of 2018. All three of the swaps acquired in the ASB acquisition matured in July of 2018.

Although Peoples expects that the hedging relationship will be highly effective as described above, it has not assumed that there will be no ineffectiveness in the hedging relationship. As of June 30, 2018, the termination value of derivatives in a net asset position, which included accrued interest but excluded any adjustment for nonperformance risk, related to the seven interest rate swaps, other than those acquired in the ASB acquisition, was \$3.3 million. As of June 30, 2018, Peoples has no minimum collateral posting thresholds with certain of its derivative counterparties and

has posted collateral of \$6.0 million

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against its obligations under these agreements. If Peoples had breached any of these provisions at June 30, 2018, it could have been required to settle its obligations under the agreements at the termination value.

There have been no other material changes from those risk factors previously disclosed in “ITEM 1A. RISK FACTORS” of Part I of Peoples’ 2017 Form 10-K. Those risk factors are not the only risks Peoples faces. Additional risks and uncertainties not currently known to management or that management currently deems to be immaterial also may materially adversely affect Peoples’ business, financial condition and/or operating results.

**ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table details repurchases by Peoples and purchases by “affiliated purchasers” as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of Peoples’ common shares during the three months ended June 30, 2018:

| Period                             | (a)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid per<br>Common<br>Share | (c)<br>Total<br>Number of<br>Common<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | (d)<br>Maximum<br>Number ( or<br>Approximate<br>Dollar Value)<br>of Common<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs <sup>(1)</sup> |
|------------------------------------|--|--|--|--|
| April 1-30, 2018 <sup>(2)(3)</sup> | 1,433  | \$ 35.14   | —  | \$ 15,049,184  |
| May 1-31, 2018                     | —  | —  | —  | 15,049,184   |
| June 1-30, 2018                    | —  | —  | —  | 15,049,184   |
| Total                              | 1,433  | \$ 35.14   | —  | \$ 15,049,184  |

On November 3, 2015, Peoples announced that on that same date, Peoples' Board of Directors authorized a share (1) repurchase program authorizing Peoples to purchase up to \$20.0 million of its outstanding common shares. No common shares were purchased under this share repurchase program during the three months ended June 30, 2018.

(2) Information reported includes 658 common shares withheld during April to pay income taxes associated with restricted common shares which vested.

(3) Information reported includes 775 common shares purchased in open market transactions during April by Peoples Bank under the Rabbi Trust Agreement. The Rabbi Trust Agreement establishes a rabbi trust that holds assets to provide funds for the payment of the benefits under the Peoples Bancorp Inc. Third Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries.

**ITEM 3 DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 OTHER INFORMATION**

None

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ITEM 6 EXHIBITS

Exhibit

Number Description

Exhibit Location

|               |  |   |
|---------------|--|---|
| 2             | Agreement and Plan of Merger, dated as of October 23, 2017, between Peoples Bancorp Inc. and ASB Financial Corp.+  | Included as Annex A to the proxy statement / prospectus which forms a part of the Registration Statement on Form S-4 of Peoples Bancorp Inc. ("Peoples") (Registration No. 333-222054)                      |
| 3.1(a)        | Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993)   | Incorporated herein by reference to Exhibit 3(a) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)  |
| <u>3.1(b)</u> | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994)  | Incorporated herein by reference to Exhibit 3.1(b) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017 (File No. 0-16772) ("Peoples' September 30, 2017 Form 10-Q") |
| <u>3.1(c)</u> | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996)   | Incorporated herein by reference to Exhibit 3.1(c) to Peoples' September 30, 2017 Form 10-Q   |
| <u>3.1(d)</u> | Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003)  | Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) ("Peoples' March 31, 2003 Form 10-Q")           |
| <u>3.1(e)</u> | Certificate of Amendment by Shareholders to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on January 22, 2009)  | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on January 23, 2009 (File No. 0-16772)   |
| <u>3.1(f)</u> | Certificate of Amendment by Directors to Articles filed with the Secretary of State of the State of Ohio on January 28, 2009, evidencing adoption of amendments by the Board of Directors of Peoples Bancorp Inc. to Article FOURTH of Amended Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Peoples Bancorp Inc. | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on February 2, 2009 (File No. 0-16772)   |
| <u>3.1(g)</u> | Amended Articles of Incorporation of Peoples Bancorp Inc. (This document represents the Amended Articles of Incorporation of   | Incorporated herein by reference to Exhibit 3.1(g) to Peoples' Annual Report  |

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Peoples Bancorp Inc. in compiled form incorporating all amendments. The compiled document has not been filed with the Ohio Secretary of State.)

on Form 10-K for the fiscal year ended December 31, 2008 (File No. 0-16772)

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

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

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

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

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

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

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

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

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

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| Exhibit Number | Description  | Exhibit Location   |
|----------------|--|--|
| <u>3.2(e)</u>  | Certificate regarding adoption of an amendment to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 22, 2010   | Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) |
| <u>3.2(f)</u>  | Certificate regarding Adoption of Amendment to Division (D) of Section 2.02 of Code of Regulations of Peoples Bancorp Inc. by the Shareholders at the Annual Meeting of Shareholders on April 26, 2018 | Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on June 28, 2018 (File No. 0-16772)                                       |
| <u>3.2(g)</u>  | Code of Regulations of Peoples Bancorp Inc. (This document represents the Code of Regulations of Peoples Bancorp Inc. in compiled form incorporating all amendments.)                                  | Incorporated herein by reference to Exhibit 3.2 to Peoples' Current Report on Form 8-K dated and filed on June 28, 2018 (File No. 0-16772)                                       |
| <u>10.1</u>    | Peoples Bancorp Inc. Third Amended and Restated 2006 Equity Plan   | Incorporated herein by reference to Exhibit 99 to Peoples' Current Report on Form 8-K dated and filed on April 30, 2018 (File No. 0-16772)                                       |
| <u>31.1</u>    | Rule 13a-14(a)/15d-14(a) Certifications [President and Chief Executive Officer]  | Filed herewith   |
| <u>31.2</u>    | Rule 13a-14(a)/15d-14(a) Certifications [Executive Vice President, Chief Financial Officer and Treasurer]  | Filed herewith   |
| <u>32</u>      | Section 1350 Certifications  | Furnished herewith   |
| 101.INS        | XBRL Instance Document   | Submitted electronically herewith #  |
| 101.SCH        | XBRL Taxonomy Extension Schema Document  | Submitted electronically herewith #  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document  | Submitted electronically herewith #  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document  | Submitted electronically herewith #  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document   | Submitted electronically herewith #  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document   | Submitted electronically herewith #  |

# Attached as Exhibit 101 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018 of Peoples Bancorp Inc. are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited) at June 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2018 and 2017; (iii) Consolidated Statements of

Comprehensive Income (unaudited) for the three and six months ended June 30, 2018 and 2017; (iv) Consolidated Statement of Stockholders' Equity (unaudited) for the six months ended June 30, 2018; (v) Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2018 and 2017; and (vi) Notes to the Unaudited Consolidated Financial Statements.



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SIGNATURES

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

PEOPLES BANCORP INC.

Date: July 26, 2018 By: /s/ CHARLES W. SULERZYSKI  
Charles W. Sulerzyski  
President and Chief Executive Officer

Date: July 26, 2018 By: /s/ JOHN C. ROGERS  
John C. Rogers  
Executive Vice President,  
Chief Financial Officer and Treasurer