PEOPLES BANCORP INC
Form 10-Q
October 26, 2017

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number: 0-16772
PEOPLES BANCORP INC.
(Exact name of Registrant as specified in its charter)

Ohio	31-0987416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
138 Putnam Street, P.O. Box 738, Marietta, Ohio	45750
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number,	(740) 373-3155

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 x   No o

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. o

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

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 o   No o

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: 18,281,112 common shares, without par value, at October 25, 2017.

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PART I
ITEM 1. FINANCIAL STATEMENTS
PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

(Dollars in thousands)	September 30, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 53,585	$ 58,129
Interest-bearing deposits in other banks	16,458	8,017
Total cash and cash equivalents	70,043	66,146
Available-for-sale investment securities, at fair value (amortized cost of $792,810 at September 30, 2017 and $777,017 at December 31, 2016)	797,021	777,940
Held-to-maturity investment securities, at amortized cost (fair value of $42,808 at September 30, 2017 and $43,227 at December 31, 2016)	42,163	43,144
Other investment securities, at cost	38,371	38,371
Total investment securities	877,555	859,455
Loans, net of deferred fees and costs	2,327,035	2,224,936
Allowance for loan losses	(18,992)	(18,429)
Net loans	2,308,043	2,206,507
Loans held for sale	3,653	4,022
Bank premises and equipment, net	51,777	53,616
Bank owned life insurance	61,696	60,225
Goodwill	132,631	132,631
Other intangible assets	11,228	13,387
Other assets	35,786	36,359
Total assets	$ 3,552,412	$ 3,432,348
Liabilities		
Deposits:		
Non-interest-bearing	$ 724,846	$ 734,421
Interest-bearing	1,939,836	1,775,301
Total deposits	2,664,682	2,509,722
Short-term borrowings	193,717	305,607
Long-term borrowings	195,890	145,155
Accrued expenses and other liabilities	40,737	36,603
Total liabilities	3,095,026	2,997,087
Stockholders' equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at September 30, 2017 and December 31, 2016	—	—
Common stock, no par value, 24,000,000 shares authorized, 18,948,358 shares issued at September 30, 2017 and 18,939,091 shares issued at December 31, 2016, including shares in treasury	344,831	344,404
Retained earnings	128,465	110,294
Accumulated other comprehensive income (loss), net of deferred income taxes	51	(1,554)
Treasury stock, at cost, 703,530 shares at September 30, 2017 and 795,758 shares at December 31, 2016	(15,961)	(17,883)
Total stockholders' equity	457,386	435,261
Total liabilities and stockholders' equity	$ 3,552,412	$ 3,432,348

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Interest income:				
Interest and fees on loans	$26,370	$ 23,493	$76,133	$ 69,850
Interest and dividends on taxable investment securities	5,615	4,456	15,280	13,875
Interest on tax-exempt investment securities	701	771	2,257	2,332
Other interest income	42	10	83	37
Total interest income	32,728	28,730	93,753	86,094
Interest expense:				
Interest on deposits	1,865	1,427	5,081	4,531
Interest on short-term borrowings	369	109	853	301
Interest on long-term borrowings	1,274	1,071	3,564	3,064
Total interest expense	3,508	2,607	9,498	7,896
Net interest income	29,220	26,123	84,255	78,198
Provision for loan losses	1,086	1,146	2,657	2,828
Net interest income after provision for loan losses	28,134	24,977	81,598	75,370
Non-interest income:				
Insurance income	3,345	3,137	10,861	10,934
Trust and investment income	2,838	2,692	8,497	7,850
Electronic banking income	2,544	2,765	7,692	7,867
Deposit account service charges	2,407	2,833	7,130	7,999
Net gain (loss) on investment securities	1,861	(1)	2,219	862
Mortgage banking income	535	427	1,389	852
Bank owned life insurance income	482	491	1,471	911
Commercial loan swap fees	76	569	995	997
Net (loss) gain on asset disposals and other transactions	(25)	(224)	81	(1,024)
Other non-interest income	383	624	1,499	1,549
Total non-interest income	14,446	13,313	41,834	38,797
Non-interest expense:				
Salaries and employee benefit costs	15,141	14,584	45,686	42,881
Net occupancy and equipment expense	2,619	2,768	7,980	8,155
Electronic banking expense	1,448	1,650	4,487	4,568
Professional fees	1,393	1,661	4,532	5,243
Data processing and software expense	1,092	741	3,330	2,503
Amortization of other intangible assets	869	1,008	2,603	3,023
Franchise tax expense	583	529	1,750	1,550
Marketing expense	488	380	1,122	1,192
FDIC insurance expense	449	549	1,339	1,706
Communication expense	334	518	1,134	1,730
Foreclosed real estate and other loan expenses	214	189	589	540
Other non-interest expense	1,928	2,265	6,017	6,538
Total non-interest expense	26,558	26,842	80,569	79,629
Income before income taxes	16,022	11,448	42,863	34,538
Income tax expense	5,127	3,656	13,393	10,789
Net income	$10,895	$ 7,792	$29,470	$ 23,749

Earnings per common share - basic	$0.60	$ 0.43	$1.62	$ 1.31
Earnings per common share - diluted	$0.60	$ 0.43	$1.61	$ 1.31
Weighted-average number of common shares outstanding - basic	18,056,20[illegible]	17,993,443	18,043,69[illegible]	18,015,249
Weighted-average number of common shares outstanding - diluted	18,213,53[illegible]	18,110,710	18,199,95[illegible]	18,123,660
Cash dividends declared	$4,020	$ 2,912	$11,299	$ 8,564
Cash dividends declared per common share	$0.22	$ 0.16	$0.62	$ 0.47

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(Dollars in thousands)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Net income	$10,895	$7,792	$29,470	$23,749
Other comprehensive income:				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(236)	(4,068)	5,448	14,681
Related tax benefit (expense)	83	1,424	(1,906)	(5,139)
Less: reclassification adjustment for net gain (loss) included in net income	1,861	(1)	2,219	862
Related tax expense	(652)	—	(777)	(302)
Net effect on other comprehensive (loss) income	(1,362)	(2,643)	2,100	8,982
Defined benefit plans:				
Net loss arising during the period	(1)	—	(1)	—
Amortization of unrecognized loss and service cost on benefit plans	25	21	72	66
Related tax expense	(9)	(9)	(25)	(22)
Net effect on other comprehensive income	15	12	46	44
Cash flow hedges:				
Net (loss) gain arising during the period	(63)	68	(832)	(184)
Related tax benefit (expense)	22	(24)	291	64
Net effect on other comprehensive (loss) income	(41)	44	(541)	(120)
Total other comprehensive (loss) income, net of tax expense	(1,388)	(2,587)	1,605	8,906
Total comprehensive income	$9,507	$5,205	$31,075	$32,655

See Notes to the Unaudited Consolidated Financial Statements

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)	Common Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2016	$344,404	$110,294	$ (1,554)	$(17,883)	$ 435,261
Net income	—	29,470	—	—	29,470
Other comprehensive income, net of tax	—	—	1,605	—	1,605
Cash dividends declared	—	(11,299)	—	—	(11,299)
Exercise of stock appreciation rights	(6)	—	—	6	—
Reissuance of treasury stock for common stock awards	(1,467)	—	—	1,467	—
Reissuance of treasury stock for deferred compensation plan for Boards of Directors	—	—	—	500	500
Repurchase of treasury stock in connection with employee incentive plan and under compensation plan for Boards of Directors	—	—	—	(411)	(411)
Common shares issued under dividend reinvestment plan	385	—	—	—	385
Common shares issued under compensation plan for Boards of Directors	72	—	—	168	240
	81	—	—	192	273

Common shares issued under employee stock purchase plan					
Stock-based compensation expense	1,362	—	—	—	1,362
Balance, September 30, 2017	$344,831	$128,465	$ 51	$(15,961)	$ 457,386

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016
Net cash provided by operating activities	$45,730	$42,195
Investing activities:		
Available-for-sale investment securities:		
Purchases	(140,791)	(95,481)
Proceeds from sales	7,381	30,622
Proceeds from principal payments, calls and prepayments	111,315	93,172
Held-to-maturity investment securities:		
Purchases	(1,310)	—
Proceeds from principal payments	1,997	1,747
Net increase in loans	(99,829)	(94,149)
Net expenditures for bank premises and equipment	(3,016)	(4,893)
Proceeds from sales of other real estate owned	494	148
Purchase of bank owned life insurance	—	(35,000)
Business acquisitions, net of cash received	(450)	(244)
Return of (investment in) limited partnership and tax credit funds	6	(2,954)
Net cash used in investing activities	(124,203)	(107,032)
Financing activities:		
Net (decrease) increase in non-interest-bearing deposits	(9,575)	27,529
Net increase in interest-bearing deposits	164,513	12,040
Net (decrease) increase in short-term borrowings	(111,890)	2,421
Proceeds from long-term borrowings	54,403	55,000
Payments on long-term borrowings	(3,823)	(21,899)
Cash dividends paid	(10,855)	(8,215)
Repurchase of treasury stock under share repurchase program	—	(4,965)
Repurchase of treasury stock in connection with employee incentive plan and compensation plan for Boards of Directors to be held as treasury stock	(411)	(369)
Proceeds from issuance of common shares	8	15
Net cash provided by financing activities	82,370	61,557
Net increase (decrease) in cash and cash equivalents	3,897	(3,280)
Cash and cash equivalents at beginning of period	66,146	71,115
Cash and cash equivalents at end of period	$70,043	$67,835

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2016 ("2016 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' 2016 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after September 30, 2017 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. All intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2016, contained herein, has been derived from the audited Consolidated Balance Sheet included in Peoples' 2016 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") 2017-12 - Derivatives and Hedging (Topic 815): Targeted improvements to accounting for hedging activities. The amendments in this ASU 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 non-financial 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 2017-11 - Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part 1) Accounting for certain financial instruments with down round features and (Part II), Replacement of the indefinite deferral for mandatory redeemable financial instruments of certain nonpublic entities and certain mandatory redeemable non-controlling interests with a scope exception. Part I of the update addresses the complexity of accounting for certain financial instruments with down round features such as warrants or convertible instruments and will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020 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 2017-09 - Compensation - Stock Compensation (Topic 718): Scope and Modification Accounting. An entity may change the terms or conditions of a share-based payment award for many different reasons, and the nature and effect of the change can vary significantly. Modification is currently defined as "a change in any of the terms or conditions of a share-based payment award." The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in accordance with Topic 718. The amendments will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018 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.

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ASU 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU shorten the amortization period for certain callable debt securities held at a premium. The amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. 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 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this ASU require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments will improve the consistency, transparency, and usefulness of financial information and will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018 for Peoples). Peoples will adopt this new accounting guidance as required, and it will have no impact on Peoples' consolidated financial statements as the accrual for pension plan benefits for all participants was frozen as of March 1, 2011.

ASU 2017-04 - Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU is to simplify how an entity is required to test goodwill for impairment by eliminating the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020 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 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting, including acquisitions, disposals, goodwill and consideration. Phase 2 of the project will not impact Peoples' consolidated financial statements. ASU 2017-01 will become effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018 for Peoples). Peoples will adopt Phase 1 of this new accounting guidance as required and management will apply this guidance to future transactions upon adoption. Phase 2, which was released as ASU 2017-05 will not impact Peoples' consolidated financial statements.

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606). There are many aspects of this new accounting guidance that are still being interpreted and the FASB has issued updates to certain aspects of the guidance to address implementation issues. The FASB issued updates in March, April, May and December of 2016, and September of 2017, clarifying several areas of the guidance. These clarifications included:

- Principal versus agent considerations,
- Collectibility, sales tax and non-cash consideration, practical expedients for contract modifications and completed contracts,
- Identification of performance obligations
- Licensing implementation guidance, and
- Transition provisions for public business entities that otherwise would not meet the definition of a public business entity except for a requirement to include, or the inclusion of, its financial statements or financial information in another public business entity's filing.

This accounting guidance can be implemented using either a full retrospective method or a modified retrospective approach. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018 for Peoples). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. Peoples will adopt this new accounting guidance in 2018, as required, and expects to adopt the new 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. Peoples' preliminary analysis indicates that certain non-interest income financial statement line items contain revenue streams that are in the scope of this update, the most substantial of which is insurance income. Based on Peoples' evaluation to date, Peoples does not expect the adoption of this accounting guidance to have a significant impact on Peoples' financial condition or results of operations; however, the review is ongoing. Peoples will continue to evaluate the impact of this accounting guidance, including any additional guidance issued, during the completion of this internal assessment.

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

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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 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU require all excess income tax benefits or tax deficiencies of stock awards to be recognized in the income statement when the awards vest or are settled. The amendments also allow an employer to repurchase more of an employee's shares than it could under previous guidance for tax withholding purposes without triggering liability accounting and to make a policy election to account for forfeitures as they occur. Peoples adopted this pronouncement as of January 1, 2017, and will continue using an estimated forfeiture rate. In the first nine months of 2017, Peoples recorded a tax benefit of $123,000 associated with the adoption of this ASU for the tax benefit of awards that settled or vested during the year, with the majority recorded in the first quarter of 2017.

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. This ASU will become 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 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this ASU are intended to enhance the reporting model for financial instruments to provide users of financial statements with more useful information. The amendments require equity investments to be measured at fair value with changes in fair value recognized in net income. However, a reporting organization may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment (if any,) from observable price changes in orderly transactions for similar investments of the same issuer. This ASU will be effective for fiscal years beginning after December 15, 2017 (effective January 1, 2018 for Peoples). Peoples is currently evaluating the impact of adopting the new accounting guidance on Peoples' consolidated financial statements which may result in an impact to the income statement on a quarterly and annual basis, as market values fluctuate. Peoples will adopt this accounting guidance as of the required effective date. As of September 30, 2017, Peoples had net unrealized gains on equity securities of $6.5 million.

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Note 2 Fair Value of Financial Instruments

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

(Dollars in thousands)	Fair Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Obligations of:				
States and political subdivisions	$104,560	$—	$104,560	$ —
Residential mortgage-backed securities	672,106	—	672,106	—
Commercial mortgage-backed securities	7,128	—	7,128	—
Bank-issued trust preferred securities	5,154	—	5,154	—
Equity securities	8,073	7,914	159	—
Total available-for-sale securities	$797,021	$7,914	$789,107	$ —
December 31, 2016				
Obligations of:				
U.S. government sponsored agencies	$1,000	$—	$1,000	$ —
States and political subdivisions	117,230	—	117,230	—
Residential mortgage-backed securities	626,567	—	626,567	—
Commercial mortgage-backed securities	19,291	—	19,291	—
Bank-issued trust preferred securities	4,899	—	4,899	—
Equity securities	8,953	8,734	219	—
Total available-for-sale securities	$777,940	$8,734	$769,206	$ —

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

(Dollars in thousands)	Fair Value	Fair Value at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Obligations of:				
States and political subdivisions	$4,463	$—	$4,463	$ —
Residential mortgage-backed securities	33,690	—	33,690	—

Commercial mortgage-backed securities	4,655	—	4,655	—
Total held-to-maturity securities	$42,808	$ —	$ 42,808	$ —
December 31, 2016				
Obligations of:				
States and political subdivisions	$4,041	$ —	$ 4,041	$ —
Residential mortgage-backed securities	33,762	—	33,762	—
Commercial mortgage-backed securities	5,424	—	5,424	—
Total held-to-maturity securities	$43,227	$ —	$ 43,227	$ —

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

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 2 inputs). At September 30, 2017, impaired loans with an aggregate outstanding principal balance of $33.0 million were measured and reported at a fair value of $27.0 million. For the three and nine months ended September 30, 2017, Peoples recognized $83,000 and $408,000 of recoveries on impaired loans, respectively, through the allowance for loan losses.

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

	September 30, 2017		December 31, 2016	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$70,043	$70,043	$66,146	$66,146
Investment securities	877,555	878,200	859,455	859,538
Loans (1)	2,311,696	2,252,054	2,210,529	2,152,544
Bank premises and equipment, net	51,777	51,777	53,616	53,616
Bank owned life insurance	61,696	61,696	60,225	60,225
Financial liabilities:				
Deposits	$2,664,682	$2,664,513	$2,509,722	$2,512,647
Short-term borrowings	193,717	193,717	305,607	305,607
Long-term borrowings	195,890	195,857	145,155	145,106
Cash flow hedges (2)	916	916	1,779	1,779

(1) Includes loans held for sale.

(2) For additional information, see Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

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

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

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

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

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

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

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Note 3 Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2017				
Obligations of:				
States and political subdivisions	$ 102,415	$ 2,343	$ (198)	$ 104,560
Residential mortgage-backed securities	676,576	3,965	(8,435)	672,106
Commercial mortgage-backed securities	7,105	40	(17)	7,128
Bank-issued trust preferred securities	5,188	147	(181)	5,154
Equity securities	1,526	6,611	(64)	8,073
Total available-for-sale securities	$ 792,810	$ 13,106	$ (8,895)	$ 797,021
December 31, 2016				
Obligations of:				
U.S. government sponsored agencies	$ 1,000	$ —	$ —	$ 1,000
States and political subdivisions	115,657	1,836	(263)	117,230
Residential mortgage-backed securities	633,802	3,758	(10,993)	626,567
Commercial mortgage-backed securities	19,337	41	(87)	19,291
Bank-issued trust preferred securities	5,169	91	(361)	4,899
Equity securities	2,052	6,969	(68)	8,953
Total available-for-sale securities	$ 777,017	$ 12,695	$ (11,772)	$ 777,940

Peoples' investment in equity securities was comprised largely of common stocks issued by various unrelated bank holding companies at both September 30, 2017 and December 31, 2016. At September 30, 2017, there were no securities of a single issuer that exceeded 10% of stockholders' equity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Gross gains realized	$ 1,877	$ —	$ 2,235	$ 863
Gross losses realized	16	1	16	1
Net gain (loss) realized	$ 1,861	$ (1)	$ 2,219	$ 862

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
September 30, 2017								
Obligations of:								
States and political subdivisions	$7,622	$ 62	6	$3,957	$ 136	1	$11,579	$ 198
Residential mortgage-backed securities	300,639	3,348	77	163,685	5,087	51	464,324	8,435
Commercial mortgage-backed securities	3,875	17	2	—	—	—	3,875	17
Bank-issued trust preferred securities	—	—	—	2,818	181	3	2,818	181
Equity securities	—	—	—	112	64	1	112	64
Total	$312,136	$ 3,427	85	$170,572	$ 5,468	56	$482,708	$ 8,895
December 31, 2016								
Obligations of:								
States and political subdivisions	$23,501	$ 263	28	$—	$ —	—	$23,501	$ 263
Residential mortgage-backed securities	427,088	8,495	108	46,631	2,498	22	473,719	10,993
Commercial mortgage-backed securities	7,770	87	4	—	—	—	7,770	87
Bank-issued trust preferred securities	—	—	—	2,637	361	3	2,637	361
Equity securities	263	3	1	110	65	1	373	68
Total	$458,622	$ 8,848	141	$49,378	$ 2,924	26	$508,000	$ 11,772

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At September 30, 2017, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell, nor was it more likely than not that Peoples would be required to sell, any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both September 30, 2017 and December 31, 2016 were largely attributable to changes in market interest rates and spreads since the securities were purchased.

At September 30, 2017, 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 $0.7 million and $0.4 million, respectively. Management analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, the unrealized losses with respect to the three bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at September 30, 2017 were primarily attributable to the floating-rate nature of those investments, the current interest rate environment and spreads within that sector.

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The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at September 30, 2017. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	$995	$11,339	$28,293	$61,788	$102,415
Residential mortgage-backed securities	13	15,029	37,213	624,321	676,576
Commercial mortgage-backed securities	—	5,725	—	1,380	7,105
Bank-issued trust preferred securities	—	—	2,190	2,998	5,188
Equity securities					1,526
Total available-for-sale securities	$1,008	$32,093	$67,696	$690,487	$792,810
Fair value					
Obligations of:					
States and political subdivisions	$1,002	$11,451	$28,743	$63,364	$104,560
Residential mortgage-backed securities	13	14,998	37,274	619,821	672,106
Commercial mortgage-backed securities	—	5,762	—	1,366	7,128
Bank-issued trust preferred securities	—	—	2,337	2,817	5,154
Equity securities					8,073
Total available-for-sale securities	$1,015	$32,211	$68,354	$687,368	$797,021
Total weighted-average yield	3.48 %	3.61 %	3.55 %	3.36 %	3.39 %

Held-to-Maturity

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2017				
Obligations of:				
States and political subdivisions	$ 3,812	$ 651	$ —	$4,463
Residential mortgage-backed securities	33,648	448	(406)	33,690
Commercial mortgage-backed securities	4,703	—	(48)	4,655
Total held-to-maturity securities	$ 42,163	$ 1,099	$ (454)	$42,808
December 31, 2016				
Obligations of:				
States and political subdivisions	$ 3,820	$ 221	$ —	$4,041
Residential mortgage-backed securities	33,858	432	(528)	33,762
Commercial mortgage-backed securities	5,466	—	(42)	5,424
Total held-to-maturity securities	$ 43,144	$ 653	$ (570)	$43,227

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the three or nine months ended September 30, 2017 and 2016.

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
September 30, 2017								
Residential mortgage-backed securities	$2,993	$ 90	1	$9,361	$ 316	2	$12,354	$ 406
Commercial mortgage-backed securities	4,655	48	1	—	—	—	4,655	48
Total	$7,648	$ 138	2	$9,361	$ 316	2	$17,009	$ 454
December 31, 2016								
Residential mortgage-backed securities	$12,139	$ 476	3	$963	$ 52	1	$13,102	$ 528
Commercial mortgage-backed securities	5,424	42	1	—	—	—	5,424	42
Total	$17,563	$ 518	4	$963	$ 52	1	$18,526	$ 570

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at September 30, 2017. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	$ —	$314	$2,980	$518	$3,812
Residential mortgage-backed securities	—	450	6,379	26,819	33,648
Commercial mortgage-backed securities	—	—	—	4,703	4,703
Total held-to-maturity securities	$ —	$764	$9,359	$32,040	$42,163
Fair value					
Obligations of:					
States and political subdivisions	$ —	$320	$3,598	$545	$4,463
Residential mortgage-backed securities	—	452	6,508	26,730	33,690
Commercial mortgage-backed securities	—	—	—	4,655	4,655
Total held-to-maturity securities	$ —	$772	$10,106	$31,930	$42,808
Total weighted-average yield	— %	4.18 %	3.10 %	4.01 %	3.81 %

Other Securities

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

Pledged Securities

Peoples had pledged available-for-sale investment securities with carrying values of $543.1 million and $517.9 million at September 30, 2017 and December 31, 2016, respectively, and held-to-maturity investment securities with carrying values of $19.0 million and $20.0 million at September 30, 2017 and December 31, 2016, 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 $7.9 million and $9.2 million at September 30, 2017 and December 31, 2016, respectively, and held-to-maturity securities with carrying values of $20.9 million and $22.2 million at September 30, 2017 and December 31, 2016, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

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Note 4 Loans

Peoples' loan portfolio consists of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of northeastern, central, southwestern and southeastern Ohio, west central West Virginia, and northeastern Kentucky. Acquired loans consist of loans purchased in 2012 or thereafter in a business combination. 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)	September 30, 2017	December 31, 2016
Originated loans:		
Commercial real estate, construction	$ 111,187	$ 84,626
Commercial real estate, other	573,256	531,557
Commercial real estate	684,443	616,183
Commercial and industrial	407,468	378,131
Residential real estate	304,094	307,490
Home equity lines of credit	88,421	85,617
Consumer, indirect	335,436	252,024
Consumer, other	68,286	67,579
Consumer	403,722	319,603
Deposit account overdrafts	507	1,080
Total originated loans	$ 1,888,655	$ 1,708,104
Acquired loans:		
Commercial real estate, construction	$ 8,565	$ 10,100
Commercial real estate, other	174,157	204,466
Commercial real estate	182,722	214,566
Commercial and industrial	36,462	44,208
Residential real estate	194,950	228,435
Home equity lines of credit	22,366	25,875
Consumer, indirect	408	808
Consumer, other	1,472	2,940
Consumer	1,880	3,748
Total acquired loans	$ 438,380	$ 516,832
Loans, net of deferred fees and costs	$ 2,327,035	$ 2,224,936

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)	September 30, 2017	December 31, 2016
Commercial real estate, other	$ 8,235	$ 11,476
Commercial and industrial	818	1,573
Residential real estate	20,497	23,306
Consumer	41	76
Total outstanding balance	$ 29,591	$ 36,431
Net carrying amount	$ 20,581	$ 26,524

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Changes in the accretable yield for purchased credit impaired loans for the nine months ended September 30, 2017 were as follows:

(Dollars in thousands)	Accretable Yield
Balance, December 31, 2016	$ 7,132
Reclassification from nonaccretable to accretable	1,285
Accretion	(1,279)
Balance, September 30, 2017	$ 7,138

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

Cash flows expected to be collected on purchased credit impaired loans are estimated 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.

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 $490.1 million and $542.5 million at September 30, 2017 and December 31, 2016, respectively. Peoples also pledges commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled $84.0 million and $152.0 million at September 30, 2017 and December 31, 2016, respectively.

Nonaccrual and Past Due Loans

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

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

(Dollars in thousands)	Nonaccrual Loans		Loans 90+ Days Past Due and Accruing	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Originated loans:				
Commercial real estate, construction	$776	$ 826	$—	$ —
Commercial real estate, other	6,675	9,934	374	—
Commercial real estate	7,451	10,760	374	—
Commercial and industrial	780	1,712	739	—
Residential real estate	3,437	3,778	231	183
Home equity lines of credit	344	383	15	—
Consumer, indirect	154	130	—	10
Consumer, other	16	11	—	—
Consumer	170	141	—	10
Total originated loans	$12,182	$ 16,774	$1,359	$ 193
Acquired loans:				
Commercial real estate, other	$982	$ 1,609	$898	$ 1,506
Commercial and industrial	498	390	93	387
Residential real estate	2,210	2,317	1,184	1,672
Home equity lines of credit	330	231	—	—
Consumer, indirect	—	—	—	13
Consumer, other	17	4	8	—
Consumer	17	4	8	13
Total acquired loans	$4,037	$ 4,551	$2,183	$ 3,578
Total loans	$16,219	$ 21,325	$3,542	$ 3,771

During the first nine months of 2017, Peoples' nonaccrual loans declined largely due to several payoffs on larger relationships.

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

(Dollars in thousands)	Loans Past Due 30 - 59 days	60 - 89 days	90 + Days	Total	Current Loans	Total Loans
September 30, 2017						
Originated loans:						
Commercial real estate, construction	$—	$—	$—	$—	$111,187	$111,187
Commercial real estate, other	1,693	229	6,573	8,495	564,761	573,256
Commercial real estate	1,693	229	6,573	8,495	675,948	684,443
Commercial and industrial	1,292	155	1,396	2,843	404,625	407,468
Residential real estate	2,076	1,368	1,777	5,221	298,873	304,094
Home equity lines of credit	346	184	145	675	87,746	88,421
Consumer, indirect	1,731	358	33	2,122	333,314	335,436
Consumer, other	158	89	14	261	68,025	68,286
Consumer	1,889	447	47	2,383	401,339	403,722
Deposit account overdrafts	—	—	—	—	507	507
Total originated loans	$7,296	$2,383	$9,938	$19,617	$1,869,038	$1,888,655
Acquired loans:						
Commercial real estate, construction	$—	$—	$—	$—	$8,565	$8,565
Commercial real estate, other	544	176	1,089	1,809	172,348	174,157
Commercial real estate	544	176	1,089	1,809	180,913	182,722
Commercial and industrial	17	24	463	504	35,958	36,462
Residential real estate	1,498	1,141	2,436	5,075	189,875	194,950
Home equity lines of credit	112	—	280	392	21,974	22,366
Consumer, indirect	2	—	—	2	406	408
Consumer, other	13	18	24	55	1,417	1,472
Consumer	15	18	24	57	1,823	1,880
Total acquired loans	$2,186	$1,359	$4,292	$7,837	$430,543	$438,380
Total loans	$9,482	$3,742	$14,230	$27,454	$2,299,581	$2,327,035

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(Dollars in thousands)	Loans Past Due 30 - 59 days	60 - 89 days	90 + Days	Total	Current Loans	Total Loans
December 31, 2016						
Originated loans:						
Commercial real estate, construction	$—	$—	$826	$826	$83,800	$84,626
Commercial real estate, other	1,420	225	9,305	10,950	520,607	531,557
Commercial real estate	1,420	225	10,131	11,776	604,407	616,183
Commercial and industrial	1,305	700	1,465	3,470	374,661	378,131
Residential real estate	7,288	1,019	1,895	10,202	297,288	307,490
Home equity lines of credit	316	45	248	609	85,008	85,617
Consumer, indirect	2,080	273	77	2,430	249,594	252,024
Consumer, other	346	38	—	384	67,195	67,579
Consumer	2,426	311	77	2,814	316,789	319,603
Deposit account overdrafts	—	—	—	—	1,080	1,080
Total originated loans	$12,755	$2,300	$13,816	$28,871	$1,679,233	$1,708,104
Acquired loans:						
Commercial real estate, construction	$—	$—	$40	$40	$10,060	$10,100
Commercial real estate, other	1,220	208	2,271	3,699	200,767	204,466
Commercial real estate	1,220	208	2,311	3,739	210,827	214,566
Commercial and industrial	148	3	777	928	43,280	44,208
Residential real estate	5,918	2,496	2,974	11,388	217,047	228,435
Home equity lines of credit	208	65	178	451	25,424	25,875
Consumer, indirect	4	—	—	4	804	808
Consumer, other	51	—	13	64	2,876	2,940
Consumer	55	—	13	68	3,680	3,748
Total acquired loans	$7,549	$2,772	$6,253	$16,574	$500,258	$516,832
Total loans	$20,304	$5,072	$20,069	$45,445	$2,179,491	$2,224,936

During the first nine months of 2017, Peoples' delinquency trends improved compared to the balances at December 31, 2016, as total loans past due declined in both the originated and acquired loan portfolios.

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2016 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 facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of

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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 (Grades 1 - 4)	Special Mention (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
September 30, 2017						
Originated loans:						
Commercial real estate, construction	$104,446	$5,510	$ 776	$ —	$455	$111,187
Commercial real estate, other	541,073	21,062	11,121	—	—	573,256
Commercial real estate	645,519	26,572	11,897	—	455	684,443
Commercial and industrial	382,332	18,943	6,157	—	36	407,468
Residential real estate	18,717	1,033	11,499	182	272,663	304,094
Home equity lines of credit	596	—	—	—	87,825	88,421
Consumer, indirect	59	9	—	—	335,368	335,436
Consumer, other	38	—	—	—	68,248	68,286
Consumer	97	9	—	—	403,616	403,722
Deposit account overdrafts	—	—	—	—	507	507
Total originated loans	$1,047,261	$46,557	$ 29,553	$ 182	$765,102	$1,888,655
Acquired loans:						
Commercial real estate, construction	$8,513	$—	$ 52	$ —	$—	$8,565
Commercial real estate, other	157,610	8,057	8,490	—	—	174,157
Commercial real estate	166,123	8,057	8,542	—	—	182,722
Commercial and industrial	34,651	220	1,591	—	—	36,462
Residential real estate	13,082	604	1,365	—	179,899	194,950
Home equity lines of credit	143	—	—	—	22,223	22,366
Consumer, indirect	19	—	—	—	389	408
Consumer, other	42	—	—	—	1,430	1,472
Consumer	61	—	—	—	1,819	1,880
Total acquired loans	$214,060	$8,881	$ 11,498	$ —	$203,941	$438,380
Total loans	$1,261,321	$55,438	$ 41,051	$ 182	$969,043	$2,327,035

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(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Special Mention (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
December 31, 2016						
Originated loans:						
Commercial real estate, construction	$73,423	$—	$ 826	$ —	$10,377	$84,626
Commercial real estate, other	505,029	11,855	14,673	—	—	531,557
Commercial real estate	578,452	11,855	15,499	—	10,377	616,183
Commercial and industrial	346,791	15,210	16,130	—	—	378,131
Residential real estate	47,336	957	12,828	304	246,065	307,490
Home equity lines of credit	465	—	135	—	85,017	85,617
Consumer, indirect	15	13	—	—	251,996	252,024
Consumer, other	50	—	—	—	67,529	67,579
Consumer	65	13	—	—	319,525	319,603
Deposit account overdrafts	—	—	—	—	1,080	1,080
Total originated loans	$973,109	$28,035	$ 44,592	$ 304	$662,064	$1,708,104
Acquired loans:						
Commercial real estate, construction	$10,046	$—	$ 54	$ —	$—	$10,100
Commercial real estate, other	181,781	12,475	10,210	—	—	204,466
Commercial real estate	191,827	12,475	10,264	—	—	214,566
Commercial and industrial	42,809	227	978	194	—	44,208
Residential real estate	17,170	709	1,404	—	209,152	228,435
Home equity lines of credit	202	—	—	—	25,673	25,875
Consumer, indirect	51	—	—	—	757	808
Consumer, other	53	—	—	—	2,887	2,940
Consumer	104	—	—	—	3,644	3,748
Total acquired loans	$252,112	$13,411	$ 12,646	$ 194	$238,469	$516,832
Total loans	$1,225,221	$41,446	$ 57,238	$ 498	$900,533	$2,224,936

In the first nine months of 2017, Peoples' classified loans, which are loans categorized as substandard or doubtful, declined compared to the balances at December 31, 2016 mostly due to loan payoffs.

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Impaired Loans

The following table summarizes loans classified as impaired:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2017							
Commercial real estate, construction	$ 821	$ —	$ 776	$ 776	$ —	$ 805	$ —
Commercial real estate, other	15,109	5,045	9,180	14,225	136	14,763	727
Commercial real estate	15,930	5,045	9,956	15,001	136	15,568	727
Commercial and industrial	2,794	2,016	603	2,619	424	2,651	384
Residential real estate	25,974	654	23,724	24,378	151	24,273	1,675
Home equity lines of credit	1,718	65	1,649	1,714	13	1,435	122
Consumer, indirect	171	18	154	172	2	155	11
Consumer, other	92	28	61	89	21	101	7
Consumer	263	46	215	261	23	256	18
Total	$ 46,679	$ 7,826	$ 36,147	$ 43,973	$ 747	$ 44,183	$ 2,926
December 31, 2016							
Commercial real estate, construction	$ 894	$ —	$ 866	$ 866	$ —	$ 913	$ 3
Commercial real estate, other	20,029	7,474	12,227	19,701	803	18,710	700
Commercial real estate	20,923	7,474	13,093	20,567	803	19,623	703
Commercial and industrial	7,289	2,732	1,003	3,735	585	3,386	125
Residential real estate	27,703	138	27,393	27,531	24	27,455	1,419
Home equity lines of credit	908	—	908	908	—	717	44
Consumer, indirect	220	—	224	224	—	136	16
Consumer, other	130	—	130	130	—	138	13
Consumer	350	—	354	354	—	274	29
Total	$ 57,173	$ 10,344	$ 42,751	$ 53,095	$ 1,412	$ 51,455	$ 2,320

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 September 30:

		Three Months Ended Recorded Investment (1)		
(Dollars in thousands)	Number of Contracts	Pre-Modification	Post-Modification	Remaining Recorded Investment
September 30, 2017				
Originated loans:				
Commercial and industrial	1	$ 36	$ 36	$ 36
Residential real estate	1	90	90	90
Home equity lines of credit	2	22	22	19
Consumer, indirect	5	34	34	34
Consumer, other	2	9	9	9
Consumer	7	43	43	43
Total originated loans	11	$ 191	$ 191	$ 188
Acquired loans:				
Residential real estate	2	$ 61	$ 61	$ 61
Home equity lines of credit	1	34	34	34
Total acquired loans	3	$ 95	$ 95	$ 95
September 30, 2016				
Originated loans:				
Residential real estate	2	$ 75	$ 75	$ 75
Home equity lines of credit	3	23	23	23
Consumer, indirect	7	78	78	78
Consumer, other	3	34	34	34
Consumer	10	112	112	112
Total originated loans	15	$ 210	$ 210	$ 210
Acquired loans:				
Commercial real estate, other	1	$ 224	$ 224	$ 224
Residential real estate	2	141	141	141
Total acquired loans	3	$ 365	$ 365	$ 365

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

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

		Nine Months Ended		
		Recorded Investment (1)		
(Dollars in thousands)	Number of Contracts	Pre-Modification	Post-Modification	Remaining Recorded Investment
September 30, 2017				
Originated loans:				
Commercial real estate, other	1	$14	$ 14	$ 14
Commercial and industrial	3	174	174	123
Residential real estate	7	483	483	478
Home equity lines of credit	6	291	291	286
Consumer, indirect	11	127	127	86
Consumer, other	3	10	10	10
Consumer	14	137	137	96
Total originated loans	31	$1,099	$ 1,099	$ 997
Acquired loans:				
Commercial real estate, other	2	$271	$ 271	$ 265
Residential real estate	8	264	264	263
Home equity lines of credit	5	328	328	323
Consumer, other	2	10	10	9
Total acquired loans	17	$873	$ 873	$ 860
September 30, 2016				
Originated loans:				
Commercial real estate, other	1	$57	$ 57	$ 56
Commercial and industrial	6	716	724	685
Residential real estate	5	173	173	173
Home equity lines of credit	3	23	23	23
Consumer, indirect	9	107	107	107
Consumer, other	5	46	46	46
Consumer	14	153	153	153
Total originated loans	29	$1,122	$ 1,130	$ 1,090
Acquired loans:				
Commercial real estate, other	1	$223	$ 223	$ 223
Residential real estate	11	927	929	923
Home equity lines of credit	3	179	179	173
Consumer, indirect	2	8	8	8
Consumer, other	3	17	17	17
Consumer	5	25	25	25
Total acquired loans	20	$1,354	$ 1,356	$ 1,344

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

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The following table presents those acquired loans modified in a TDR during the year that subsequently defaulted (i.e., 90 days or more past due following a modification) during the nine month periods ended September 30, 2017 and 2016:

(Dollars in thousands)	September 30, 2017 Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses	September 30, 2016 Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses
Acquired loans:						
Residential real estate	1	$ 44	$ —	—	$ —	$ —
Consumer, other	1	8	—	—	—	—
Total	2	$ 52	$ —	—	$ —	$ —

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

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

Allowance for Originated Loan Losses

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

(Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Home Equity Lines of Credit	Consumer Indirect	Consumer Other	Deposit Account Overdrafts	Total
Balance, January 1, 2017	$ 7,172	$ 6,353	$ 982	$ 688	$ 2,312	$ 518	$ 171	$ 18,196
Charge-offs	(25)	(165)	(451)	(100)	(1,493)	(275)	(767)	(3,276)
Recoveries	135	1	128	9	598	152	159	1,182
Net recoveries (charge-offs)	110	(164)	(323)	(91)	(895)	(123)	(608)	(2,094)
Provision for loan losses	252	226	265	82	1,397	46	507	2,775
Balance, September 30, 2017	$ 7,534	$ 6,415	$ 924	$ 679	$ 2,814	$ 441	$ 70	$ 18,877
Period-end amount allocated to:								
Loans individually evaluated for impairment	$ 136	$ 424	$ 151	$ 13	$ 2	$ 21	$ —	$ 747
Loans collectively evaluated for impairment	7,398	5,991	773	666	2,812	420	70	18,130
Ending balance	$ 7,534	$ 6,415	$ 924	$ 679	$ 2,814	$ 441	$ 70	$ 18,877
Balance, January 1, 2016	$ 7,076	$ 5,382	$ 1,257	$ 732	$ 1,934	$ 37	$ 121	$ 16,539
Charge-offs	(12)	(1,017)	(524)	(58)	(1,502)	(397)	(544)	(4,054)
Recoveries	1,199	250	193	33	727	183	148	2,733
Net recoveries (charge-offs)	1,187	(767)	(331)	(25)	(775)	(214)	(396)	(1,321)
(Recovery of) provision for loan losses	(773)	1,075	194	(21)	1,081	769	418	2,743
Balance, September 30, 2016	$ 7,490	$ 5,690	$ 1,120	$ 686	$ 2,240	$ 592	$ 143	$ 17,961
Period-end amount allocated to:								

Loans individually evaluated for impairment	$ 1,164	$ 506	$ 122	$ —	$ —	$ —	$ —	$ 1,792
Loans collectively evaluated for impairment	6,326	5,184	998	686	2,240	592	143	16,169
Ending balance	$ 7,490	$ 5,690	$ 1,120	$ 686	$ 2,240	$ 592	$ 143	$ 17,961

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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. During the third quarter of 2017, Peoples completed its reforecast of the estimated cash flows expected to be collected on purchased credit impaired loans. As a result, Peoples recorded an additional provision for loan losses for acquired loans during the third quarter of 2017. During the first nine months of 2017, Peoples also recognized a recovery of loan losses that was related to an acquired purchased credit impaired loan that was paid off.

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Purchased credit impaired loans:				
Balance, beginning of period	$ 90	$ 197	$ 233	$ 240
Charge-offs	—	(16)	—	(67)
Recoveries	—	—	—	—
Net charge-offs	—	(16)	—	(67)
Provision for (recovery of) loan losses	25	77	(118)	85
Balance, September 30	$ 115	$ 258	$ 115	$ 258

Note 5 Long-Term Borrowings

The following table summarizes Peoples' long-term borrowings:

(Dollars in thousands)	September 30, 2017		December 31, 2016	
	Balance	Weighted-Average Rate	Balance	Weighted-Average Rate
FHLB putable, non-amortizing, fixed-rate advances	$ 125,000	2.00 %	$ 70,000	2.49 %
Callable national market repurchase agreements	40,000	3.63 %	40,000	3.63 %
FHLB amortizing, fixed-rate advances	23,862	2.03 %	28,282	2.01 %
Junior subordinated debt securities	7,061	4.78 %	6,924	4.48 %
Unamortized debt issuance costs	(33)	— %	(51)	— %
Total long-term borrowings	$ 195,890	2.43 %	$ 145,155	2.81 %

Peoples continually evaluates its overall balance sheet position given the interest rate environment. During the first nine months of 2017, Peoples borrowed an additional $75.0 million of long-term FHLB non-amortizing advances, which have interest rates ranging from 1.20% to 2.03% and mature between 2018 and 2022.

As of September 30, 2017, Peoples' FHLB putable and callable national market repurchase agreements had no remaining putable or callable options. 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 ten to twenty years. These advances require monthly principal and interest payments, with some having a constant prepayment rate requiring an additional principal payment annually. These advances are not eligible for optional prepayment prior to maturity.

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 September 30, 2017, Peoples had seven interest rate swaps with a notional value of $60.0 million associated with Peoples' cash outflows for various FHLB advances. The swaps become effective in 2018,

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roughly to 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 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 September 30, 2017, there were no borrowings outstanding under the Credit Facility. Additional information regarding the Credit Facility can be found in Note 9 of the Notes to the Consolidated Financial Statements included in Peoples' 2016 Form 10-K.

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

(Dollars in thousands)	Balance	Weighted-Average Rate	
Three months ending December 31, 2017	$1,866	2.04	%
Year ending December 31, 2018	54,385	3.46	%
Year ending December 31, 2019	33,508	1.37	%
Year ending December 31, 2020	25,564	1.85	%
Year ending December 31, 2021	21,979	1.75	%
Thereafter	58,588	2.62	%
Total long-term borrowings	$195,890	2.43	%

Note 6 Stockholders’ Equity

The following table details the progression in Peoples’ common shares and treasury stock during the nine months ended September 30, 2017:

	Common Shares	Treasury Stock
Shares at December 31, 2016	18,939,091	795,758
Changes related to stock-based compensation awards:		
Release of restricted common shares	—	8,719
Cancellation of restricted common shares	(3,344)	4,510
Exercise of stock options for common shares	—	(266)
Grant of restricted common shares	—	(68,707)
Grant of common shares	—	(300)
Changes related to deferred compensation plan for Boards of Directors:		
Purchase of treasury stock	—	4,266
Reissuance of treasury stock	—	(24,634)
Common shares issued under dividend reinvestment plan	12,611	—
Common shares issued under compensation plan for Boards of Directors	—	(7,404)
Common shares issued under employee stock purchase plan	—	(8,412)
Shares at September 30, 2017	18,948,358	703,530

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by Peoples' Board of Directors. At September 30, 2017, Peoples had no preferred shares issued or outstanding.

Accumulated Other Comprehensive Income (Loss)

The following table details the change in the components of Peoples’ accumulated other comprehensive income (loss) for the nine months ended September 30, 2017:

(Dollars in thousands)	Unrealized Gain on Securities	Unrecognized Net Pension and Postretirement Costs	Unrealized Gain (Loss) on Cash Flow Hedge	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2016	$ 581	$ (3,321)	$ 1,186	$ (1,554)
Reclassification adjustments to net income:				
Realized gain on sale of securities, net of tax	(1,442)	—	—	(1,442)
Other comprehensive income (loss), net of reclassifications and tax	3,542	46	(541)	3,047
Balance, September 30, 2017	$ 2,681	$ (3,275)	$ 645	$ 51

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 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:

	Pension Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Interest cost	$112	$110	$338	$329
Expected return on plan assets	(138)	(123)	(415)	(369)
Amortization of net loss	26	23	77	71
Net periodic cost	$—	$10	$—	$31

	Postretirement Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Interest cost	$1	$1	$ 3	$ 3
Amortization of net loss	(1)	(2)	(5)	(5)
Net periodic cost	$—	$(1)	$ (2)	$ (2)

There were no settlement charges recorded in the three or nine months ended September 30, 2017 or September 30, 2016 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 September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2017	2016	2017	2016
Distributed earnings allocated to common shareholders	$3,972	$ 2,879	$11,184	$ 8,471
Undistributed earnings allocated to common shareholders	6,865	4,881	18,134	15,189
Net earnings allocated to common shareholders	$10,837	$ 7,760	$29,318	$ 23,660
Weighted-average common shares outstanding	18,056,207	17,993,443	18,043,692	18,015,249
Effect of potentially dilutive common shares	157,331	117,267	156,267	108,411
Total weighted-average diluted common shares outstanding	18,213,538	18,110,710	18,199,959	18,123,660
Earnings per common share:				
Basic	$0.60	$ 0.43	$1.62	$ 1.31
Diluted	$0.60	$ 0.43	$1.61	$ 1.31
Anti-dilutive shares excluded from calculation:				
Restricted shares, stock options and stock appreciation rights	163	18,604	270	24,461

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 $4.8 million in an asset position and $3.9 million in a liability position at September 30, 2017, and there was $5.0 million in an asset position and $3.2 million in a liability position at December 31, 2016. 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 September 30, 2017, Peoples had seven interest rate swaps with a notional value of $60.0 million associated with Peoples' cash outflows for various FHLB advances.

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

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the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transaction.

Peoples hedged its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 13 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments). Peoples entered into the seven interest rate swap contracts, described above, whereby 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 AOCI related to derivatives will be reclassified to interest income or expense as interest payments are made or received on Peoples' variable-rate assets or liabilities. During the three and nine months ended September 30, 2017, and September 30, 2016, Peoples had no reclassifications to interest expense. Peoples estimates that no interest expense amount will be reclassified in the fourth quarter of 2017 prior to adoption of the new accounting standards.

The amount of accumulated other comprehensive pre-tax income for Peoples' cash flow hedges was $1.0 million at September 30, 2017. There were no pre-tax net losses recorded for the nine months ended September 30, 2017. Additionally, Peoples had no reclassifications to earnings in the three months or nine months ended September 30, 2017 or September 30, 2016.

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 $334.2 million and fair value of $3.5 million of equally offsetting assets and liabilities at September 30, 2017, and a notional value of $247.3 million and fair value of $3.2 million of equally offsetting assets and liabilities at December 31, 2016. These interest rate swaps did not have a material impact on Peoples' results of operation or financial condition.

Note 10 Stock-Based Compensation

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

Stock 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 are to expire ten years from the respective date of grant. The most recent grant of SARs occurred in 2008. The following table summarizes the changes to Peoples' SARs for the nine months ended September 30, 2017:

	Number of Common Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value

	Subject to SARs			
Outstanding at January 1	2,338	$ 27.37		
Exercised	2,024	27.93		
Outstanding at September 30	314	$ 23.77	0.4 years	$ 3,083
Exercisable at September 30	314	$ 23.77	0.4 years	$ 3,083

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Restricted Common Shares

Under the 2006 Equity Plan, Peoples may award restricted common shares to officers, key employees and non-employee directors. In general, the restrictions on restricted common shares awarded to non-employee directors expire after six months, while the restrictions on restricted common shares awarded to employees expire after periods ranging from one to three years. In the first nine months of 2017, Peoples granted an aggregate of 61,547 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 nine months of 2017, Peoples granted, to certain key employees, an aggregate of 4,250 restricted common shares subject to time-based vesting with restrictions that will lapse three years after the grant date. Peoples also granted, to non-employee directors, an aggregate of 3,300 restricted common shares subject to time-based vesting with restrictions that will lapse six months after the grant date.

The following table summarizes the changes to Peoples' restricted common shares for the nine months ended September 30, 2017:

	Time-Based Vesting		Performance-Based Vesting	
	Number of Common Shares	Weighted-Average Grant Date Fair Value	Number of Common Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	40,316	$ 21.85	142,415	$ 21.95
Awarded	7,550	31.36	61,457	32.42
Released	7,150	26.96	21,050	21.74
Forfeited	2,300	24.69	5,854	24.89
Outstanding at September 30	38,416	$ 22.59	176,968	$ 25.51

For the nine months ended September 30, 2017, the total intrinsic value for restricted common shares released was $0.9 million compared to $0.7 million for the nine months ended September 30, 2016.

Stock-Based Compensation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2017	2016	2017	2016
Total stock-based compensation expense	$ 351	$ 346	$ 1,362	$ 1,009
Recognized tax benefit	(123)	(121)	(477)	(353)
Net expense recognized	$ 228	$ 225	$ 885	$ 656

Total unrecognized stock-based compensation expense related to unvested awards was $1.8 million at September 30, 2017, which will be recognized over a weighted-average period of 1.9 years.

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

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(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 on the date of such vesting and rounded down to the nearest whole common share.

Note 11 Acquisitions

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. This acquisition did not materially impact Peoples' financial position, results of operations or cash flows.

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

On October 23, 2017, Peoples entered into an Agreement and Plan of Merger (the "ASB Agreement") with ASB Financial Corp (“ASB”). The ASB Agreement calls for ASB to merge into Peoples and for ASB's wholly-owned subsidiary, American Savings Bank, fsb, which operates 6 full-service branches in southern Ohio and northern Kentucky, to merge into Peoples Bank. As of June 30, 2017, ASB had approximately $293.6 million in total assets, which included approximately $241.5 million in net loans, and approximately $210.4 million in total deposits. This transaction is expected to close during the second quarter of 2018.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Months Ended September 30,		At or For the Nine Months Ended September 30,	
	2017	2016	2017	2016
PER COMMON SHARE DATA				
Earnings per common share – basic	$0.60	$ 0.43	$1.62	1.31
Earnings per common share – diluted	0.60	0.43	1.61	1.31
Cash dividends declared per common share	0.22	0.16	0.62	0.47
Book value per common share (a)	25.02	24.22	25.02	24.22
Tangible book value per common share (a)(b)	$17.15	$ 16.14	$17.15	16.14
Weighted-average number of common shares outstanding – basic	18,056,202	17,993,443	18,043,692	18,105,249
Weighted-average number of common shares outstanding – diluted	18,213,533	18,110,710	18,199,959	18,123,660
Common shares outstanding at end of period	18,281,194	18,195,986	18,281,194	18,195,986
Closing stock price at end of period	$33.59	$ 24.59	$33.59	$ 24.59
SIGNIFICANT RATIOS				
Return on average stockholders' equity (c)	9.47 %	7.07 %	8.80 %	7.36 %
Return on average tangible stockholders' equity (c)(d)	14.58 %	11.54 %	13.77 %	12.17 %
Return on average assets (c)	1.22 %	0.93 %	1.13 %	0.96 %
Average stockholders' equity to average assets	12.88 %	13.19 %	12.81 %	13.05 %
Average loans to average deposits	86.69 %	83.50 %	86.09 %	82.39 %
Net interest margin (c)(e)	3.67 %	3.54 %	3.61 %	3.55 %
Efficiency ratio (f)	60.74 %	64.33 %	62.24 %	64.56 %
Pre-provision net revenue to total average assets (c)(g)	1.71 %	1.53 %	1.65 %	1.52 %
Dividend payout ratio	36.90 %	37.37 %	38.34 %	36.06 %
Investment securities as percentage of total assets (a)	24.70 %	25.10 %	24.70 %	25.10 %
ASSET QUALITY RATIOS				
Nonperforming loans as a percent of total loans (a)(h)	0.85 %	1.08 %	0.85 %	1.08 %
Nonperforming assets as a percent of total assets (a)(h)	0.56 %	0.72 %	0.56 %	0.72 %
Nonperforming assets as a percent of total loans and other real estate owned ("OREO") (a)(h)	0.86 %	1.11 %	0.86 %	1.11 %
Criticized loans as a percent of total loans (a)(i)	4.15 %	4.58 %	4.15 %	4.58 %
Classified loans as a percent of total loans (a)(j)	1.77 %	2.48 %	1.77 %	2.48 %
Allowance for loan losses as a percent of total loans (a)	0.82 %	0.84 %	0.82 %	0.84 %
Allowance for loan losses as a percent of nonperforming loans (a)(h)	96.11 %	77.50 %	96.11 %	77.50 %
Provision for loan losses as a percent of average total loans	0.19 %	0.21 %	0.16 %	0.18 %
Net charge-offs as a percentage of average total loans (c)	0.16 %	0.14 %	0.12 %	0.09 %
CAPITAL RATIOS (a)				
Common Equity Tier 1 (k)	13.31 %	13.04 %	13.31 %	13.04 %
Tier 1	13.60 %	13.34 %	13.60 %	13.34 %
Total (Tier 1 and Tier 2)	14.49 %	14.24 %	14.49 %	14.24 %
Tier 1 leverage	9.82 %	9.71 %	9.82 %	9.71 %
Tangible equity to tangible assets (b)	9.20 %	9.13 %	9.20 %	9.13 %

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

(b)

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

(c) Ratios are presented on an annualized basis.

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(d) 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 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.

(f) Total non-interest expense (less 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.”

(g) These amounts represent non-GAAP financial measures since they exclude the provision for (recovery of) loan 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.”

(h) Nonperforming loans include loans 90 days past due and accruing, renegotiated loans and nonaccrual loans. Nonperforming assets include nonperforming loans and other real estate owned.

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

(j) Includes loans categorized as substandard or doubtful.

(k) Peoples' capital conservation buffer was 6.49% at September 30, 2017 and 6.24% at September 30, 2016, 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, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995. Words such as “anticipates,” “estimate,” “may,” “feel,” “expect,” “believes,” “plans “would,” “should,” “could” and similar expressions are intended to identify these forward-looking statements but are not the exclusive means of identifying such statements. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. Factors that might cause such a difference include, but are not limited to:

(1) the success, impact, and timing of the implementation of Peoples' business strategies, including the successful integration of acquisitions and the expansion of consumer lending activity;

(2) competitive pressures among financial institutions or from non-financial institutions which may increase significantly, including product and pricing pressures, changes to third-party relationships and revenues, and Peoples' ability to attract, develop and retain qualified professionals;

(3) changes in the interest rate environment due to economic conditions and/or the fiscal policies of the United States ("U.S.") government and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which may adversely impact interest rates, interest margins, loan demand and interest rate sensitivity;

(4) uncertainty regarding the nature, timing 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 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;

(5) changes in policy and other regulatory and legal developments accompanying the current presidential administration and uncertainty or speculation pending the enactment of such changes;

(6) Peoples' ability to leverage the core banking system upgrade that occurred in the fourth quarter of 2016 (including the related core operating systems, data systems and products) without complications or difficulties that may otherwise result in the loss of customers, operational problems or one-time costs currently not anticipated to arise in connection with implementing new features and functionality;

(7) local, regional, national and international economic conditions and the impact these conditions may have on Peoples, its customers and its counterparties, and Peoples' assessment of the impact, which may be different than anticipated;

(8) Peoples' ability to integrate any future acquisitions which may be unsuccessful, or may be more difficult, time-consuming or costly than expected;

(9) Peoples may issue equity securities in connection with future acquisitions, which could cause ownership and economic dilution to Peoples' current shareholders;

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(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 the 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 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, may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;

(22) ability to anticipate and respond to technological changes which can impact Peoples' ability to respond to customer needs and meet competitive demands;

(23) changes in consumer spending, borrowing and saving habits, whether due to changes in business and economic conditions, legislative or regulatory initiatives, or other factors, which may be different than anticipated;

(24) the overall adequacy of Peoples' risk management program;

(25) 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;

(26) 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; and

(27) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples’ reports filed with the Securities and Exchange Commission (the "SEC"), including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2016 ("Peoples' 2016 Form 10-K").

All forward-looking statements speak only as of the filing date of this Form 10-Q and are expressly qualified in their entirety by the cautionary statements. Although management believes the expectations in these forward-looking statements are based on reasonable assumptions within the bounds of management’s knowledge of Peoples’ business and operations, it is possible that actual results may differ materially from these projections. Additionally, Peoples undertakes no obligation to

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update these forward-looking statements to reflect events or circumstances after the filing date of this Form 10-Q or to reflect the occurrence of unanticipated events except as may be required by applicable legal requirements. Copies of documents filed with the SEC are available free of charge at the SEC's website at www.sec.gov and/or from Peoples' website – www.peoplesbancorp.com under the "Investor Relations" section.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements, and Notes thereto, contained in Peoples' 2016 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 76 locations, including 67 full-service bank branches, and 74 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 ("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 for consumers and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary, employee benefit 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 September 30, 2017, which were unchanged from the policies disclosed in Peoples' 2016 Form 10-K.

Summary of Recent Transactions and Events

The following is a summary of transactions from 2017 and 2016, and events that have impacted or are expected to impact Peoples' results of operations or financial condition:

On October 23, 2017, Peoples entered into a merger agreement with ASB Financial Corp ("ASB") that calls for ASB to merge into Peoples and for ASB's wholly-owned subsidiary, American Savings Bank, fsb, which operates six offices located in southern Ohio and northern Kentucky, to merge into Peoples Bank. This transaction is expected to close during the second quarter of 2018, subject to the satisfaction of customary closing conditions, including regulatory approvals and the approval of the shareholders of Peoples and of ASB. As of June 30, 2017, ASB had approximately $293.6 million in total assets, which included approximately $241.5 million in net loans, and approximately $210.4 million in total deposits. Under the terms of the ASB agreement, shareholders of ASB can elect to receive either 0.592 shares of Peoples' common stock for each share of ASB common stock or $20.00 cash per share with a limit of 15% of the merger consideration being paid in cash.

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

During the third quarter of 2017, Peoples reduced its position in certain 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, and are not a normal occurrence for our business.

Peoples continually evaluates its overall balance sheet position given the interest rate environment. 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.

On March 31, 2017, Peoples closed four full-service bank branches. The closures included two Ohio offices located in Belpre and Wilmington, and two West Virginia offices located in Huntington and Point Pleasant. Peoples will close two additional full-service bank branches in the fourth quarter of 2017, one located in Centerville, Ohio and the other located in Coshocton, Ohio. 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 will become effective in 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.

In the fourth quarter of 2016, Peoples converted its core banking system (including ancillary systems as well as hardware, operating systems, application software and data center locations). The conversion resulted in a pre-tax combined revenue and expense impact of $1.3 million, or $0.05 in earnings per diluted share, for the full year of 2016. The costs recorded in the fourth quarter, third quarter and second quarter of 2016 were $700,000, $423,000 and $90,000, respectively. Deposit account service charges were impacted by the system conversion as Peoples granted waivers of $85,000 related to account service charges in the fourth quarter of 2016.

During the fourth quarter of 2016, Peoples entered into two $5.0 million forward starting interest rate swaps, which become effective in 2018 and mature in 2022 and 2026, with interest rates of 1.56% and 1.83%. For additional information regarding Peoples' interest rate swaps, refer to Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

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

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

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

Peoples entered into three $10.0 million forward starting interest rate swaps, which become effective in 2018 and mature between 2023 and 2025, with interest rates ranging from 1.49% to 1.56%. These swaps locked in funding rates for $40.0 million in FHLB advances that mature in 2018, which have interest rates ranging from 3.65% to 3.92%. For additional information regarding Peoples' interest rate swaps, refer to Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

On June 8, 2016, Peoples purchased an additional $35.0 million in bank owned life insurance ("BOLI"). The additional BOLI added $560,000 in non-interest income in the first nine months of 2017, compared to the first nine months of 2016.

On March 4, 2016, Peoples entered into a Credit Agreement (the "RBJ Credit Agreement") with Raymond James, which provides Peoples with a revolving line of credit in the maximum aggregate principal amount of $15.0 million, that may be used: (i) to make acquisitions; (ii) to make stock repurchases; (iii) for working capital needs; and (iv) for other general corporate purposes. On March 4, 2016, Peoples paid upfront fees for the establishment of a revolving line of credit agreement of $70,600, representing 0.47% of the loan commitment under the RJB Credit Agreement.

Effective March 2, 2016, Peoples terminated the loan agreement with U.S. Bank National Association dated as of December 18, 2012, as amended (the "U.S. Bank Loan Agreement"). As of the termination date, Peoples had no

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outstanding borrowings under the U.S. Bank Loan Agreement. Peoples paid an immaterial non-usage fee in connection with the termination of the U.S. Bank Loan Agreement.

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

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

The Fed raised the benchmark Federal Funds Target Rate by 25 basis points in each of December of 2016 and March and June of 2017. Peoples' management believes the Fed will likely raise the rate by 25 basis points again at its December 2017 meeting and potentially three more times in 2018. The Fed has also begun to reduce the size of its $4.5 trillion dollar balance sheet, which could result in higher interest rates as well. The minutes of the September 2017 Federal Open Market Committee meeting released in October noted concerns about raising interest rates given the low level of inflation in the economy. However, there was no indication that the Fed 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.

EXECUTIVE SUMMARY

Peoples recorded net income for the quarter ended September 30, 2017 of $10.9 million, or $0.60 per diluted common share, compared to $7.8 million, or $0.43 per diluted common share, for the same quarter a year ago and net income of $9.8 million, or $0.53 per diluted common share, for the second quarter of 2017. On a year-to-date basis, net income was $29.5 million, or $1.61 per diluted share, compared to $23.7 million, or $1.31 per diluted share, for the same period in 2016. The increased earnings for all periods were primarily due to increases in net interest income, mortgage banking income and net gain on investment securities. Earnings per diluted common share were positively impacted by $0.07 due to the gain on investment securities of $1.9 million recognized during the third quarter of 2017.

Net interest income was $29.2 million in the third quarter of 2017, compared to $26.1 million for the same quarter a year ago and $28.1 million for the second quarter of 2017, while net interest margin was 3.67%, 3.54%, and 3.62%, respectively. For the nine months ended September 30, 2017, net interest income was $84.3 million, compared to $78.2 million for the same period in 2016, while net interest margin was 3.61% and 3.55%, respectively. The increase in net interest margin compared to all prior periods was due primarily to loan growth, with the previous increases in interest rates positively impacting net interest income and the net interest margin. In addition, during the third quarter of 2017, the investment yield improved largely due to $611,000 received on an investment security for which an other-than-temporary-impairment had previously been recorded. These proceeds added eight basis points to the net interest margin during the third quarter of 2017. Additionally, the accretion income, net of amortization expense, from acquisitions was $816,000 for the third quarter of 2017, compared to $801,000 for the third quarter of 2016 and $735,000 for the second quarter of 2017, which added 10 basis points to net interest margin in both the third quarter of 2017 and the second quarter of 2017, compared to 11 basis points for the third quarter of 2016. During the third quarter of 2017, the annual re-estimation of expected cash flows for purchased credit impaired loans was completed and resulted in adjustments to accretion income, which had a positive impact for the quarter. On a year-to-date basis, the accretion income, net of amortization expense, from acquisitions added 10 basis points to net interest margin for the first nine months of 2017 compared to 12 basis points for the first nine months of 2016.

Peoples' provision for loan losses for the three months ended September 30, 2017 and September 30, 2016 was $1.1 million, compared to $947,000 for the three months ended June 30, 2017. The slightly higher provision for loan losses recorded during the third quarter of 2017 compared to the linked quarter was reflective of the continued loan growth.

Net charge-offs increased to $909,000 in the third quarter of 2017, compared to $765,000 for the third quarter of 2016 and $600,000 for the linked quarter of 2017. Annualized net charge-offs were 0.16% of average gross loans during the third quarter of 2017, compared to 0.14% in the third quarter of 2016 and 0.11% in the linked quarter. During the first nine months

of 2017, annualized net charge-offs were 0.12% of average gross loans compared to 0.09% in the same period of 2016. Net charge-offs were $2.1 million for the first nine months of 2017, compared to $1.4 million for the first nine months of 2016. The increase in net charge-offs during the periods was primarily related to residential real estate and deposit account overdrafts. The allowance for loan losses at September 30, 2017 increased to $19.0 million, compared to $18.4 million at December 31, 2016. The ratio of the allowance for loan losses as a percent of total loans, net of deferred fees and costs, was 0.82% at September 30, 2017, 0.84% at September 30, 2016 and 0.82% at June 30, 2017.
For the third quarter of 2017, total non-interest income increased $1.1 million, or 9%, compared to the third quarter of 2016, and increased $729,000, or 5%, from the linked quarter. The increase in total non-interest income for the third quarter of 2017 compared to the third quarter of 2016 and the linked quarter was due to an increase in net gain on investment securities which was offset partially by decreased swap fees. The increase in net gain on investment securities of $1.9 million was largely the result of $1.8 million of gains recognized as a result of the sale of bank equity securities, which had a high amount of appreciation and is not a normal occurrence for our business. The decreases in swap fees are attributed to customer demand.
For the first nine months of 2017, total non-interest income grew $3.0 million, or 8%, compared to the same period in 2016. The increase compared to the first nine months of 2016 was the result of a $1.4 million increase in gain on sale of securities, a $647,000 increase in trust and investment income, a $560,000 increase in BOLI income and a $537,000 increase in mortgage banking income. These increases were partially offset by declines in service charges on deposit accounts of $869,000 and electronic banking income of $175,000. The increase in trust and investment income was attributable to higher assets under administration and management, coupled with additional income generated from transaction commissions. The increase in BOLI income was due to the $35.0 million of policies that were purchased late in the second quarter of 2016. The increase in mortgage banking income was primarily due to $48.3 million of loan sales to the secondary market in the first nine months of 2017 compared to $44.6 million in the first nine months of 2016. The declines in deposit account service charges were driven by lower overdraft fees while decreases in electronic banking income were due to customer activity.
Total non-interest expense for the third quarter of 2017 was $26.6 million, compared to $26.8 million for the third quarter of 2016 and $26.7 million for the second quarter of 2017. Total non-interest expense decreased slightly from the third quarter of 2016 due mainly to other expenses, professional fees and communication expense. The decrease in other expenses compared to the third quarter of 2016 was primarily related to $423,000 of one-time costs associated with the system upgrade of Peoples' core banking system. The decrease in professional fees was primarily due to a decrease in legal fees related to collections of special assets which correlated to the decrease in nonperforming assets and classified loans from September 30, 2016. The decrease in communication expense resulted from the continued consolidation of traditional phone lines to a method of transmitting all voice traffic over the internet and the discontinuation of overlapping traditional phone line contracts that occurred during the transition. These decreases were partially offset by the increase in salaries and employee benefits which was the result of an increase in incentive compensation, which is tied to business performance. Peoples' number of full-time equivalent employees was 778 at September 30, 2017, compared to 775 at June 30, 2017 and 799 at September 30, 2016.
Total non-interest expense was up 1% during the first nine months of 2017, compared to 2016. Year-to-date, salaries and employee benefit costs increased 7%, which was primarily due to higher incentive compensation tied to corporate performance for 2017. This increase was partially offset by reductions in professional fees, communication expense, other non-interest expense and amortization of other intangible assets.
Peoples' efficiency ratio, calculated as total non-interest expense less amortization of other intangible assets divided by fully taxable equivalent ("FTE") net interest income, plus total non-interest income, excluding all gains and losses, for the third quarter of 2017 was 60.74%, compared to 64.33% for the third quarter of 2016 and 61.19% for the linked quarter. The lower efficiency ratio in the third quarter of 2017 compared to the third quarter of 2016 was primarily due to an increase in net interest income which was slightly offset by decreased non-interest income, excluding all gains and losses. The decrease from the linked quarter was due to increased net interest income which was slightly offset by decreased non-interest income, excluding all gains and losses. On a year-to-date basis, the efficiency ratio was 62.24%, compared to 64.56% for the first nine months of 2016. The improvement in the efficiency ratio during the first nine months of 2017 versus 2016 was primarily due to an increase in net interest income, slightly offset by a 1%

increase in total non-interest expense.
At September 30, 2017, total assets were $3.55 billion, compared to $3.43 billion, at December 31, 2016. The $120.1 million, or 3%, increase was primarily the result of growth in loan balances, net of deferred fees and costs, of $102.1 million, or 6% annualized. Indirect consumer lending continued to be a key component of loan growth as balances increased $83.0 million, or 44% annualized, compared to December 31, 2016. The growth in indirect consumer loan balances included diversification in the portfolio beyond automobile loans, including indirect consumer loans for recreational vehicles and

motorcycles. Commercial real estate construction loans grew $25.0 million, or 35% annualized, with commercial and industrial loans growing $21.6 million, or 7% annualized, during the first nine months of 2017. Average gross loan balances for the nine months ended September 30, 2017 increased $162.3 million, or 8%, compared to the average gross loan balances for the nine months ended September 30, 2016, due primarily to increases in indirect consumer loans, commercial real estate construction and commercial and industrial loans.

Total liabilities were $3.10 billion at September 30, 2017, up $97.9 million since December 31, 2016. The increase in liabilities during the first nine months of 2017 was primarily due to an increase in deposits of $155.0 million, or 6%, offset partially by a decline in total borrowings of $61.2 million, or 14%.

Interest-bearing deposits increased $164.5 million, or 9%, offset partially by a decrease in total non-interest-bearing deposits of $9.6 million, or 1%, compared to December 31, 2016. Peoples introduced new checking account product offerings for consumers. During the third quarter of 2017, and continuing into the fourth quarter, Peoples will migrate customers' accounts to the new product offerings. During this migration, customer accounts are evaluated based on certain characteristics, and some accounts that were traditionally non-interest-bearing deposits are being converted to interest-bearing demand accounts. As a result, fluctuations in balances have occurred between non-interest-bearing deposits and interest-bearing demand account balances during the third quarter of 2017. These new products have increased maintenance fee requirements and Peoples expects that certain of these accounts will also result in higher fee-based income in future periods. Total certificates of deposit ("CDs") at September 30, 2017 also declined $35.6 million, or 9%, compared to December 31, 2016.

The growth in interest-bearing deposits from December 31, 2016 was primarily the result of an increase of $105.3 million in interest-bearing deposits, $53.0 million in brokered CDs, and $38.2 million in governmental deposit accounts, offset partially by a decrease of $9.6 million in non-interest-bearing demand deposits. The increase in brokered CDs was the result of adding relatively shorter term funding on the balance sheet, while the increase in governmental deposit accounts was primarily due to seasonality.

At September 30, 2017, total stockholders' equity was $457.4 million, an increase of $22.1 million, or 5%, compared to December 31, 2016. Regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' common equity tier 1 risk-based capital ratio was 13.31% at September 30, 2017, versus 12.91% at December 31, 2016, while the tier 1 risk-based capital ratio was 13.60% at September 30, 2017, compared to 13.21% at December 31, 2016. The total risk-based capital ratio was 14.49% at September 30, 2017, compared to 14.11% at December 31, 2016. In addition, Peoples' tangible equity to tangible asset ratio was 9.20%, and tangible book value per common share was $17.15 at September 30, 2017, versus 8.80% and $15.89, respectively, at December 31, 2016.

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 Fed’s monetary policy, the level and degree of pricing competition for both loans and deposits in Peoples’ markets, and the amount and composition of Peoples' earning assets and interest-bearing liabilities.

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

	For the Three Months Ended								
	September 30, 2017			June 30, 2017			September 30, 2016		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$12,812	$42	1.30 %	$12,275	$26	0.85 %	$8,663	$10	0.46 %
Investment securities (a):									
Taxable (b)	780,667	5,661	2.90 %	768,495	5,002	2.60 %	736,677	4,500	2.44 %
Nontaxable (c)	105,077	1,078	4.10 %	111,003	1,172	4.22 %	112,589	1,186	4.21 %
Total investment securities	885,744	6,739	3.04 %	879,498	6,174	2.81 %	849,266	5,686	2.68 %
Loans (c) (d):									
Commercial real estate, construction	118,208	1,337	4.43 %	107,224	1,158	4.27 %	93,353	915	3.84 %
Commercial real estate, other	750,260	8,890	4.64 %	735,915	8,892	4.78 %	707,269	8,362	4.63 %
Commercial and industrial	438,524	5,196	4.64 %	433,277	4,858	4.44 %	378,053	3,855	3.99 %
Residential real estate (e)	507,906	5,468	4.31 %	520,863	5,564	4.27 %	554,039	6,070	4.38 %
Home equity lines of credit	110,741	1,291	4.63 %	111,185	1,233	4.45 %	110,232	1,246	4.50 %
Consumer, indirect	322,072	2,955	3.64 %	293,917	2,570	3.51 %	218,318	1,975	3.64 %
Consumer, other	70,204	1,270	7.18 %	69,329	1,229	7.11 %	72,729	1,108	6.13 %
Total loans	2,317,915	26,407	4.49 %	2,271,710	25,504	4.46 %	2,133,993	23,531	4.35 %
Less: Allowance for loan losses	(18,869)			(18,554)			(17,787)		
Net loans	2,299,046	26,407	4.53 %	2,253,156	25,504	4.50 %	2,116,206	23,531	4.39 %
Total earning assets	3,197,602	33,188	4.10 %	3,144,929	31,704	4.01 %	2,974,135	29,227	3.89 %
Intangible assets	144,267			145,052			147,466		
Other assets	199,351			199,720			203,035		
Total assets	$3,541,220			$3,489,701			$3,324,636		
Deposits:									
Savings accounts	$443,599	$65	0.06 %	$444,824	$61	0.06 %	$439,464	$59	0.05 %
Governmental deposit accounts	309,623	200	0.26 %	301,448	168	0.22 %	311,650	152	0.19 %
Interest-bearing demand accounts	320,788	133	0.16 %	295,080	98	0.13 %	264,182	61	0.09 %
Money market accounts	389,292	253	0.26 %	393,807	197	0.20 %	400,749	175	0.17 %
Brokered certificates of deposit	106,448	454	1.69 %	110,160	459	1.67 %	31,910	203	2.56 %
Retail certificates of deposit	348,047	760	0.87 %	355,256	746	0.84 %	398,388	777	0.78 %
Total interest-bearing deposits	1,917,797	1,865	0.39 %	1,900,575	1,729	0.36 %	1,846,343	1,427	0.31 %
Borrowed funds:									
Short-term FHLB advances	96,760	336	1.38 %	83,352	201	0.96 %	73,413	79	0.43 %
Retail repurchase agreements	77,706	33	0.17 %	76,153	32	0.17 %	70,401	30	0.17 %

Total short-term borrowings	174,466	369	0.84 %	159,505	233	0.58 %	143,814	109	0.30 %
Long-term FHLB advances	153,070	788	2.04 %	131,179	690	2.11 %	100,938	594	2.34 %
Wholesale repurchase agreements	40,000	371	3.71 %	40,000	367	3.67 %	40,000	371	3.71 %
Other borrowings	7,003	115	6.57 %	6,952	99	5.70 %	6,794	106	6.11 %
Total long-term borrowings	200,073	1,274	2.53 %	178,131	1,156	2.60 %	147,732	1,071	2.89 %
Total borrowed funds	374,539	1,643	1.74 %	337,636	1,389	1.65 %	291,546	1,180	1.61 %
Total interest-bearing liabilities	2,292,336	3,508	0.61 %	2,238,211	3,118	0.56 %	2,137,889	2,607	0.49 %
Non-interest-bearing deposits	756,098			769,406			709,432		
Other liabilities	36,588			34,685			38,709		
Total liabilities	3,085,022			3,042,302			2,886,030		
Total stockholders' equity	456,198			447,399			438,606		
Total liabilities and stockholders' equity	$3,541,220			$3,489,701			$3,324,636		
Interest rate spread (b)		$29,680	3.49 %		$28,586	3.45 %		$26,620	3.40 %
Net interest margin (b)			3.67 %			3.62 %			3.54 %

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	For the Nine Months Ended					
	September 30, 2017			September 30, 2016		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$10,854	$83	1.02 %	$10,052	$37	0.49 %
Investment securities (a):						
Taxable (b)	766,116	15,416	2.68 %	754,922	14,010	2.47 %
Nontaxable (c)	109,921	3,473	4.21 %	112,331	3,588	4.26 %
Total investment securities	876,037	18,889	2.87 %	867,253	17,598	2.71 %
Loans (c) (d):						
Commercial real estate, construction	106,637	3,488	4.31 %	88,373	2,566	3.81 %
Commercial real estate, other	740,263	26,205	4.67 %	721,620	25,195	4.59 %
Commercial and industrial	434,976	14,599	4.43 %	369,248	11,568	4.12 %
Residential real estate (e)	519,989	16,801	4.31 %	560,681	18,341	4.36 %
Home equity lines of credit	111,012	3,683	4.44 %	108,380	3,639	4.49 %
Consumer, indirect	295,461	7,758	3.51 %	195,613	5,432	3.71 %
Consumer, other	69,914	3,718	7.11 %	72,060	3,226	5.98 %
Total loans	2,278,252	76,252	4.46 %	2,115,975	69,967	4.41 %
Less: Allowance for loan losses	(18,671)			(17,333)		
Net loans	2,259,581	76,252	4.47 %	2,098,642	69,967	4.41 %
Total earning assets	3,146,472	95,224	4.02 %	2,975,947	87,602	3.90 %
Intangible assets	144,950			148,482		
Other assets	201,350			175,909		
Total assets	$3,492,772			$3,300,338		
Deposits:						
Savings accounts	$442,559	$184	0.06 %	$433,233	$173	0.05 %
Governmental deposit accounts	298,321	499	0.22 %	304,422	444	0.19 %
Interest-bearing demand accounts	300,911	310	0.14 %	255,796	151	0.08 %
Money market accounts	393,944	637	0.22 %	399,853	500	0.17 %
Brokered certificates of deposit	85,576	1,218	1.90 %	41,965	890	2.83 %
Retail certificates of deposit	363,747	2,233	0.82 %	417,599	2,373	0.76 %
Total interest-bearing deposits	1,885,058	5,081	0.36 %	1,852,868	4,531	0.33 %
Borrowed funds:						
Short-term FHLB advances	104,703	757	0.97 %	67,533	208	0.41 %
Retail repurchase agreements	74,940	96	0.17 %	73,275	93	0.17 %
Total short-term borrowings	179,643	853	0.64 %	140,808	301	0.29 %
Long-term FHLB advances	136,570	2,140	2.10 %	79,829	1,653	2.77 %
Wholesale repurchase agreements	40,000	1,100	3.67 %	40,000	1,104	3.68 %
Other borrowings	6,951	324	6.21 %	6,758	307	5.97 %
Total long-term borrowings	183,521	3,564	2.59 %	126,587	3,064	3.23 %
Total borrowed funds	363,164	4,417	1.62 %	267,395	3,365	1.68 %
Total interest-bearing liabilities	2,248,222	9,498	0.56 %	2,120,263	7,896	0.50 %
Non-interest-bearing deposits	761,308			715,244		
Other liabilities	35,650			34,062		
Total liabilities	3,045,180			2,869,569		
Total stockholders’ equity	447,592			430,769		

Total liabilities and stockholders' equity	$3,492,772				$3,300,338			
Interest rate spread (c)		$85,726	3.46	%		$79,706	3.40	%
Net interest margin (c)			3.61	%			3.55	%

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(a) Average balances are based on carrying value.
(b) Interest income and yield presented includes $611,000 received on an investment security for which an other-than-temporary-impairment had previously been recorded.
(c) Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal tax rate.
(d) Average balances include nonaccrual, impaired loans and loans held for sale. Interest income includes interest 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.
(e) Loans held for sale are included in the average loan balance listed. Related interest income on loans originated for sale prior to the loan being sold is included in loan interest income.

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

	Three Months Ended September 30, 2017 Compared to						Nine Months Ended September 30, 2017 Compared to		
(Dollars in thousands)	June 30, 2017			September 30, 2016			September 30, 2016		
Increase (decrease) in:	Rate	Volume	Total [1]	Rate	Volume	Total [1]	Rate	Volume	Total [1]
INTEREST INCOME:									
Short-term investments	$14	$2	$16	$24	$8	$32	$42	$4	$46
Investment Securities (2):									
Taxable	579	80	659	880	281	1,161	1,196	210	1,406
Nontaxable	(33)	(61)	(94)	(30)	(78)	(108)	(39)	(76)	(115)
Total investment income	546	19	565	850	203	1,053	1,157	134	1,291
Loans (2):									
Commercial real estate, construction	47	132	179	155	267	422	357	565	922
Commercial real estate, other	(832)	830	(2)	19	509	528	409	601	1,010
Commercial and industrial	266	72	338	675	666	1,341	901	2,130	3,031
Residential real estate	242	(338)	(96)	(104)	(498)	(602)	(223)	(1,317)	(1,540)
Home equity lines of credit	89	(31)	58	39	6	45	(60)	104	44
Consumer, indirect	110	275	385	23	957	980	(484)	2,810	2,326
Consumer, other	18	23	41	389	(227)	162	647	(155)	492
Total loan income	(60)	963	903	1,196	1,680	2,876	1,547	4,738	6,285
Total interest income	500	984	1,484	2,070	1,891	3,961	2,746	4,876	7,622
INTEREST EXPENSE:									
Deposits:									
Savings accounts	5	(1)	4	5	1	6	7	4	11
Governmental deposit accounts	27	5	32	55	(7)	48	70	(15)	55
Interest-bearing demand accounts	25	10	35	57	15	72	129	30	159
Money market accounts	71	(15)	56	111	(33)	78	149	(12)	137
Brokered certificates of deposit	33	(38)	(5)	(438)	689	251	(514)	842	328
Retail certificates of deposit	80	(66)	14	364	(381)	(17)	261	(401)	(140)
Total deposit cost	241	(105)	136	154	284	438	102	448	550
Borrowed funds:									
Short-term borrowings	98	38	136	223	37	260	128	424	552
Long-term borrowings	(117)	235	118	(273)	476	203	(671)	1,171	500
Total borrowed funds cost	(19)	273	254	(50)	513	463	(543)	1,595	1,052
Total interest expense	222	168	390	104	797	901	(441)	2,043	1,602

Net interest income	$278	$ 816	$1,094	$1,966	$1,094	$3,060	$3,187	$2,833	$6,020

(1)The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the dollar amounts of the changes in each.
(2)Interest income and yields are presented on a fully tax-equivalent basis using a 35% federal tax rate.

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Net interest margin, which is calculated by dividing fully tax-equivalent ("FTE") net interest income by average interest-earning assets, serves as an important measurement of the net revenue stream generated by the volume, mix and pricing of earning assets and interest-bearing liabilities. FTE net interest income is calculated by increasing interest income to convert tax-exempt income earned on obligations of states and political subdivisions to the pre-tax equivalent of taxable income using a 35% federal tax rate.

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

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Net interest income, as reported	$29,220	$28,090	$ 26,123	$84,255	$78,198
Taxable equivalent adjustments	460	496	497	1,471	1,508
Fully tax-equivalent net interest income	$29,680	$28,586	$ 26,620	$85,726	$79,706

Fully tax-equivalent net interest income increased 12% in the third quarter of 2017 compared to the prior year third quarter and 4% compared to the linked quarter. During the third quarter of 2017, net interest income and net interest margin benefited from accretion income, net of amortization expense, from acquisitions, which was $816,000 for the third quarter of 2017, compared to $801,000 for the third quarter of 2016 and $735,000 for the second quarter of 2017, which added 10 basis points to net interest margin in the third and second quarter of 2017, and 11 basis points for the third quarter of 2016. On a year-to-date basis, the accretion income, net of amortization expense, from acquisitions added 10 basis points to net interest margin for the first nine months of 2017 compared to 12 basis points for the first nine months of 2016.

During the third quarter of 2017, compared to the linked quarter, the net interest margin improved 5 basis points. The increases in net interest margin during the periods were primarily due to loan growth and increases in the earning asset yields outpacing higher funding costs. Recent increases in interest rates, coupled with prepayments on investment securities, led to the higher investment securities yield compared to both the third quarter of 2016 and the second quarter of 2017. In addition, during the third quarter of 2017, Peoples received proceeds of $611,000 on an investment security for which there had previously been an other-than-temporary-impairment. These proceeds during the third quarter added 8 basis points to the net interest margin during the third quarter of 2017. Funding costs increased 12 basis points for the third quarter of 2017 compared to prior year third quarter and increased 5 basis points from the linked quarter, as continued increases in interest rates have impacted the total cost of funds.

Average loan balances for the third quarter of 2017 increased $183.9 million compared to the prior year third quarter, and were up $46.2 million compared to the linked quarter.

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."

Provision for Loan Losses

The following table details Peoples’ provision for loan losses:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Loan losses	$900	$850	$ 978	2,150	2,410
Checking account overdrafts	186	97	168	$507	$418
Provision for loan losses	$1,086	$947	$ 1,146	$2,657	$2,828
As a percentage of average total loans (a)	0.19 %	0.17 %	0.21 %	0.16 %	0.18 %

(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,

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historical loss experience and current economic conditions. The higher provision for loan losses recorded during the third quarter of 2017, compared to the second quarter of 2017, was due to higher checking account overdrafts coupled with growth in loan balances.

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 (loss) gain on asset disposals and other transactions recognized by Peoples:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Net (loss) gain on bank premises and equipment	$(38)	$ 133	$ 1	$92	$(126)
Net gain (loss) on other real estate owned ("OREO")	13	(24)	—	(11)	(1)
Net loss on debt extinguishment	—	—	—	—	(707)
Net loss on other transactions	—	—	(225)	—	(190)
Net (loss) gain on asset disposals and other transactions	$(25)	$ 109	$ (224)	$81	$(1,024)

The net loss on bank premises and equipment during the third quarter of 2017 was primarily due to the sale of a parking lot that was no longer being utilized. The net gain on bank premises and equipment during the second quarter of 2017 was due to the sale of a previously closed branch. The net loss on bank premises and equipment during the nine months of 2016 was due mainly to the closing of a leased office and related disposal of leasehold improvements.

The net gain on OREO during the third quarter of 2017 was due to the sale of one property. The net loss on OREO during the second quarter of 2017 was due primarily to the write-down of two OREO properties.

The net loss on debt extinguishment during the nine months of 2016 was related to the prepayment of $20.0 million of FHLB advances. The net loss on other transactions during the third quarter of 2016 was related to the write-down of a tax investment.

Non-Interest Income

Insurance income comprised the largest portion of the third quarter 2017 total non-interest income. The following table details Peoples' insurance income:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Property and casualty insurance commissions	$2,638	$2,753	$ 2,579	$7,633	$7,699
Performance-based commissions	99	2	91	1,407	1,720
Life and health insurance commissions	433	467	420	1,310	1,318
Credit life and A&H insurance commissions	2	17	12	27	30
Other fees and charges	173	175	35	484	167
Insurance income	$3,345	$3,414	$ 3,137	$10,861	$10,934

The decrease in insurance income for the the first nine months of 2017 compared to the first nine months of 2016 was mainly due to the decrease in performance-based commissions. 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. The increase in other fees and charges was due to the acquisition of a third-party insurance administration company that occurred in January 2017.

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Peoples' trust and investment income continues to be based primarily upon the value of assets under management, with additional income generated from transaction commissions, cross-selling of products and additional retirement plan services business. Additionally, changes in total assets, and the income derived from the assets is primarily in relation to increases or decreases in market values. The following tables detail Peoples' trust and investment income and related assets under administration and management:

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	2016
Fiduciary	$1,956	$2,093	$ 1,851	$5,922	$5,501
Brokerage	882	884	841	2,575	2,349
Trust and investment income	$2,838	$2,977	$ 2,692	$8,497	$7,850

(Dollars in thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Trust assets under administration and management	$ 1,418,360	$1,393,435	$1,362,243	$1,301,509	$ 1,292,044
Brokerage assets under administration and management	862,530	836,192	805,361	777,771	754,168
Total assets under administration and management	$ 2,280,890	$2,229,627	$2,167,604	$2,079,280	$ 2,046,212
Quarterly average	$ 2,254,997	$2,199,162	$2,122,036	$2,053,121	$ 2,031,378

People's deposit account service charges was comprised of the following:

	Three Months Ended			Nine Months Ended	
(Dollars in thousands)	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	2016
Overdraft and non-sufficient funds fees	$1,765	$1,642	$ 2,105	$5,021	$5,806
Account maintenance fees	543	545	605	1,624	1,751
Other fees and charges	99	107	123	485	442
Deposit account service charges	$2,407	$2,294	$ 2,833	$7,130	$7,999

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.

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:

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	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Base salaries and wages	$10,043	$9,750	$ 9,782	$29,860	$29,439
Sales-based and incentive compensation	2,653	2,878	2,501	7,630	6,310
Employee benefits	1,535	1,509	1,492	4,971	4,387
Stock-based compensation	359	443	346	1,370	1,009
Deferred personnel costs	(394)	(447)	(453)	(1,201)	(1,397)
Payroll taxes and other employment costs	945	916	916	3,056	3,133
Salaries and employee benefit costs	$15,141	$15,049	$ 14,584	$45,686	$42,881
Full-time equivalent employees:					
Actual at end of period	778	775	799	778	799
Average during the period	778	774	798	778	809

Salaries and employee benefit costs for the third quarter and the nine months of 2017 increased compared to the third quarter and nine months of 2016 due primarily to an increase in sales-based and incentive compensation, and employee benefits, which was partially offset by a decrease in full-time equivalent employees. The increase in sales-based and incentive compensation is tied to improvement in corporate performance for 2017. The increase in employee benefits was due primarily to health insurance costs which increased as a result of higher claims in 2017.
Peoples' net occupancy and equipment expense was comprised of the following:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Depreciation	$1,206	$ 1,200	$ 1,337	$3,649	$3,773
Repairs and maintenance costs	577	682	589	1,930	1,814
Net rent expense	264	205	244	689	712
Property taxes, utilities and other costs	572	561	598	1,712	1,856
Net occupancy and equipment expense	$2,619	$ 2,648	$ 2,768	$7,980	$8,155

Professional fees for the third quarter of 2017 decreased $268,000, or 16%, from the prior year third quarter and $711,000, or 14%, between the first nine months of 2017 and the first nine months of 2016. The decrease in professional fees was primarily due to a decrease in legal fees related to collections of special assets which correlated to the decrease in nonperforming assets and classified loans from December 31, 2016.
Data processing and software expense increased $351,000, or 47%, from the third quarter of 2016 and $827,000, or 33%, for the first nine months of 2017 compared to the first nine months of 2016. The increases were due to higher monthly fees which resulted in moving from an in-house core processing solution to a primarily outsourced solution.
The decrease in other expenses for the first nine months of 2017 compared to the first nine months of 2016 was primarily related to the timing of payments for postage expense, coupled with the replacement of the previous vendor in 2016. The decrease in communication expense resulted from the continued consolidation of traditional phone lines to a method of transmitting all voice traffic over the internet and the discontinuation of overlapping traditional phone line contracts that occurred during the transition.
Income Tax Expense
For the nine months ended September 30, 2017, Peoples recorded income tax expense of $13.4 million, for an effective tax rate of 31.2%. Peoples' current estimate is that the effective tax rate for the entire year of 2017 will be approximately 31.0% to 32.0%. In comparison, Peoples recorded an income tax expense of $10.8 million for the same period in 2016, for an effective tax rate of 31.2%.

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Peoples adopted the ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting as of January 1, 2017. In the first nine months of 2017, Peoples recorded a tax benefit of $123,000 associated with the adoption of this ASU for the tax benefit of awards that settled or vested during the period.

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 non-interest income (excluding all gains and all losses) minus total non-interest expense and, therefore, excludes the provision for (recovery of) 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:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Pre-Provision Net Revenue:					
Income before income taxes	$16,022	$14,180	$11,448	$42,863	$34,538
Add: provision for loan losses	1,086	947	1,146	2,657	2,828
Add: loss on debt extinguishment	—	—	—	—	707
Add: net loss on OREO	—	24	—	24	1
Add: net loss on investment securities	—	—	1	—	—
Add: net loss on other transactions	38	—	225	41	316
Less: net gain on OREO	13	—	—	13	—
Less: net gain on investment securities	1,861	18	—	2,219	862
Less: net gain on other transactions	—	133	1	133	—
Pre-provision net revenue	$15,272	$15,000	$12,819	$43,220	$37,528
Total average assets	$3,541,220	$3,489,701	$3,324,636	$3,492,772	$3,300,338
Pre-provision net revenue to total average assets (a)	1.71 %	1.72 %	1.53 %	1.65 %	1.52 %

(a) Presented on an annualized basis.

For the first nine months of 2017, compared to the first nine months of 2016, the increase in pre-provision net revenue was due largely to higher net interest income, coupled with continued expense management.

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 system conversion costs.

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:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Core non-interest expense:					
Total non-interest expense	$26,558	$26,680	$ 26,842	$80,569	$79,629
Less: system conversion costs	—	—	423	—	513
Core non-interest expense	$26,558	$26,680	$ 26,419	$80,569	$79,116

Efficiency Ratio

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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 non-interest income (excluding all gains and all losses). 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.

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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:

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Efficiency ratio:					
Total non-interest expense	$26,558	$26,680	$ 26,842	$80,569	$79,629
Less: Amortization of other intangible assets	869	871	1,008	2,603	3,023
Adjusted total non-interest expense	$25,689	$25,809	$ 25,834	$77,966	$76,606
Total non-interest income	14,446	13,717	13,313	41,834	38,797
Less net gain (loss) on investment securities	1,861	109	(1)	2,219	862
Less net (loss) gain on asset disposals and other transactions	(25)	18	(224)	81	(1,024)
Adjusted total non-interest income	$12,610	$13,590	$ 13,538	$39,534	$38,959
Net interest income	$29,220	$28,090	$ 26,123	$84,255	$78,198
Add: Fully tax-equivalent adjustment	460	496	497	1,471	1,508
Net interest income on a fully taxable-equivalent basis	$29,680	$28,586	$ 26,620	$85,726	$79,706
Adjusted revenue	$42,290	$42,176	$ 40,158	$125,260	$118,665
Efficiency ratio	60.74 %	61.19 %	64.33 %	62.24 %	64.56 %
Core non-interest expense	$26,558	$26,680	$ 26,419	$80,569	$79,116
Less: Amortization of other intangible assets	869	871	1,008	2,603	3,023
Adjusted non-interest expense	$25,689	$25,809	$ 25,411	$77,966	$76,093
Total non-interest income	12,610	$13,590	13,538	39,534	38,959
Net interest income on fully taxable-equivalent basis	$29,680	$28,586	$ 26,620	$85,726	$79,706
Adjusted revenue	42,290	42,176	40,158	125,260	118,665
Efficiency ratio adjusted for non-core items	60.74 %	61.19 %	63.28 %	62.24 %	64.12 %

The decrease in the efficiency ratio compared to all prior periods was primarily due to increased net interest income and the continued focus on expense management.

Management is targeting an efficiency ratio of 61% to 63% for the full year of 2017, absent acquisition-related costs and other non-core charges.

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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.

	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	
(Dollars in thousands)	2017	2017	2016	2017	2016
Annualized Net Income Excluding Amortization of Other Intangible Assets:					
Net income	$10,895	$9,766	$ 7,792	$29,470	$23,749
Add: amortization of other intangible assets	869	871	1,008	2,603	3,023
Less: tax effect (at 35% tax rate) of amortization of other intangible assets	304	305	353	911	1,058
Net income excluding amortization of other intangible assets	$11,460	$10,332	$ 8,447	$31,162	$25,714
Days in the quarter	92	91	92	273	274
Days in the year	365	365	366	365	366
Annualized net income	$43,225	$39,171	$ 30,999	$39,401	$31,723
Annualized net income excluding amortization of other intangible assets	$45,466	$41,442	$ 33,604	$41,663	$34,348
Average Tangible Stockholders' Equity:					
Total average stockholders' equity	$456,198	$447,399	$ 438,606	$447,592	$430,769
Less: average goodwill and other intangible assets	144,267	145,052	147,466	144,950	148,482
Average tangible stockholders' equity	$311,931	$302,347	$ 291,140	$302,642	$282,287
Return on Average Stockholders' Equity Ratio:					
Annualized net income	$43,225	$39,171	$ 30,999	$39,401	$31,723
Average stockholders' equity	$456,198	$447,399	$ 438,606	$447,592	$430,769
Return on average stockholders' equity	9.47 %	8.76 %	7.07 %	8.80 %	7.36 %
Return on Average Tangible Stockholders' Equity Ratio:					
Annualized net income excluding amortization of other intangible assets	$45,466	$41,442	$ 33,604	$41,663	$34,348
Average tangible stockholders' equity	$311,931	$302,347	$ 291,140	$302,642	$282,287
Return on average tangible stockholders' equity	14.58 %	13.71 %	11.54 %	13.77 %	12.17 %

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FINANCIAL CONDITION

Cash and Cash Equivalents

At September 30, 2017, Peoples' interest-bearing deposits in other banks increased $8.4 million from December 31, 2016. The total cash and cash equivalent balances included $10.3 million of excess cash reserves being maintained at the Federal Reserve Bank of Cleveland at September 30, 2017, compared to $4.4 million at December 31, 2016. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

Through the first nine months of 2017, Peoples' total cash and cash equivalents increased $3.9 million as Peoples' net cash provided by financing and operating activities of $128.1 million exceeded cash used in investing activities of $124.2 million. Peoples' investing activities reflected purchases of $142.1 million in available-for-sale and held-to-maturity investment securities and a net increase of $99.8 million in loans, which were partially offset by $120.7 million in net proceeds from sales, principal payments, calls and prepayments on available-for-sale and held-to-maturity investment securities. Financing activities included a net increase of $154.9 million in deposits which was offset partially by a net decrease of $61.3 million in borrowings and $10.9 million of cash dividends paid.

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

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

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Investment Securities

The following table provides information regarding Peoples' investment portfolio:

(Dollars in thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. government sponsored agencies	$ —	$—	$—	$ 1,000	$ 1,001
States and political subdivisions	104,560	111,390	114,712	117,230	117,839
Residential mortgage-backed securities	672,106	664,341	640,299	626,567	607,452
Commercial mortgage-backed securities	7,128	8,092	16,424	19,291	23,283
Bank-issued trust preferred securities	5,154	5,144	4,964	4,899	4,783
Equity securities	8,073	10,121	10,562	8,953	7,785
Total fair value	$ 797,021	$799,088	$786,961	$ 777,940	$ 762,143
Total amortized cost	$ 792,810	$792,803	$782,947	$ 777,017	$ 743,878
Net unrealized gain	$ 4,211	$6,285	$4,014	$ 923	$ 18,265
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	$ 3,812	$3,815	$3,818	$ 3,820	$ 3,823
Residential mortgage-backed securities	33,648	34,264	34,812	33,858	34,203
Commercial mortgage-backed securities	4,703	4,981	5,392	5,466	5,636
Total amortized cost	$ 42,163	$43,060	$44,022	$ 43,144	$ 43,662
Other investment securities, at cost	$ 38,371	$38,371	$38,371	$ 38,371	$ 38,443
Total investment portfolio:					
Amortized cost	$ 873,344	$874,234	$865,340	$ 858,532	$ 825,983
Carrying value	$ 877,555	$880,519	$869,354	$ 859,455	$ 844,248

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

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

(Dollars in thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Total fair value	$ 2,067	$2,502	$ 2,702	$ 2,991	$ 3,288
Total amortized cost	2,253	2,703	2,916	3,206	3,499
Net unrealized loss	$ (186)	$(201)	$ (214)	$ (215)	$ (211)

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 September 30, 2017, Peoples' non-agency portfolio consisted entirely of first lien residential mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

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Additional information regarding Peoples' investment portfolio can be found in Note 3 of the Notes to the Unaudited Consolidated Financial Statements.

Loans

The following table provides information regarding outstanding loan balances:

(Dollars in thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Gross originated loans:					
Commercial real estate, construction	$111,187	$103,039	$93,886	$84,626	$70,838
Commercial real estate, other	573,256	567,537	535,474	531,557	507,842
Commercial real estate	684,443	670,576	629,360	616,183	578,680
Commercial and industrial	407,468	392,097	384,548	378,131	351,340
Residential real estate	304,094	306,385	308,153	307,490	306,374
Home equity lines of credit	88,421	88,229	85,512	85,617	83,412
Consumer, indirect	335,436	305,580	283,106	252,024	229,334
Consumer, other	68,286	67,287	66,283	67,579	67,973
Consumer	403,722	372,867	349,389	319,603	297,307
Deposit account overdrafts	507	521	721	1,080	1,074
Total originated loans	$1,888,655	$1,830,675	$1,757,683	$1,708,104	$1,618,187
Gross acquired loans (a):					
Commercial real estate, construction	$8,565	$9,130	$9,431	$10,100	$10,242
Commercial real estate, other	174,157	182,682	194,581	204,466	221,036
Commercial real estate	182,722	191,812	204,012	214,566	231,278
Commercial and industrial	36,462	39,376	44,189	44,208	48,702
Residential real estate	194,950	206,502	216,059	228,435	238,787
Home equity lines of credit	22,366	23,481	24,516	25,875	27,784
Consumer, indirect	408	533	656	808	952
Consumer, other	1,472	1,980	2,387	2,940	3,518
Consumer	1,880	2,513	3,043	3,748	4,470
Total acquired loans	$438,380	$463,684	$491,819	$516,832	$551,021
Total loans	$2,327,035	$2,294,359	$2,249,502	$2,224,936	$2,169,208
Percent of loans to total loans:					
Commercial real estate, construction	5.1 %	4.9 %	4.6 %	4.3 %	3.7 %
Commercial real estate, other	32.2 %	32.7 %	32.4 %	33.0 %	33.8 %
Commercial real estate	37.3 %	37.6 %	37.0 %	37.3 %	37.5 %
Commercial and industrial	19.1 %	18.8 %	19.1 %	19.0 %	18.4 %
Residential real estate	21.4 %	22.4 %	23.3 %	24.1 %	25.1 %
Home equity lines of credit	4.8 %	4.9 %	4.9 %	5.0 %	5.1 %
Consumer, indirect	14.4 %	13.3 %	12.6 %	11.4 %	10.6 %
Consumer, other	3.0 %	3.0 %	3.1 %	3.2 %	3.3 %
Consumer	17.4 %	16.3 %	15.7 %	14.6 %	13.9 %
Total percentage	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
Residential real estate loans being serviced for others	$409,199	$402,516	$399,279	$398,134	$389,090

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

While commercial loans comprise the largest portion of Peoples Bank's loan portfolio, residential real estate lending remains a focus of Peoples Bank. The originated loans may either be retained in Peoples Bank's loan portfolio, or sold into the secondary market. Peoples Bank's portfolio of residential real estate loans comprised 21.4% of total loans at September 30, 2017, and 24.1% at December 31, 2016. Peoples Bank also had $3.7 million of residential real estate loans held for sale and was servicing $409.2 million of loans, consisting primarily of one-to-four family residential mortgages, previously sold

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in the secondary market. Peoples Bank requires evidence of insurance at the time of the loan closing, and additionally, has a blanket insurance policy to cover residential real estate loans that do not include an insurance escrow account. Period-end total loan balances at September 30, 2017 increased $32.7 million, or 6% annualized, compared to June 30, 2017. Indirect consumer lending continued to be a key component of loan growth, as balances increased $29.7 million, or 39% annualized, during the quarter. The growth in indirect consumer lending included continued diversification in the portfolio beyond automobile loans, including loans for recreational vehicles and motorcycles. Commercial loans grew $17.2 million, or 5% annualized, with commercial and industrial loans growing $12.5 million, or 12% annualized, during the quarter.

Compared to December 31, 2016, period-end loan balances at September 30, 2017 increased $102.1 million, or 6% annualized. Indirect consumer loan balances increased $83.0 million, or 44% annualized compared to December 31, 2016. Commercial real estate loans grew $36.4 million, or 6% annualized, while commercial and industrial loans grew $21.6 million, or 7% annualized, for the first nine months of 2017.

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 September 30, 2017:

(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total
Commercial real estate, construction:				
Apartment complexes	$ 45,081	$ 53,788	$ 98,869	39.4 %
Mixed commercial use facilities	7,485	27,167	34,652	13.8 %
Office buildings	3,363	28,287	31,650	12.6 %
Light industrial	10,735	4,074	14,809	5.9 %
Assisted living facilities and nursing homes	9,024	966	9,990	4.0 %
Land development	8,943	—	8,943	3.6 %
Residential property	2,461	2,514	4,975	2.0 %
Other	32,660	14,134	46,794	18.7 %
Total commercial real estate, construction	$ 119,752	$ 130,930	$ 250,682	100.0 %

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(Dollars in thousands)	Outstanding Balance	Loan Commitments	Total Exposure	% of Total
Commercial real estate, other:				
Office buildings and complexes:				
Owner occupied	$ 42,537	$ 2,409	$ 44,946	5.8 %
Non-owner occupied	44,859	288	45,147	5.8 %
Total office buildings and complexes	87,396	2,697	90,093	11.6 %
Mixed commercial use facilities:				
Owner occupied	36,611	1,070	37,681	4.9 %
Non-owner occupied	34,006	970	34,976	4.5 %
Total mixed commercial use facilities	70,617	2,040	72,657	9.4 %
Apartment complexes	67,267	187	67,454	8.7 %
Light industrial facilities:				
Owner occupied	50,500	308	50,808	6.5 %
Non-owner occupied	13,178	—	13,178	1.7 %
Total light industrial facilities	63,678	308	63,986	8.2 %
Retail facilities:				
Owner occupied	20,493	565	21,058	2.7 %
Non-owner occupied	37,626	982	38,608	5.0 %
Total retail facilities	58,119	1,547	59,666	7.7 %
Lodging and lodging related	38,571	2,994	41,565	5.4 %
Assisted living facilities and nursing homes	31,352	250	31,602	4.1 %
Warehouse facilities	27,937	605	28,542	3.7 %
Other	302,476	18,622	321,098	41.2 %
Total commercial real estate, other	$ 747,413	$ 29,250	$ 776,663	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 September 30, 2017 or December 31, 2016.

Allowance for Loan Losses

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

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

(Dollars in thousands)	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Commercial real estate	$ 7,534	$ 7,328	$ 7,066	$ 7,172	$ 7,490
Commercial and industrial	6,415	6,727	6,534	6,353	5,690
Total commercial	13,949	14,055	13,600	13,525	13,180
Residential real estate	924	960	1,145	982	1,120
Home equity lines of credit	679	676	675	688	686
Consumer, indirect	2,814	2,549	2,409	2,312	2,240
Consumer, other	441	402	438	518	592
Consumer	3,255	2,951	2,847	2,830	2,832
Deposit account overdrafts	70	83	111	171	143
Originated allowance for loan losses	18,877	18,725	18,378	18,196	17,961
Acquired allowance for loan losses	115	90	90	233	258
Allowance for loan losses	$ 18,992	$ 18,815	$ 18,468	$ 18,429	$ 18,219
	0.82 %	0.82 %	0.82 %	0.83 %	0.84 %

As a percent of total loans, net of deferred fees and costs

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At September 30, 2017, the allowance for loan losses increased to $19.0 million, compared to $18.2 million at September 30, 2016 and $18.5 million at December 31, 2016. The ratio of the allowance for loan losses as a percent of total loans net of deferred fees and costs, was 0.82% at September 30, 2017, compared to 0.84% at September 30, 2016 and 0.83% at December 31, 2016. The continued decline in this ratio was primarily due to the stabilization of Peoples' asset quality metrics.
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.
The following table summarizes Peoples’ net charge-offs and recoveries:

(Dollars in thousands)	Three Months Ended September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Gross charge-offs:					
Commercial real estate, other	$ —	$			