

PEOPLES BANCORP INC
Form 10-Q
July 26, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from ____ to ____

Commission File Number: 0-16772

PEOPLES BANCORP INC.

(Exact name of Registrant as specified in its charter)

Ohio 31-0987416

(State

or

other (I.R.S.

jurisdiction Employer

of Identification

incorporation No.)

or

organization)

138

Putnam

Street,

P.O. 45750

Box

738,

Marietta,

Ohio

(Address

of

principal (Zip Code)

executive

offices)

Registrant's (740)

telephone 373-3155

number,

including
area
code:

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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PART I

ITEM 1. FINANCIAL STATEMENTS

PEOPLES BANCORP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

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

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

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

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

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

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

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

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

See Notes to the Unaudited Consolidated Financial Statements

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CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

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

See Notes to the Unaudited Consolidated Financial Statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

See Notes to the Unaudited Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Basis of Presentation: The accompanying Unaudited Consolidated Financial Statements of Peoples Bancorp Inc. and its subsidiaries ("Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to Peoples Bancorp Inc.) have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP") for interim financial information and the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not contain all of the information and footnotes required by US GAAP for annual financial statements and should be read in conjunction with Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("Peoples' 2017 Form 10-K").

The accounting and reporting policies followed in the presentation of the accompanying Unaudited Consolidated Financial Statements are consistent with those described in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2017 Form 10-K, as updated by the information contained in this Form 10-Q. Management has evaluated all significant events and transactions that occurred after June 30, 2018 for potential recognition or disclosure in these consolidated financial statements. In the opinion of management, these consolidated financial statements reflect all adjustments necessary to present fairly such information for the periods and at the dates indicated. Such adjustments are normal and recurring in nature. Intercompany accounts and transactions have been eliminated. The Consolidated Balance Sheet at December 31, 2017, contained herein, has been derived from the audited Consolidated Balance Sheet included in Peoples' 2017 Form 10-K.

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

New Accounting Pronouncements: From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by Peoples as of the required effective dates.

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

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

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

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

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

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

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

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

ASU 2016-02 - Leases (Topic 842): This ASU was issued to improve the financial reporting of leasing activities and provide a faithful representation of leasing transactions and improve understanding and comparability of a lessee's financial statements. Under the new accounting guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. This ASU will require both finance and operating leases to be recognized on the balance sheet. This ASU will affect all companies and organizations that lease real estate. The FASB issued an update in January 2018 (ASU 2018-01) providing an optional transition practical expedient to not evaluate under Topic 842 land easements that exist or expired before the entity's adoption of Topic 842 and were not previously accounted for as leases. This ASU will become effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019 for Peoples). Peoples is currently identifying the current leases and will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' consolidated financial statements.

Note 2 Fair Value of Assets and Liabilities

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

Value on a Non-Recurring Basis.”

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

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

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

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

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

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

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

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

	Recurring Fair Value					
	Measurements at Reporting					
	Date					
	June 30, 2018		December 31,		2017	
(Dollars in thousands)	Level 1	Level 2	Level 1	Level 2	Level 3	Level 3
Assets:						
Available-for-sale investment securities:						
Obligations of:						
U.S. Treasury and government agencies	\$43	\$	\$	\$	\$	\$
States and political subdivisions	96,913	—	101,569	—	—	—
Residential mortgage-backed securities	688,002	—	673,664	—	—	—
Commercial mortgage-backed securities	6,799	—	6,976	—	—	—
Bank-issued trust preferred securities	4,167	—	5,129	—	—	—
Equity securities (a)	—	—	7,694	—	—	—
Total available-for-sale securities	795,924	—	7,797	4,93	—	—
Held-to-maturity investment securities:						
Obligations of:						
States and political subdivisions	\$5,026	\$	\$4,417	\$	\$	—
Residential mortgage-backed securities	29,853	—	32,227	—	—	—
Commercial mortgage-backed securities	3,547	—	4,569	—	—	—
Total held-to-maturity securities	38,426	—	41,213	—	—	—
Equity securities (a)	1273	—	—	—	—	—
Derivative assets (b)	8,404	—	4,594	—	—	—
Liabilities:						
Derivative liabilities (c)	\$5,125	\$	\$3,241	\$	\$	—

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

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

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

Investment Securities Available-for-Sale and Held-to-Maturity: The fair values used by Peoples are obtained from an independent pricing service and represent either quoted market prices for the identical securities (Level 1) or fair values determined by pricing models using a market approach that considers observable market data, such as interest rate volatility, LIBOR yield curves, credit spreads and prices from market makers and live trading systems (Level 2).

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Management reviews the valuation methodology and quality controls utilized by the pricing services in management's overall assessment of the reasonableness of the fair values provided, and challenges prices when management believes a material discrepancy in pricing exists.

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

Derivative Assets and Liabilities: Derivative assets and liabilities are recognized in the Consolidated Balance Sheets at their fair value within other assets/liabilities. The fair value for derivative instruments is determined based on market prices, broker-dealer quotations on similar products, or other related input parameters (Level 2).

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

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

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management's determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or the market value provided by independent, licensed or certified appraisers (Level 3), less estimated selling costs. At June 30, 2018, impaired loans had an aggregate outstanding principal balance of \$33.7 million. For the three and six months ended June 30, 2018, Peoples recognized a reduction in the specific reserve on impaired loans, through the allowance for loan losses, of \$12,000 and \$17,000, respectively.

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

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

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

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

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

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

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

For certain financial assets and liabilities, carrying value approximates fair value due to the nature of the financial instrument. These instruments include cash and cash equivalents, demand and other non-maturity deposits, and overnight borrowings. Peoples used the following methods and assumptions in estimating the fair value of the following financial instruments:

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

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

Loans: The fair value of portfolio loans assumes sale of the notes to a third-party financial investor. Accordingly, this value is not necessarily the value to Peoples if the notes were held to maturity. Peoples considered interest rate, credit and market factors in estimating the fair value of loans (Level 3). Fair values for loans are estimated using a discounted cash flow methodology. The discount rates take into account interest rates currently being offered to customers for loans with similar terms, the credit risk associated with the loan and other market factors, including liquidity.

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

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

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

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

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

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

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

Certain financial assets and financial liabilities that are not required to be measured or reported at fair value can be subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). These financial assets and liabilities include the following: customer relationships, deposit base, banking center networks, and other information required to compute Peoples' aggregate fair value that are not included in the above information. Accordingly, the above fair values are not intended to represent the aggregate fair value of Peoples.

Note 3 Investment Securities

Available-for-sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Obligations of:				
U.S. Treasury and government agencies	\$43	\$ —	\$ —	\$43
States and political subdivisions	96,629	919	(635)	96,913
Residential mortgage-backed securities	708,419	2,115	(22,532)	688,002
Commercial mortgage-backed securities	6,929	—	(130)	6,799
Bank-issued trust preferred securities	4,197	122	(152)	4,167
Total available-for-sale securities	\$816,217	\$ 3,156	\$ (23,449)	\$795,924
December 31, 2017				
Obligations of:				
States and political subdivisions	\$ 100,039	\$ 1,786	\$ (256)	\$101,569
Residential mortgage-backed securities	684,100	2,582	(13,018)	673,664
Commercial mortgage-backed securities	7,004	11	(39)	6,976
Bank-issued trust preferred securities	5,195	141	(207)	5,129
Equity securities (a)	1,394	6,520	(65)	7,849
Total available-for-sale securities	\$797,732	\$ 11,040	\$ (13,585)	\$795,187

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

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

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

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

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
June 30, 2018								
Obligations of:								
States and political subdivisions	\$26,031	\$330	39	\$4,902	\$305	2	\$30,933	\$635
Residential mortgage-backed securities	318,416	7,536	144	303,265	14,996	96	621,681	22,532
Commercial mortgage-backed securities	5,577	113	2	1,222	17	1	6,799	130
Bank-issued trust preferred securities	—	—	—	1,848	152	2	1,848	152
Total	\$350,024	\$7,979	185	\$311,237	\$15,470	101	\$661,261	\$23,449
December 31, 2017								
Obligations of:								
States and political subdivisions	\$16,985	\$89	18	\$5,308	\$167	1	\$22,293	\$256
Residential mortgage-backed securities	274,998	3,462	77	291,812	9,556	88	566,810	13,018
Commercial mortgage-backed securities	2,487	23	1	1,274	16	1	3,761	39
Bank-issued trust preferred securities	—	—	—	2,792	207	3	2,792	207
Equity securities (a)	276	1	1	112	64	1	388	65
Total	\$294,746	\$3,575	97	\$301,298	\$10,010	94	\$596,044	\$13,585

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

Management systematically evaluates available-for-sale investment securities for other-than-temporary declines in fair value on a quarterly basis. At June 30, 2018, management concluded no individual securities were other-than-temporarily impaired since Peoples did not have the intent to sell, nor was it more likely than not that Peoples would be required to sell, any of the securities with an unrealized loss prior to recovery. Further, the unrealized losses at both June 30, 2018 and December 31, 2017 were largely attributable to changes in market interest rates and spreads since the securities were purchased.

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

remaining 1%, or four positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Two of the four positions had a fair value of less than 90% of their book value, with an aggregate book and fair value of \$0.2 million and \$0.1 million, respectively. Management analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

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

The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at June 30, 2018. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date.

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

Held-to-Maturity

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

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

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

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

(Dollars in thousands)	Less than 12 Months			12 Months or More			Total	
	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss	No. of Securities	Fair Value	Unrealized Loss
June 30, 2018								
Residential mortgage-backed securities	\$11,258	\$ 107	5	\$11,511	\$ 834	3	\$22,769	\$ 941
Commercial mortgage-backed securities	—	—	—	3,547	89	1	3,547	89
Total	\$11,258	\$ 107	5	\$15,058	\$ 923	4	\$26,316	\$ 1,030
December 31, 2017								
Residential mortgage-backed securities	\$1,476	\$ 4	2	\$12,098	\$ 525	3	\$13,574	\$ 529
Commercial mortgage-backed securities	—	—	—	4,569	62	1	4,569	62
Total	\$1,476	\$ 4	2	\$16,667	\$ 587	4	\$18,143	\$ 591

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at June 30, 2018. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	\$ —	\$310	\$2,982	\$1,238	\$4,530
Residential mortgage-backed securities	—	433	8,093	22,142	30,668
Commercial mortgage-backed securities	—	—	—	3,636	3,636
Total held-to-maturity securities	\$ —	\$743	\$11,075	\$27,016	\$38,834
Fair value					
Obligations of:					
States and political subdivisions	\$ —	\$312	\$3,462	\$1,252	\$5,026
Residential mortgage-backed securities	—	422	8,116	21,315	29,853
Commercial mortgage-backed securities	—	—	—	3,547	3,547
Total held-to-maturity securities	\$ —	\$734	\$11,578	\$26,114	\$38,426
Total weighted-average yield	—%	2.43%	2.89%	2.71%	2.76%

Other Investment Securities

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

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

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

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

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

Pledged Securities

Peoples had pledged available-for-sale investment securities with carrying values of \$528.6 million and \$522.7 million at June 30, 2018 and December 31, 2017, respectively, and held-to-maturity investment securities with carrying values of \$17.2 million and \$18.3 million at June 30, 2018 and December 31, 2017, respectively, to secure public and trust department deposits, and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of \$4.4 million and \$6.7 million at June 30, 2018 and December 31, 2017, respectively, and held-to-maturity securities with carrying values of \$18.2 million and \$19.9 million at June 30, 2018 and December 31, 2017, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

Note 4 Loans

Peoples' loan portfolio consists of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of northeastern, central, southwestern and southeastern Ohio, west central West Virginia, and northeastern Kentucky. Acquired loans consist of loans purchased in 2012 or thereafter. Loans that were acquired and subsequently re-underwritten, are reported as originated upon execution of such credit actions (for example, renewals and increases in lines of credit). The major classifications of loan balances (in each case, net of deferred fees and costs) excluding loans held for sale, were as follows:

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

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

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

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

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

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

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

Pledged Loans

Peoples pledges certain loans secured by 1-4 family and multifamily residential mortgages under a blanket collateral agreement to secure borrowings from the FHLB. The amount of such pledged loans totaled \$585.6 million and \$487.2 million at June 30, 2018 and December 31, 2017, respectively. Peoples also pledges commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled \$69.8 million and \$74.0 million at June 30, 2018 and December 31, 2017, respectively.

Nonaccrual and Past Due Loans

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

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

(Dollars in thousands)	Nonaccrual Loans		Loans 90+ Days Past Due and Accruing	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Originated loans:				
Commercial real estate, construction	\$725	\$ 754	\$—	\$ —
Commercial real estate, other	6,406	6,877	213	—
Commercial real estate	7,131	7,631	213	—
Commercial and industrial	1,274	739	—	—
Residential real estate	4,056	3,546	282	548
Home equity lines of credit	481	550	6	50
Consumer, indirect	314	256	—	—
Consumer, direct	17	39	4	16
Consumer	331	295	4	16
Total originated loans	\$13,273	\$ 12,761	\$505	\$ 614
Acquired loans:				
Commercial real estate, other	\$252	\$ 192	\$402	\$ 215
Commercial and industrial	427	259	—	45
Residential real estate	1,846	2,168	1,026	730
Home equity lines of credit	271	312	—	22
Consumer, direct	—	—	42	—
Total acquired loans	\$2,796	\$ 2,931	\$1,470	\$ 1,012
Total loans	\$16,069	\$ 15,692	\$1,975	\$ 1,626

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

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

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

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

Credit Quality Indicators

As discussed in Note 1 of the Notes to the Consolidated Financial Statements included in Peoples' 2017 Form 10-K, Peoples categorizes the majority of its loans into risk categories based upon an established risk grading matrix using a scale of 1 to 8. A description of the general characteristics of the risk grades used by Peoples is as follows:

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

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

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

“Doubtful” (grade 7): Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing

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facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, classification of the loan as an estimated loss is deferred until its more exact status may be determined.

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

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

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

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

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

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Impaired Loans

The following table summarizes loans classified as impaired:

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

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

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

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

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

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

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

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

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

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

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

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

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

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Allowance for Originated Loan Losses

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

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

Period-end amount allocated to:

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

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

Period-end amount allocated to:

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

Allowance for Loan Losses for Acquired Loans

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

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

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

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

Note 5 Long-Term Borrowings

The following table summarizes Peoples' long-term borrowings:

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

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

As of June 30, 2018, Peoples' had one remaining FHLB putable option-based advance. The FHLB has the option, at its sole discretion, to terminate the advance after the initial fixed rate period of three months, requiring full repayment of the advance by Peoples, prior to the stated maturity. If the advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then offered by the FHLB, subject to normal FHLB credit and collateral requirements. Peoples is required to make quarterly interest payments. The amortizing, fixed-rate FHLB advances have a fixed rate for the term of each advance, with maturities ranging from two to thirteen years. These advances require monthly principal and interest payments, with some having a constant prepayment rate requiring an additional principal payment annually. These advances are not eligible for optional prepayment prior to maturity.

Peoples has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. Additional information regarding the interest rate swaps can be found later in Note 9 of the Notes to the Unaudited Consolidated Financial Statements.

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

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

(Dollars in thousands)	Balance	Weighted-Average Rate	
Six months ending December 31, 2018	\$3,440	1.58	%
Year ending December 31, 2019	3,512	1.56	%
Year ending December 31, 2020	25,564	1.83	%
Year ending December 31, 2021	21,979	1.74	%
Year ending December 31, 2022	16,521	1.95	%
Thereafter	42,069	3.36	%
Total long-term borrowings	\$113,085	2.38	%

Note 6 Stockholders' Equity

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

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

Under its Amended Articles of Incorporation, Peoples is authorized to issue up to 50,000 preferred shares, in one or more series, having such voting powers, designations, preferences, rights, qualifications, limitations and restrictions as determined by Peoples' Board of Directors. At June 30, 2018, Peoples had no preferred shares issued or outstanding. On April 13, 2018, Peoples issued 1,152,711 common shares to ASB shareholders.

Accumulated Other Comprehensive Loss

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

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

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

Note 7 Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee's years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee's average monthly compensation over the highest five consecutive years out of the employee's last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee's annual compensation during the years 2003 through 2009, plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. As of January 1, 2011, all retirees who desire to participate in Peoples medical plan do so by electing COBRA, which provides up to 18 months of coverage; retirees over the age of 65 also have the option to pay to participate in a group Medicare supplemental plan. Peoples' policy is to fund the cost of the health benefits as they arise.

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

	Pension Benefits			
	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
(Dollars in thousands)				
Interest cost	\$ 105	\$ 113	\$ 210	\$ 226
Expected return on plan assets	(146)	(139)	(293)	(277)
Amortization of net loss	27	26	55	51
Net periodic cost	\$(14)	\$—	\$(28)	\$—

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

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

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Note 8 Earnings Per Common Share

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

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

Anti-dilutive shares excluded from calculation:

Restricted shares, stock options and stock appreciation rights	—	14	32	63
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Note 9 Financial Instruments with Off-Balance Sheet Risk

Derivatives and Hedging Activities - Risk Management Objective of Using Derivatives

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

Fair Values of Derivative Instruments on the Balance Sheet

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

Cash Flow Hedges of Interest Rate Risk

Peoples' objectives in using interest rate derivatives are to add stability to interest income and expense, and to manage its exposure to interest rate movements. To accomplish these objectives, Peoples has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. As of June 30, 2018, Peoples had ten interest rate swaps, which included three interest rate swaps acquired with the ASB acquisition, for an aggregate notional value of \$67.0 million associated with Peoples' cash outflows for various FHLB

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

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

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

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

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

Non-Designated Hedges

Peoples maintains an interest rate protection program for commercial loan customers, which was established in 2010. Under this program, Peoples provides its customer with a fixed-rate loan while creating a variable-rate asset for Peoples by the customer entering into an interest rate swap with Peoples on terms that match the loan. Peoples offsets its risk exposure by entering into an offsetting interest rate swap with an unaffiliated institution. These interest rate swaps do not qualify as designated hedges; therefore, each swap is accounted for as a standalone derivative. Peoples had interest rate swaps associated with commercial loans with a notional value of \$388.9 million and fair value of \$5.1 million of equally offsetting assets and liabilities at June 30, 2018, and a notional value of \$363.3 million and fair value of \$3.0 million of equally offsetting assets and liabilities at December 31, 2017. These interest rate swaps did not have a material impact on Peoples' results of operation or financial condition.

Note 10 Stock-Based Compensation

Under the Peoples Bancorp Inc. Third Amended and Restated 2006 Equity Plan (the "2006 Equity Plan"), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights ("SARs") and unrestricted share awards to employees and non-employee directors. The total number of common shares currently available under the 2006 Equity Plan is 891,340. The maximum number of common shares that can be issued for incentive stock options is 500,000 common shares. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. Since 2009, Peoples has granted restricted common shares to employees and restricted common shares to non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In 2018, the Board of Directors granted unrestricted common shares to non-employee directors and to all full-time and part-time employees who did not already participate in the equity plans. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

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Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples' common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted to employees vested three years after the respective grant dates and expired ten years from the respective date of grant. The most recent grant of SARs occurred in 2008 and expired on February 20, 2018. The following table summarizes the changes to Peoples' SARs for the six months ended June 30, 2018:

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

Restricted Common Shares

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

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

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

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

Stock-Based Compensation

Peoples recognizes stock-based compensation expense based on the estimated fair value of the awards on the grant date. The following table summarizes the amount of stock-based compensation expense and related tax benefit recognized for each period:

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

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

Performance Unit Award Agreement

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

Note 11 Revenue

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

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

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

Peoples recognizes commission income from the sale of insurance policies when it acts as an agent between the insurance carrier and policyholder, arranging for the insurance carrier to provide policies to policyholders, and acts on behalf of the insurance carrier by providing customer service to the policyholders during the respective policy periods.

Commission income is recognized over time, using the output method of time elapsed, which corresponds with the underlying insurance policy period, for which Peoples is obligated to perform under contract with the insurance carrier. Commission income is variable, as it is comprised of a certain percentage of the underlying policy premium. Peoples estimates the variable consideration based upon the "most likely amount" method, and does not expect or anticipate a significant reversal of revenue in future periods, based upon historical experience. Payment is due from

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Services transferred over time.

(b) Services transferred at a point in time.

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

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

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

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

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

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

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

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

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

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

(Dollars in thousands, except per share data) ASB

Nonimpaired Loans

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

Purchase Credit Impaired Loans

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

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

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

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SELECTED FINANCIAL DATA

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

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

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

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

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

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(c) Ratios are presented on an annualized basis.

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

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

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

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

(f) amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus total non-interest income (excluding all gains and all losses). Additional information regarding the calculation of these non-GAAP financial measures can be found under the caption "Efficiency Ratio."

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

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

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

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

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

(j) Includes loans categorized as substandard and doubtful.

Peoples' capital conservation buffer was 5.96% at June 30, 2018 and 6.40% at June 30, 2017, compared to 2.50%

(k) for the fully phased-in capital conservation buffer required by January 1, 2019.

Forward-Looking Statements

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

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

- (1) the success, impact, and timing of the implementation of Peoples' business strategies, including the successful integration of acquisitions and the expansion of consumer lending activity;
- (2) Peoples' ability to integrate acquisitions, including the merger with ASB and any future acquisitions, which may be unsuccessful, or may be more difficult, time-consuming or costly than expected; competitive pressures among financial institutions or from non-financial institutions which may increase
- (3) significantly, including product and pricing pressures, changes to third-party relationships and revenues, and Peoples' ability to attract, develop and retain qualified professionals; changes in the interest rate environment due to economic conditions and/or the fiscal policies of the United States
- (4) ("U.S.") government and the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), which may adversely impact interest rates, interest margins, loan demand and interest rate sensitivity; uncertainty regarding the nature, timing, cost and effect of legislative or regulatory changes or actions, promulgated and to be promulgated by governmental and regulatory agencies in the State of Ohio, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Consumer Financial Protection Bureau, which
- (5) may subject Peoples, its subsidiaries, or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses, including in particular the rules and regulations promulgated and to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the Basel III regulatory capital reform;
- (6) uncertainties in Peoples' preliminary review of, and additional analysis of, the impact of the Tax Cuts and Jobs Act;

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

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

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other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples' reports filed with the Securities and Exchange Commission (the "SEC"), including those risk factors included in the (29) disclosures under the heading "ITEM 1A. RISK FACTORS" of Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2017 and under the heading "ITEM 1A. RISK FACTORS" in Part II of this Form 10-Q.

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

Business Overview

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

Peoples offers diversified financial products and services through 82 locations, including 71 full-service bank branches, and 78 Automated Teller Machines ("ATMs") in northeastern, central, southwestern and southeastern Ohio, west central West Virginia and northeastern Kentucky through its financial service units – Peoples Bank and Peoples Insurance Agency, LLC ("Peoples Insurance"), a subsidiary of Peoples Bank. Peoples Bank is subject to regulation and examination primarily by the Ohio Division of Financial Institutions (the "ODFI"), the Federal Reserve Bank of Cleveland and the Federal Deposit Insurance Corporation (the "FDIC"). Peoples Bank is also subject to regulations of the Consumer Financial Protection Bureau (the "CFPB") which regulates consumer financial products and services and certain financial services providers. Peoples Insurance is subject to regulation by the Ohio Department of Insurance and the state insurance regulatory agencies of those states in which Peoples Insurance may do business. Peoples' products and services include traditional banking products, such as deposit accounts, lending products and trust services. Peoples provides services through traditional offices, ATMs, mobile banking and telephone and internet-based banking. Peoples also offers a complete array of insurance products and makes available custom-tailored fiduciary, employee benefit plan and asset management services. Brokerage services are offered by Peoples exclusively through an unaffiliated registered broker-dealer located at Peoples Bank's offices.

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could materially differ from those estimates. Management has identified the accounting policies that, due to the judgments, estimates and assumptions inherent in those policies, are critical to understanding Peoples' Unaudited Consolidated Financial Statements, and Management's Discussion and Analysis at June 30, 2018, which were unchanged from the policies disclosed in Peoples' 2017 Form 10-K.

Summary of Recent Transactions and Events

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

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

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

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

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

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

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

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

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

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

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

On January 31, 2017, Peoples Insurance acquired a third-party insurance administration company located in Piketon, Ohio for total cash consideration of \$0.5 million, and recorded \$0.5 million of customer relationship intangibles. The acquisition did not materially impact Peoples' financial position, results of operations or cash flows.

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

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

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

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EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS**Net Interest Income**

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

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

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

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

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(Dollars in thousands)	For the Six Months Ended							
	June 30, 2018				June 30, 2017			
	Average Balance	Income/ Expense	Yield/ Cost		Average Balance	Income/ Expense	Yield/ Cost	
Short-term investments	\$11,052	\$ 106	1.93	%	\$9,859	\$ 41	0.84	%
Investment securities (a)(b):								
Taxable	784,628	11,555	2.95	%	758,719	9,756	2.57	%
Nontaxable	97,062	1,618	3.33	%	112,384	2,394	4.26	%
Total investment securities	881,690	13,173	2.99	%	871,103	12,150	2.79	%
Loans (b)(c):								
Commercial real estate, construction	118,396	2,771	4.66	%	100,755	2,151	4.25	%
Commercial real estate, other	803,085	19,558	4.84	%	735,182	17,315	4.68	%
Commercial and industrial	491,643	11,787	4.77	%	433,173	9,403	4.32	%
Residential real estate (d)	546,558	12,058	4.41	%	526,131	11,333	4.31	%
Home equity lines of credit	120,360	2,972	4.98	%	111,149	2,392	4.34	%
Consumer, indirect	351,581	6,628	3.80	%	281,935	4,802	3.43	%
Consumer, other	70,633	2,392	6.83	%	69,766	2,447	7.07	%
Total loans	2,502,256	58,166	4.64	%	2,258,094	49,843	4.42	%
Less: Allowance for loan losses	(18,878)				(18,570)			
Net loans	2,483,378	58,166	4.68	%	2,239,524	49,843	4.44	%
Total earning assets	3,376,120	71,445	4.23	%	3,120,486	62,034	3.97	%
Intangible assets	152,943							