PEOPLES BANCORP INC
Form 10-K
February 27, 2017

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

FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

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

Ohio	31-0987416
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
138 Putnam Street, P.O. Box 738, Marietta, Ohio	45750-0738
(Address of principal executive offices)	(Zip Code)

(740) 373-3155
Registrant's telephone number, including

area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common shares, without par value	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of June 30, 2016, the aggregate market value of the registrant’s Common Shares (the only common equity of the registrant) held by non-affiliates was $387,881,000 based upon the closing price as reported on The NASDAQ Global Select Market. For this purpose, executive officers and directors of the registrant are considered affiliates.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of the latest practicable date: 18,262,634 common shares, without par value, at February 24, 2017.

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Document Incorporated by Reference:
Portions of Registrant's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held April 27, 2017, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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As used in this Annual Report on Form 10-K ("Form 10-K"), "Peoples" refers to Peoples Bancorp Inc. and its consolidated subsidiaries collectively, except where the context indicates the reference relates solely to the registrant, Peoples Bancorp Inc. Unless otherwise indicated, all note references contained in this Form 10-K refer to the Notes to the Consolidated Financial Statements included immediately following "ITEM 9B. OTHER INFORMATION" of this Form 10-K.

PART I

ITEM 1. BUSINESS

Corporate Overview

Peoples Bancorp Inc. is a financial holding company and was organized in 1980. Peoples operates principally through its wholly-owned subsidiary, Peoples Bank. As of the date of this Form 10-K, Peoples' other wholly-owned subsidiary was Peoples Investment Company and Peoples held all of the common securities of NB&T Statutory Trust III, which were acquired in connection with the acquisition of NB&T Financial Group, Inc. ("NB&T") on March 6, 2015. Peoples Bank's operating subsidiaries include Peoples Insurance Agency, LLC ("Peoples Insurance") and two asset management companies, PBNA, L.L.C. and Peoples Tax Credit Equity, LLC. Peoples Investment Company has one subsidiary, Peoples Capital Corporation.

Peoples Bank was first chartered in 1902 as an Ohio banking corporation under the name "The Peoples Banking and Trust Company" in Marietta, Ohio, and in 2000 was reorganized as a national banking association under the name "Peoples Bank, National Association". Effective December 30, 2015, the banking subsidiary converted from a national banking association back to an Ohio state-chartered bank, which is a member of the Federal Reserve System. As a result of the charter conversion, the legal name of Peoples' banking subsidiary was changed to "Peoples Bank" and the converted bank continues to operate under the trade name and federally registered service mark "Peoples Bank". Peoples Insurance was first chartered in 1994 as an Ohio corporation under the name "Northwest Territory Property and Casualty Insurance Agency, Inc". In late 1995, Peoples Insurance was awarded insurance agency powers in the state of Ohio, becoming the first insurance agency in Ohio to be affiliated with a financial institution. In 2009, Peoples Insurance was converted from an Ohio corporation to an Ohio limited liability company under its current name.

Peoples Investment Company, its subsidiary, Peoples Capital Corporation, and PBNA, L.L.C. were formed in 2001, and Peoples Tax Credit Equity, LLC was formed in 2014, to optimize Peoples' consolidated capital position and provide new investment opportunities as a means of enhancing profitability. These opportunities include, but are not limited to, investments in affordable housing tax credit funds or projects, historical tax credit funds, venture capital and other higher risk investments, which are either limited or restricted as investments by Peoples Bank. Presently, the operations of these companies do not represent a material part of Peoples' overall business activities.

Business Overview

Peoples makes available a complete line of banking, insurance, investment and trust solutions through its financial subsidiaries – Peoples Bank and Peoples Insurance. These products and services include the following:

- various demand deposit accounts, savings accounts, money market accounts and certificates of deposit;
- commercial, consumer and real estate mortgage loans (both commercial and residential) and lines of credit;
- debit and automated teller machine ("ATM") cards;
- credit cards for individuals and businesses;
- merchant credit card transaction processing services;
- corporate and personal trust services;
- safe deposit rental facilities;
- money orders and cashier's checks;
- a full range of life, health and property and casualty insurance products;
- brokerage services; and
- custom-tailored fiduciary, employee benefit plans and asset management services.

Peoples' financial products and services are offered through its financial service locations and ATMs in Ohio, West Virginia and Kentucky, as well as telephone and internet-based banking through both personal computers and mobile devices. Brokerage services are offered exclusively through an unaffiliated registered broker-dealer located at Peoples Bank's offices. Peoples Bank credit card and merchant processing services are provided through joint marketing arrangements with third parties.

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Peoples' business activities are currently limited to one reporting unit and reportable segment, which is community banking. For a discussion of Peoples' financial performance for the fiscal year ended December 31, 2016, see Peoples' Consolidated Financial Statements and Notes to the Consolidated Financial Statements found immediately following "ITEM 9B. OTHER INFORMATION" of this Form 10-K.

Peoples has a history of expanding its business, including its customer base and primary market area, through a combination of internal growth and targeted acquisitions. The internal growth may include the opening of de novo banking and loan production offices located in or near Peoples' existing market area. Acquisitions have consisted of traditional banking offices, both individually and as part of entire financial institutions, insurance agencies and financial advisory books of business. The primary objectives of Peoples' expansion efforts include: (1) providing opportunities to integrate non-traditional products and services, such as insurance and investments, with the traditional banking products offered to its clients; (2) increasing market share in existing markets; (3) expanding Peoples' core financial service businesses of banking, insurance and investments; and (4) improving operating efficiency by directing resources toward offices and markets with the greatest earnings opportunities.

Recent Corporate Developments

On November 7, 2016, Peoples converted its core banking system (including the related operating systems, data systems and products). The conversion resulted in a pre-tax combined revenue and expense impact of $1.3 million, or $0.05 earnings per diluted share, for the full year. The $1.3 million was primarily recorded in various expense categories, including other non-interest expense, professional fees, and salaries and employee benefit costs. Also included in the $1.3 million was a reduction to deposit account service charge revenue, as Peoples granted waivers of $85,000 related to account service charges in the month of the conversion.

Primary Market Area and Customers

Peoples Bank considers its primary market area to be comprised of those counties where it has a physical branch presence and their contiguous counties. This includes northeastern, central, southwestern and southeastern Ohio, west central West Virginia and northern Kentucky. Peoples currently operates 60 locations in Ohio, 15 locations in West Virginia and 5 locations in Kentucky. Peoples' market area consists of rural, small urban and metropolitan markets and is comprised of a diverse group of industries and employers. Principal industries served in Peoples' primary markets include manufacturing; distribution; real estate; healthcare; education; municipal; agricultural; petrochemical; oil; gas and coal production; wholesale and retail trade; tourism; and service-related industries. This broad-based economy provides diversity which helps prevent Peoples' revenue and earnings from being too dependent upon any single industry segment.

Lending Activities

Peoples Bank originates various types of loans, including commercial real estate loans, real estate construction loans, commercial and industrial loans, residential real estate loans, home equity lines of credit, and direct and indirect consumer loans. Peoples Bank's lending activities are focused principally on lending opportunities within its primary market areas, although Peoples Bank may occasionally originate loans outside its primary markets. In general, Peoples Bank retains the majority of loans it originates; however, certain longer-term fixed-rate mortgage loan originations, primarily one-to-four family residential mortgages, and portions of select commercial real estate loans and commercial and industrial loans are sold into the secondary market.

Peoples Bank's loans consist of credit extensions to borrowers spread over a broad range of industrial classifications. At December 31, 2016, Peoples Bank had no concentration of loans to borrowers engaged in the same or similar industries that exceeded 10% of total loans, nor did it have any loans outstanding to non-U.S. entities.

Commercial Lending

Commercial real estate and commercial and industrial loans ("commercial loans"), including loans secured by commercial real estate, represented the largest portion of Peoples Bank's total loan portfolio, comprising approximately 52.1% and 52.5% of total loans at December 31, 2016 and December 31, 2015, respectively. Commercial lending inherently involves a significant degree of risk of loss since commercial loan relationships generally involve larger loan balances than other loan classes. Additionally, the primary source of repayment for

commercial loans is typically considered to be the cash flows of the borrower's business, which can be susceptible to adverse changes in the economic conditions of the general economy or within a specific industry.
Commercial Lending Practices. Loan terms include amortization schedules and interest rates commensurate with the purpose of each loan, the identified source of repayment and the risk involved. The majority of Peoples Bank's commercial loans carry variable interest rates equal to an underlying index rate plus a margin, although Peoples Bank also originates commercial loans with fixed interest rates for periods generally ranging from 3 to 10 years. At December 31, 2016, the commercial loan portfolio consisted of 75.2% variable interest rate loans and 24.8% fixed interest rate loans. The primary analytical technique used in determining whether to grant a

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commercial loan is the review of a schedule of cash flows to evaluate whether the borrower's anticipated future cash flows will be adequate to service both interest and principal due.

Peoples Bank evaluates all loan relationships whose aggregate credit exposure is greater than $1.0 million on an annual basis for possible credit deterioration. This loan review process provides Peoples Bank with opportunities to identify potential problem loans and take proactive actions to assure repayment of the loan or minimize Peoples Bank's risk of loss, such as reviewing the relationship more frequently based upon the loan quality rating and aggregate outstanding exposure. Upon detection of the reduced ability of a borrower to meet cash flow obligations, the loan is reviewed for possible downgrade or placement on nonaccrual status. Peoples Bank also completes evaluation procedures for a selection of larger loan relationships on a quarterly basis. Loan relationships whose aggregate credit exposure to Peoples Bank is equal to or less than $1.0 million are reviewed on an event driven basis. Triggers for review include knowledge of adverse events affecting the borrower's business, receipt of financial statements indicating deteriorating credit quality or other similar events.

Construction Loans

Peoples Bank originates construction loans to provide temporary financing during the construction phase for commercial and residential properties. At December 31, 2016, outstanding construction loans comprised 4.2% of Peoples Bank's loan portfolio, compared to 3.7% at December 31, 2015. Construction financing is generally considered to involve the highest credit risk since Peoples Bank is dependent largely upon the accuracy of the initial estimate of the property's value at the completion of construction and the estimated cost (including interest) of construction. If the estimated construction cost proves to be inaccurate, Peoples Bank may be required to advance funds beyond the amount originally committed to enable completion of the project. If the estimate of value proves inaccurate, Peoples Bank may be confronted, at or prior to the maturity of the loan, with a property having a value insufficient to ensure full repayment, should the borrower default. In the event a default on a construction loan occurs and foreclosure follows, Peoples Bank must take control of the project and attempt to either arrange for completion of construction or dispose of the unfinished project. In certain cases, such as real estate development projects, repayment of construction loans occurs as a result of subsequent sales of the developed real estate. Additional risk exists as the developer may lack funds to pay the loan if the property is not sold upon completion.

Construction Lending Practices. Peoples Bank's construction lending is focused primarily on commercial and residential projects of select real estate developers and homebuilders. These projects include the construction of office, retail or industrial complexes, and real estate development for either residential or commercial uses. The underwriting criteria for construction loans are generally the same as for non-construction loans.

To mitigate the risk of construction lending, Peoples Bank requires periodic site inspections, typically completed by an independent third party, to ensure appropriate completion of the project prior to any disbursements. Construction loans are structured to provide sufficient time to complete construction, giving consideration to weather or other variables that influence completion time. In general, Peoples Bank typically requires the term of its construction loans to be less than three years.

Residential Real Estate Loans

While commercial loans comprise the largest portion of Peoples Bank's loan portfolio, residential real estate lending remains a major focus of Peoples Bank. The originated loans may either be retained in Peoples Bank's loan portfolio, or sold into the secondary market. Peoples Bank's portfolio of residential real estate loans comprised 24.1% of total loans at December 31, 2016, and 27.3% at December 31, 2015. Peoples Bank also had $4.0 million of residential real estate loans held for sale and was servicing $398.1 million of loans, consisting primarily of one-to-four family residential mortgages, previously sold into the secondary market. Peoples Bank requires evidence of insurance at the time of the loan closing and, additionally, has a blanket insurance policy to cover residential real estate loans that do not include an insurance escrow account.

Peoples Bank originates both fixed-rate and adjustable-rate real estate loans. Typically, Peoples Bank sells its longer-term fixed-rate real estate loans into the secondary market, while retaining the servicing rights on those loans. In select cases, Peoples Bank may retain certain fixed-rate real estate loans or sell the loans without retaining the servicing rights.

Real Estate Lending Practices. Peoples Bank typically requires residential real estate loan amounts to be no more than 80% of the purchase price or the appraised value of the real estate securing the loan, whichever is lower, unless private mortgage insurance is obtained by the borrower for the percentage exceeding 80%. In limited circumstances, Peoples Bank may lend up to 100% of the appraised value of the real estate, although such lending currently is limited to loans that qualify under established federally-backed rural housing programs. Numerous risk factors attributable to real estate lending are considered during underwriting for the purposes of establishing an interest rate commensurate with the inherent risks of the loan.

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Real estate loans are typically secured by first mortgages with evidence of title in favor of Peoples Bank in the form of an attorney's opinion of the title or a title insurance policy. Peoples Bank requires insurance, with Peoples Bank named as the mortgagee and loss payee. Licensed appraisals are required for all real estate loans, and are completed by an independent third party.

Home Equity Lines of Credit

Peoples Bank originates home equity lines of credit that provide consumers with greater flexibility in financing personal expenditures. At December 31, 2016, outstanding home equity lines of credit comprised 5.0% of Peoples Bank's total loans, compared to 5.1% at December 31, 2015. Peoples Bank currently offers home equity lines of credit with a prime-based variable rate for the entire 10-year term of the loan and fixed-rate installment loans with 5 to 15-year terms. Peoples Bank also offers a home equity line of credit whose terms include a fixed rate for the first five years which converts to a variable interest rate for the remaining five years. Of the total home equity loan portfolio, there were 94.6% and 5.4% of variable interest rate loans and fixed interest rate loans, respectively. At December 31, 2016, total outstanding principal balances and available credit amounts of the convertible rate home equity lines of credit were $18.7 million and $20.4 million, respectively, and the weighted-average remaining maturity was 7.8 years. The average original loan amount for these convertible rate home equity lines of credit was approximately $33,000 at December 31, 2016.

Home Equity Lending Practices. Home equity lines of credit are generally made as second mortgages by Peoples Bank. The maximum amount of a home equity line of credit is generally limited to 80% of the appraised value of the property less the balance of the first mortgage. Peoples Bank may lend up to 90% of the appraised value of the property (less the balance of the first mortgage) at higher interest rates that are commensurate with the additional risk being assumed in these situations. The home equity lines of credit are written with 5 to 15-year terms and are subject to review upon request for renewal.

Consumer Lending

Peoples Bank's consumer lending activities primarily involve loans secured by automobiles, motorcycles, recreational vehicles and other personal property, as well as unsecured loans and personal lines of credit. At December 31, 2016, consumer loans comprised 14.5% of Peoples Bank's loan portfolio compared to 11.3% at December 31, 2015.

Consumer Lending Practices. Consumer loans generally involve more risk as to collectability than real estate mortgage loans because of the type and nature of the collateral or, in certain instances, the absence of collateral. As a result, consumer lending collections are dependent upon the borrower's continued financial stability, and are at more risk from adverse changes in personal circumstances. In addition, application of various state and federal laws, including bankruptcy and insolvency laws, could limit the amount that may be recovered under these loans. Credit approval for consumer loans typically requires demonstration of sufficiency of income to repay principal and interest due, stability of employment, an established credit record and sufficient collateral for secured loans. It is the policy of Peoples Bank to review its consumer loan portfolio monthly and to charge-off loans that do not meet its ongoing standards, while strictly adhering to all laws and regulations governing consumer lending. A qualified compliance officer is responsible for monitoring regulatory compliance performance and for advising and updating loan personnel.

Peoples Bank makes available optional credit life insurance, and accident and health insurance to all qualified borrowers, thus reducing risk of loss when a borrower's income is terminated or interrupted due to an accident, disability or death.

Overdraft Privilege

Peoples Bank grants Overdraft Privilege to qualified customers. Overdraft Privilege is a service that provides overdraft protection to retail deposit customers, and select commercial deposit customers, by establishing an Overdraft Privilege amount. After a 60-day waiting period to verify account activity, each new checking account usually receives an Overdraft Privilege amount of either $400 or $700, based on the type of account and other parameters such as previous charge-off history or loan loss. Once established, customers are permitted to overdraw their checking account at Peoples Bank's discretion, up to their Overdraft Privilege limit, with each item being charged Peoples

Bank's regular overdraft fee, with a maximum of seven charges per day when the customer's account is overdrawn more than $5. Customers repay the overdraft with their next deposit. Overdraft Privilege is designed to allow Peoples Bank to fill the void between traditional overdraft protection, such as a line of credit, and "check cashing stores". Under federal banking regulations, Peoples Bank is required to obtain the consent of its customers in order to apply Overdraft Privilege to ATM and one-time debit card transactions. While Overdraft Privilege generates fee income, these fees may be offset by loan loss provisioning necessary to ensure the maintenance of an appropriate allowance for losses against overdrafts deemed uncollectable. This allowance, along with the related provision and net charge-offs, is included in Peoples Bank's allowance for loan losses.

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Investment Activities

At December 31, 2016, investment securities comprised 25.0% of Peoples' total assets compared to 26.7% at December 31, 2015. The majority of Peoples' investment activities are conducted through Peoples Bank, although Peoples and its non-banking subsidiaries also may engage in investment activities from time to time. Investment activity by Peoples Bank is subject to certain regulatory guidelines and limitations on the types of securities eligible for purchase. As a result, the investment securities owned by Peoples Bank include obligations of the U.S. Treasury, agencies and corporations of the U.S. government, including mortgage-backed securities, bank eligible obligations of any state or political subdivision in the U.S. and bank eligible corporate obligations, including private-label mortgage-backed securities. The investments owned by Peoples Bancorp Inc. are comprised of common stocks issued by various unrelated bank holding companies. The investments owned by Peoples' non-banking subsidiaries currently consist of tax credit funds, corporate obligations, municipal obligations and privately issued mortgage-backed securities.

Peoples Bank's investment activities are governed internally by a written Board of Directors-approved policy, which is administered by Peoples Bank's Asset-Liability Management Committee ("ALCO"). The primary purpose of Peoples Bank's investment portfolio is to: (1) employ excess funds not needed to support loan demand; (2) provide a source of liquid assets to accommodate unanticipated deposit and loan fluctuations, and overall liquidity needs; (3) provide eligible securities to secure public and trust funds; and (4) earn the maximum overall return commensurate with Peoples Bank's risk appetite and liquidity needs. Investment strategies to achieve these objectives are reviewed and approved by the ALCO. In its evaluation of investment strategies, the ALCO considers various factors, including the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and Peoples Bank's overall interest rate sensitivity. The ALCO also has much broader responsibilities, which are discussed in the "Interest Rate Sensitivity and Liquidity" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.

Funding Sources

Peoples' primary sources of funds for lending and investing activities are interest-bearing and non-interest-bearing deposits. Cash flows from both the loan and investment portfolios, which include scheduled payments, as well as prepayments, calls and maturities, also provide a relatively stable source of funds. Peoples also utilizes a variety of short-term and long-term borrowings to fund asset growth and satisfy liquidity needs. Peoples' funding sources are monitored and managed through Peoples' asset-liability management process, which is discussed further in the "Interest Rate Sensitivity and Liquidity" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.

The following is a brief description of the various sources of funds utilized by Peoples:

Deposits

Peoples Bank obtains deposits principally from individuals and businesses within its primary market area by offering a broad selection of deposit products to clients. Retail deposit account terms vary with respect to the minimum balance required, the time the funds must remain on deposit, and service charge schedules. Interest rates paid on specific deposit types are determined based on (1) the interest rates offered by competitors, (2) the anticipated amount and timing of funding needs, (3) the availability and cost of alternative sources of funding, and (4) the anticipated future economic conditions and interest rates. Retail deposits are attractive sources of funding because of their stability and relative cost, in addition to providing opportunities for Peoples to build long-term client relationships through the cross-selling of its other products and services.

Peoples Bank also offers its customers the ability to receive multi-million dollar federal deposit insurance coverage for certificates of deposit ("CDs") through the Certificate of Deposit Account Registry Service ("CDARS") program and money market deposit accounts through the Insured Cash Sweep Services ("ICS"). Under these programs, funds from large customer deposits are placed into accounts issued by other members of the CDARS or ICS network in increments below the federal deposit insurance limits to ensure both principal and interest remain eligible for insurance.

Peoples Bank occasionally obtains deposits from clients outside its primary market area, generally in the form of CDs and has the ability, if needed, to obtain deposits from deposit brokers. These deposits are used to supplement Peoples Bank's retail deposits to fund loans originated to customers located outside its primary market area, as well as provide diversity in funding sources. While these deposits may carry slightly higher interest costs than other wholesale funds, they do not require Peoples Bank to secure the funds with collateral, unlike most other borrowed funds.

Additional information regarding the amounts and composition of Peoples Bank's deposits can be found in the "Deposits" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K and in Note 7 of the Notes to the Consolidated Financial Statements.

Borrowed Funds

Peoples obtains funds through a variety of short-term and long-term borrowings, which typically include advances from the Federal Home Loan Bank of Cincinnati ("FHLB") and repurchase agreements. Peoples also has the ability to obtain funds, if needed, through federal funds purchased and advances from the Federal Reserve Discount Window. Peoples also has the ability to obtain funds from unrelated financial institutions in the form of term loans or revolving lines of credit. Short-term borrowings are used generally to manage Peoples' daily liquidity needs since they typically may be repaid, in whole or part, at any time without a penalty. Long-term borrowings provide cost-effective options for funding asset growth and satisfying capital needs, due to the variety of pricing and maturity options available. Additional information regarding the amounts and composition of Peoples' borrowed funds can be found in the "Borrowed Funds" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K and in Notes 8 and 9 of the Notes to the Consolidated Financial Statements.

Competition

Peoples experiences intense competition within its primary market area due to the presence of several national, regional and local financial institutions and other service providers, including finance companies, financial technology companies, insurance agencies and mutual fund providers. Competition within the financial services industry continues to increase as a result of mergers between, and expansion of, financial services providers within and outside of Peoples' primary market areas. In addition, the deregulation of the financial services industry (see the discussion of the Gramm-Leach-Bliley Act of 1999 in the section of this item captioned "Supervision and Regulation – Bank Holding Company Act") has allowed securities firms and insurance companies that have elected to become financial holding companies to acquire commercial banks and other financial institutions, which can create additional competitive pressure.

Peoples primarily competes based on client service, convenience and responsiveness to customer needs, product characteristics, interest rates on loans and deposits, and the availability and pricing of fiduciary, employee benefit plan, brokerage and insurance services. However, some competitors may have greater resources, including additional technology offerings and higher lending limits than Peoples, which may adversely affect Peoples' ability to compete. Peoples' business strategy includes the use of a "needs-based" sales and service approach to serve customers and is intended to promote customers' continued use of multiple financial products and services. In addition, Peoples continues to emphasize the integration of traditional commercial banking products with non-traditional financial products, such as insurance and investment products.

Historically, Peoples has focused on providing its full range of products and services in smaller metropolitan markets rather than major metropolitan areas. While management believes Peoples has developed a level of expertise in serving the financial service needs of smaller communities, Peoples' primary market area has expanded into larger metropolitan areas, such as central, southwestern and northeastern Ohio. These larger areas typically contain entrenched service providers with existing customer bases much larger than Peoples' current position. As a result, Peoples may be forced to compete more aggressively in order to grow its market share in these areas, which could reduce current and future profit potential derived from such markets.

Employees

At December 31, 2016, Peoples had 782 full-time equivalent employees compared to 817 at December 31, 2015.

Intellectual Property and Proprietary Rights

Peoples has registered the service marks "Peoples Bank (with logo)", "Peoples Bancorp", "Peoples Bank", Peoples in motion logo consisting of three arched ribbons, "Working Together. Building Success." and "peoplesbancorp.com" with the U.S. Patent and Trademark Office. These service marks currently have expiration dates ranging from 2017 to 2021. Peoples may renew the registrations of service marks with the U.S. Patent and Trademark Office generally for additional 5 to 10-year periods indefinitely, provided it continues to use the service marks and files appropriate maintenance and renewal documentation with the U.S. Patent and Trademark Office at the times required by the federal trademark laws and regulations.

Peoples has proprietary interests in the internet domain names "pebo.com" and "peoplesbancorp.com". Internet domain names in the U.S. and in foreign countries are regulated, but the laws and regulations governing the internet are continually evolving.

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Supervision and Regulation

Peoples and its subsidiaries are subject to extensive supervision and regulation by federal and state agencies. The regulation of financial holding companies and their subsidiaries is intended primarily for the protection of consumers, depositors, borrowers, the federal Deposit Insurance Fund and the banking system as a whole, and not for the protection of shareholders. Applicable laws and regulations restrict permissible activities and investments, and require actions to protect loan, deposit, brokerage, fiduciary and other customers, as well as the federal Deposit Insurance Fund. They also may restrict Peoples' ability to repurchase its common shares or to receive dividends from Peoples Bank, and impose capital adequacy and liquidity requirements. The following is a summary of the regulatory agencies, statutes and related regulations that have, or could have, a material impact on Peoples' business. This discussion is qualified in its entirety by reference to such regulations and statutes.

Financial Holding Company

Peoples is a legal entity separate and distinct from its subsidiaries and affiliated companies. As a financial holding company, Peoples is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "BHC Act"), and to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board").

The Federal Reserve Board has extensive enforcement authority over financial holding companies. In general, the Federal Reserve Board may initiate enforcement actions for violations of laws and regulations and unsafe or unsound practices. The Federal Reserve Board may assess civil money penalties, issue cease and desist or removal orders, and require that a financial holding company divest subsidiaries, including subsidiary banks. Peoples is required to file reports and other information with the Federal Reserve Board regarding its business operations and those of its subsidiaries.

Subsidiary Bank

Peoples Bank is subject to regulation and examination primarily by the Ohio Division of Financial Institutions ("ODFI") and the Federal Reserve Bank of Cleveland. 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.

Various requirements and restrictions under the laws of the United States and the states of Ohio, West Virginia and Kentucky affect the operations of Peoples Bank, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans that may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on transactions between Peoples Bank and Peoples, limitations on the payment of dividends, and limitations on branching. Consumer laws and regulations designed to prevent unfair, deceptive or abusive acts or practices, and to ensure that consumers have access to fair, transparent and competitive markets for consumer financial products and services, affect the services provided to Peoples Bank customers.

Non-Banking Subsidiaries

Peoples' non-banking subsidiaries are also subject to regulation by the Federal Reserve Board and other applicable federal and state agencies. Peoples Insurance, as a licensed insurance agency, is subject to regulation by the Ohio Department of Insurance and the state insurance regulatory agencies of those states where it may conduct business.

Other Regulatory Agencies

Securities and Exchange Commission ("SEC") and The NASDAQ Stock Market ("NASDAQ"). Peoples is also under the jurisdiction of the SEC and certain state securities commissions for matters relating to the offering and sale of its securities. Peoples is subject to the registration, disclosure and regulatory requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the regulations promulgated thereunder, as administered by the SEC. Peoples' common shares are listed with NASDAQ under the symbol "PEBO" and Peoples is subject to the rules for NASDAQ listed companies.

Federal Home Loan Bank. Peoples Bank is a member of the FHLB, which provides credit to its members in the form of advances. As a member of the FHLB, Peoples Bank must maintain an investment in the capital stock of the FHLB in a specified amount. Upon the origination or renewal of an advance, the FHLB is required by law to obtain and maintain a security interest in certain types of collateral. The FHLB is required to establish standards of community investment or service that its members must maintain for continued access to long-term advances from the FHLB. The standards take into account a member's

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performance under the Community Reinvestment Act of 1977 (the "CRA") and its record of lending to first-time homebuyers.
Federal Deposit Insurance Corporation ("FDIC"). The FDIC is an independent federal agency which insures the deposits, up to prescribed statutory limits, of federally-insured banks and savings associations, and safeguards the safety and soundness of the financial institution industry. Peoples Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund of the FDIC and Peoples Bank is subject to deposit insurance assessments to maintain the Deposit Insurance Fund. The general insurance limit is $250,000 per separately insured depositor. This insurance is backed by the full faith and credit of the United States government.
As insurer, the FDIC is authorized to conduct examinations of and to require reporting by insured institutions, including Peoples Bank, to prohibit any insured institution from engaging in any activity the FDIC determines to pose a threat to the Deposit Insurance Fund, and to take enforcement actions against insured institutions. The FDIC may terminate insurance of deposits of any institution if the FDIC finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or other regulatory agency.

Insurance premiums for each insured depository institution are determined based upon the institution's capital level and supervisory rating provided to the FDIC by the institution's primary federal regulator and other information the FDIC determines to be relevant to the risk posed to the Deposit Insurance Fund by the institution. The assessment rate determined by considering such information is then applied to the amount of the institution's average assets minus average tangible equity to determine the institution's insurance premium. An increase in the assessment rate could have a material adverse effect on the earnings of the affected institution, depending on the amount of the increase. Effective July 1, 2016, the FDIC revised the deposit insurance premium assessment method for banks with less than $10 billion in assets that have been insured by the FDIC for at least five years. This revision changed the assessment method to the financial ratios method which is based on a statistical model estimating the probability of failure of a bank over three years. The FDIC also updated the financial measures used in the financial ratios method consistent with the statistical model; eliminated risk categories for established small banks; and used the financial ratios method to determine assessment rates for all such banks (subject to minimum or maximum initial assessment rates based upon a bank’s composite examination rating).
The FDIC assesses a quarterly deposit insurance premium on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations. The premiums fund the Deposit Insurance Fund. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), the FDIC has established 2.0% as the designated reserve ratio ("DRR"), which is the amount in the Deposit Insurance Fund as a percentage of all Deposit Insurance Fund insured deposits. In March 2016, the FDIC adopted final rules designed to meet the statutory minimum DRR of 1.35% by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets of less than $10 billion of the increase in the statutory minimum DRR to 1.35% from the former statutory minimum of 1.15%. Although the FDIC's new rules reduced assessment rates on all banks, they imposed a surcharge on banks with assets of $10 billion or more to be paid until the DRR reaches 1.35%. The rules also provide assessment credits to banks with assets of less than $1 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35%. The rules further changed the method of determining risk-based assessment rates for established banks with less than $10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, which was established by the government to recapitalize a predecessor to the Deposit Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2019.

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Bank Holding Company Regulation

In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks, and other activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. As a result of the Gramm-Leach-Bliley Act of 1999 - also known as the Financial Services Modernization Act of 1999 - which amended the BHC Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (1) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the Secretary of the Treasury, or (2) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. In 2002, Peoples elected, and received approval from the Federal Reserve Board, to become a financial holding company.

In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the CRA, which is more fully discussed in the section captioned "Community Reinvestment Act" included later in this item. In addition, financial holding companies, like Peoples, are permitted to acquire companies engaged in activities that are financial in nature and in activities that are incidental and complementary to financial activities without prior Federal Reserve Board approval.

The BHC Act and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve Board for the direct or indirect acquisition of more than 5% of the voting shares of a commercial bank or its parent holding company. Under the federal Bank Merger Act, the prior approval of the Federal Reserve Board is required for a state-chartered, Federal Reserve Bank member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant's performance record under the CRA and fair housing laws, and the effectiveness of the subject organizations in combating money laundering activities.

Under Federal Reserve Board policy, a financial holding company is expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each subsidiary bank. Under this policy, the Federal Reserve Board may require a financial holding company to contribute additional capital to an undercapitalized subsidiary bank and may disapprove of the payment of dividends to the shareholders if the Federal Reserve Board believes the payment of such dividends would be an unsafe or unsound practice.

Transactions with Affiliates, Directors, Executive Officers and Shareholders

Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Board Regulation W generally:

- limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate;
- limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with all affiliates; and
- require that all such transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to a non-affiliate.

An affiliate of a bank is any company or entity that controls, is controlled by, or is under common control with the bank. The term "covered transaction" includes the making of loans to the affiliate, the purchase of assets from the affiliate, the issuance of a guarantee on behalf of the affiliate, the purchase of securities issued by the affiliate and other similar types of transactions.

A bank's authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities under such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated under that act by the Federal Reserve Board. Among other things, these loans must be made on terms (including interest rates charged and collateral required) substantially the same as those offered to unaffiliated individuals, or be made as part of a benefit or compensation program and on terms widely available to employees, and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

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Capital Adequacy and Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, identifies five capital categories for insured depository institutions and requires the respective regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements within such categories. The regulatory agencies, including the Federal Reserve Board, the ODFI, and the Office of Comptroller of the Currency ("OCC"), have adopted substantially similar regulatory capital guidelines and regulations consistent with the requirements of FDICIA, as well as established a system of prompt corrective action to resolve certain problems of undercapitalized institutions. This system is based on five capital level categories for insured depository institutions: "well capitalized"; "adequately capitalized"; "undercapitalized"; "significantly undercapitalized", and "critically undercapitalized".

The regulatory agencies may (or in some cases must) take certain supervisory actions depending upon a bank's capital level. For example, the banking agencies must appoint a receiver or conservator for a bank within 90 days after the bank becomes "critically undercapitalized" unless the bank's primary regulator determines, with the concurrence of the FDIC, that other action would better achieve regulatory purposes. Banking operations otherwise may be significantly affected depending on a bank's capital category. For example, a bank that is not "well capitalized" generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market, and the holding company of any undercapitalized bank must guarantee, in part, specific aspects of the bank's capital plan for the plan to be acceptable.

The Federal Reserve Board has adopted risk-based capital guidelines for financial holding companies and other bank holding companies, as well as state member banks. The guidelines provide a systematic analytical framework which makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations, takes off-balance sheet exposures expressly into account in evaluating capital adequacy, and minimizes disincentives to holding liquid, low-risk assets. Capital levels, as measured by these standards, are also used to categorize financial institutions for purposes of certain prompt corrective action regulatory provisions.

Prior to January 1, 2015, the guidelines included a minimum for the ratio of total capital to risk-weighted assets of 8%, with at least half of the ratio composed of common shareholders’ equity, minority interests in certain equity accounts of consolidated subsidiaries and a limited amount of qualifying preferred stock and qualified trust preferred securities, less goodwill and certain other intangible assets (known as “tier 1” risk-based capital). The guidelines also provided for a minimum ratio of tier 1 capital to average assets, or “leverage ratio,” of 3% for financial holding companies and bank holding companies that met certain criteria, including having the highest regulatory rating, and 4% for all other financial holding companies and bank holding companies.

The risk-based capital guidelines adopted by the federal banking agencies are based on the “International Convergence of Capital Measurement and Capital Standard” (Basel I), published by the Basel Committee on Banking Supervision (the “Basel Committee”) in 1988. In 2004, the Basel Committee published a new capital adequacy framework (Basel II) for large, internationally active banking organizations, and in December 2010 and January 2011, the Basel Committee issued an update to Basel II (“Basel III”). The Basel Committee frameworks did not become applicable to banks supervised in the U.S. until adopted into U.S. law or regulations. Although the U.S. banking regulators imposed some of the Basel II and Basel III rules on banks with $250 billion or more in assets or $10 billion of on-balance sheet foreign exposure, it was not until July 2013 that the U.S. banking regulators issued final (or, in the case of the FDIC, interim final) new capital rules (the “Basel III Capital Rules”) applicable to smaller banking organizations which also implement certain of the provisions of the Dodd-Frank Act. Community banking organizations, including Peoples and Peoples Bank, began transitioning to the new rules on January 1, 2015. The new minimum capital requirements became effective on January 1, 2015; whereas, a new capital conservation buffer and deductions from common equity capital phase in from January 1, 2016 through January 1, 2019, and most deductions from common equity tier 1 capital will phase in from January 1, 2015 through January 1, 2019.

The new rules include (a) a new common equity tier 1 capital ratio of at least 4.5%, (b) a tier 1 capital ratio of at least 6.0%, rather than the former 4.0%, (c) a minimum total capital ratio that remains at 8.0%, and (d) a minimum leverage

ratio of 4.0%.
Common equity for the common equity tier 1 capital ratio includes common stock (plus related surplus) and retained earnings, plus limited amounts of minority interests in the form of common stock, less the majority of certain regulatory deductions.
Tier 1 capital includes common equity as defined for the common equity tier 1 capital ratio, plus certain non-cumulative preferred stock and related surplus, cumulative preferred stock and related surplus and trust preferred securities that have been grandfathered (but which are not permitted going forward), and limited amounts of minority interests in the form of additional tier 1 capital instruments, less certain deductions.

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Tier 2 capital, which can be included in the total capital ratio, includes certain capital instruments (such as subordinated debt) and limited amounts of the allowance for loan and lease losses, subject to new eligibility criteria, less applicable deductions.
The deductions from common equity tier 1 capital include goodwill and other intangibles, certain deferred tax assets, mortgage-servicing assets above certain levels, gains on sale in connection with a securitization, investments in a banking organization’s own capital instruments and investments in the capital of unconsolidated financial institutions (above certain levels). The deductions phased in beginning in 2015 and will continue through 2019.
Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of several risk weights is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.
The new rules also place restrictions on the payment of capital distributions, including dividends, and certain discretionary bonus payments to executive officers if the company does not hold a capital conservation buffer of greater than 2.5 percent composed of common equity tier 1 capital above its minimum risk-based capital requirements, or if its eligible retained income is negative in that quarter and its capital conservation buffer ratio was less than 2.5 percent at the beginning of the quarter. The capital conservation buffer phased in January 1, 2016, at .625%.
The implementation of the portion of Basel III that has been phased in as of the date of this Form 10-K did not have a material impact on Peoples’ or Peoples Bank’s capital ratios. Further, the implementation of Basel III, once fully phased in, is not expected to have a material impact on Peoples’ or Peoples Bank’s capital ratios.
In order to be "well capitalized", a bank must have a common equity tier 1 capital ratio of at least 6.5%, a tier 1 risk-based capital ratio of at least 8.0%, a total risk-based capital of at least 10.0%, and a leverage ratio of at least 5.0%, and the bank must not be subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measures. Peoples' management believes that Peoples and Peoples Bank meet the ratio requirements to be deemed "well capitalized" according to the guidelines described above. Additional information regarding Peoples' regulatory matters can be found in Note 15 of the Notes to the Consolidated Financial Statements.
Community Reinvestment Act
The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit or other financial assistance to low and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. As of December 31, 2016, the most recent performance evaluation by the OCC (which was Peoples Bank's primary federal banking regulator at the time of the examination) of Peoples Bank, which was conducted in 2015, resulted in an overall rating of "Satisfactory".
Dividend Restrictions
Current banking regulations impose restrictions on Peoples Bank's ability to pay dividends to Peoples. These restrictions include a limit on the amount of dividends that may be paid in a given year without prior approval of the Federal Reserve Board and a prohibition on paying dividends that would cause Peoples Bank's total capital to be less than the required minimum levels under the capital requirements imposed by the Federal Reserve Board and the amount of the capital conservation buffer. Ohio law also limits the amount of dividends that may be paid in any given year without prior approval of the Ohio Superintendent of Financial Institutions. Peoples Bank's regulators may prohibit the payment of dividends at any time if the regulators determine the dividends represent unsafe and/or unsound banking practices, or reduce Peoples Bank's total capital below adequate levels. For further discussion regarding regulatory restrictions on dividends, refer to Note 15 of the Notes to the Consolidated Financial Statements.
Peoples' ability to pay dividends to its shareholders may also be restricted. Current Federal Reserve Board policy requires a financial holding company to act as a source of financial strength to each of its banking subsidiaries. Under

this policy, the Federal Reserve Board may require Peoples to commit resources or contribute additional capital to Peoples Bank, which could restrict the amount of cash available for dividends.

The Federal Reserve Board has also issued a policy statement with regard to the payment of cash dividends by financial holding companies and other bank holding companies. The policy statement provides that, as a matter of prudent banking, a financial holding company or bank holding company should not maintain a rate of cash dividends unless its net income available to common shareholders has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears to be consistent with the financial holding company's or bank holding

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company's capital needs, asset quality and overall financial condition. Accordingly, a financial holding company or bank holding company should not pay cash dividends that exceed its net income or can only be funded in ways that weaken the financial holding company's or bank holding company's financial health, such as by borrowing.

Peoples also has entered into certain agreements that place restrictions on dividends. Specifically, Peoples Bank is prohibited from paying dividends in an amount greater than permitted by law without requiring prior Federal Reserve Board or other regulatory approval. In addition, if Peoples were to elect to defer payments of interest on the junior subordinated debt securities held by the Statutory Trust or an event of default were to occur under the indenture governing those junior subordinated debt securities, Peoples would be prohibited from declaring or paying any dividends on Peoples' common shares. Even when the legal ability exists, Peoples or Peoples Bank may decide to limit the payment of dividends in order to retain earnings for corporate use.

Customer Privacy and Other Consumer Protections

Peoples Bank is subject to regulations limiting the ability of financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated party. Peoples Bank is also subject to numerous federal and state laws aimed at protecting consumers, including the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Bank Secrecy Act, the Community Reinvestment Act and the Fair Credit Reporting Act.

USA Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act") and related regulations, among other things, require financial institutions to establish programs specifying procedures for obtaining identifying information from customers seeking to establish new accounts and establishing enhanced due diligence policies, procedures and controls designed to detect and report suspicious activity. Peoples Bank has established policies and procedures that Peoples believes comply with the requirements of the USA Patriot Act.

Monetary Policy

The Federal Reserve Board regulates money, credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. government securities, changes in the discount rate on bank borrowings, and changes in the reserve requirements against depository institutions' deposits. These policies and regulations significantly affect the overall growth and distribution of loans, investments and deposits, as well as interest rates charged on loans and paid on deposits.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of financial institutions in the past and are expected to continue to have significant effects in the future. In light of the changing conditions in the economy, the money markets and the activities of monetary and fiscal authorities, Peoples can make no definitive predictions as to future changes in interest rates, credit availability or deposit levels.

Executive and Incentive Compensation

In June 2010, the federal banking regulatory agencies issued joint interagency guidance on incentive compensation policies (the "Joint Guidance") intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should: (1) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks; (2) be compatible with effective internal controls and risk management; and (3) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

In 2011, federal banking regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements (the "First Proposed Joint Rules"). The First Proposed Joint Rules generally apply to financial institutions with $1.0 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees.

In May 2016, the federal banking regulatory agencies approved a second joint notice proposed rules (the "Second Proposed Joint Rules") designed to prohibit incentive-based compensation arrangements that encourage inappropriate risks at financial institutions. The Second Proposed Joint Rules would apply to covered financial institutions with total assets of $1.0 billion or more, and are still in proposed rules status.

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The requirements of the Second Proposed Joint Rules would differ for each of three categories of financial institutions:

- Level 1 consisting of institutions with assets of $250 billion or more;
- Level 2 consisting of institutions with assets of at least $50 billion and less than $250 billion; and
- Level 3 consisting of institutions with assets of at least $1 billion and less than $50 billion.

Some of the requirements would apply only to Level 1 and Level 2 institutions. For all covered institutions, including Level 3 institutions like Peoples Bank, the Second Proposed Joint Rules would:

- prohibit incentive-based compensation arrangements that are "excessive" or "could lead to material financial loss;"
- require incentive-based compensation that is consistent with a balance of risk and reward, effective management and control of risk, and effective governance; and
- require board oversight, recordkeeping and disclosure to the appropriate regulatory agency.

Level 1 and Level 2 institutions would have additional requirements, including deferrals of awards to certain covered persons; potential downward adjustments, forfeitures or clawbacks; and additional risk-management and control standards, policies and procedures. In addition, certain practices and types of incentive compensation would be prohibited.

Pursuant to rules adopted by the stock exchanges and approved by the SEC in January 2013 under the Dodd-Frank Act, public company compensation committee members must meet heightened independence requirements and consider the independence of compensation consultants, legal counsel and other advisors to the compensation committee. A compensation committee must have the authority to hire advisors and to have the public company fund reasonable compensation of such advisors.

Public companies will be required, once stock exchanges impose additional listing requirements under the Dodd-Frank Act, to implement "clawback" procedures for incentive compensation payments and to disclose the details of the procedures which allow recovery of incentive compensation that was paid on the basis of erroneous financial information necessitating a restatement due to material noncompliance with financial reporting requirements. This clawback policy is intended to apply to compensation paid within a three-year look-back window of the restatement and would cover all executives who received incentive awards.

Effect of Environmental Regulation

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon the capital expenditures, earnings or competitive position of Peoples and its subsidiaries. Peoples believes the nature of the operations of its subsidiaries has little, if any, environmental impact. Peoples, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future.

Peoples believes its primary exposure to environmental risk is through the lending activities of Peoples Bank. In cases where management believes environmental risk potentially exists, Peoples Bank mitigates its environmental risk exposures by requiring environmental site assessments at the time of loan origination to confirm collateral quality as to commercial real estate parcels posing higher than normal potential for environmental impact, as determined by reference to present and past uses of the subject property and adjacent sites. In addition, environmental assessments are typically required prior to any foreclosure activity involving non-residential real estate collateral.

Future Legislation

Various and significant legislation affecting financial institutions and the financial industry is from time to time introduced by the U.S. Congress, as evidenced by the sweeping reforms in the Dodd-Frank Act adopted in 2010. Many of the regulations mentioned above were adopted or amended pursuant to the Dodd-Frank Act. Such legislation may continue to change banking statutes and regulations, and the operating environment of Peoples and its subsidiaries in substantial and unpredictable ways, and could significantly increase or decrease costs of doing business, limit or expand permissible activities, or affect the competitive balance among financial institutions. With the enactment of the Dodd-Frank Act and the continuing implementation of final rules and regulations thereunder, as well as political changes, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable.

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Website Access to Peoples' SEC Filings

Peoples maintains an Internet website at www.peoplesbancorp.com (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate Peoples' Internet website into this Form 10-K). Peoples makes available free of charge on or through its website, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as Peoples' definitive proxy statement filed pursuant to Section 14 of the Exchange Act, as soon as reasonably practicable after Peoples electronically files each such report, amendment or proxy statement with, or furnishes it to, the SEC.

ITEM 1A. RISK FACTORS

The following are certain risks that management believes are specific to Peoples' business. This should not be viewed as an all-inclusive list of risks or presenting the risk factors listed in any particular order. Additional risks that are not presently known or that Peoples presently deems to be immaterial could also have a material, adverse impact on Peoples' business, financial condition or results of operations.

- Changes in economic and political conditions could adversely affect Peoples' earnings through declines in deposits, loan demand, the ability of its customers to repay loans and the value of the collateral securing its loans.

Peoples' success depends, in part, on economic and political conditions, local and national, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, fiscal and monetary policy and other factors beyond Peoples' control may adversely affect its deposit levels and composition, demand for loans, the ability of its borrowers to repay their loans, and the value of the collateral securing the loans it makes. The recent election of a new United States President may result in substantial, unpredictable changes in economic and political conditions for the United States and the remainder of the world. Economic turmoil in Europe, including the exit of Britain from the European Union ("Brexit"), and Asia and changes in oil production in the Middle East affect the economy and stock prices in the United States, which can affect Peoples' earnings and capital, and the ability of its customers to repay loans.

The local economies of the majority of Peoples' market areas historically have been less robust than the economy of the nation as a whole and typically are not subject to the same extent of fluctuations as the national economy. More recently, oil and gas exploration has created more activity in some of Peoples' market areas. A significant decline in this activity could result in more adverse conditions than what may be experienced at the national level. In general, a favorable business environment and economic conditions are generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; volatility in pricing and availability of natural resources; natural disasters; or a combination of these or other factors.

Some businesses, states and municipalities are having financial difficulty, due to reduced cash flow and weakened financial condition, despite the general recovery of the economy from the recession that started in 2008. Moreover, any reversal of recent improvements in economic conditions could have an adverse affect on Peoples' asset quality, deposit levels and loan demand, and, therefore, Peoples' financial condition and results of operations. Because a significant amount of Peoples' loans are secured by either commercial or residential real estate, decreases in real estate values could adversely affect the value of property used as collateral and Peoples' ability to sell the collateral upon foreclosure.

- Peoples' ability to complete acquisitions and integrate completed acquisitions could have an adverse affect on Peoples' business, earnings and financial condition.

Peoples actively evaluates opportunities to acquire other businesses. However, Peoples may not have the opportunity to make suitable acquisitions on favorable terms in the future, which could negatively impact the growth of its business. Peoples expects that other banking and financial companies, many of which have significantly greater resources, will compete to acquire compatible businesses. This competition could increase prices for acquisitions that

Peoples would likely pursue, and its competitors may have greater resources to pay such acquisition prices than Peoples does. Also, acquisitions of regulated businesses such as banks are subject to various regulatory approvals. If Peoples fails to receive the appropriate approvals, it will not be able to consummate an acquisition that it believes is in its best interest.
During 2014 and 2015, Peoples completed four bank acquisitions which required integration of the acquired business into Peoples' business platform. Peoples may not be able to integrate new acquisitions without encountering difficulties, including the loss of key employees and customers, the disruption of ongoing businesses or possible inconsistencies in standards, controls, procedures and policies. Peoples may not be able to fully achieve the strategic

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objectives and operating efficiencies anticipated in the acquisitions it completes. Future acquisitions may also result in other unforeseen difficulties, including integration of the combined companies. Further, benefits such as enhanced earnings anticipated from the acquisitions may not develop and future results of the combined companies may be materially below those estimated. In addition, Peoples may issue equity securities in connection with acquisitions which could dilute the economic and voting interests of its shareholders. Recent increases in the stock price of financial institutions could impact the valuation of potential target companies, and therefore, Peoples' ability to compete for acquisitions.

- Legislative or regulatory changes or actions, or significant litigation, could adversely impact Peoples or the businesses in which it is engaged.

The financial services industry is heavily regulated under both federal and state law. Peoples is subject to regulation and supervision by the Federal Reserve Board, and Peoples Bank is subject to regulation and supervision by the ODFI, the Federal Reserve Bank of Cleveland, the FDIC and the CFPB. These regulations are primarily intended to protect depositors and the Deposit Insurance Fund, not Peoples' common shareholders. Peoples' non-bank subsidiaries are also subject to the supervision of the Federal Reserve Board, in addition to other regulatory and self-regulatory agencies, including the SEC and state securities and insurance regulators.

Regulations affecting banks and financial services businesses are undergoing continuous change, and management cannot predict the effect of those changes. The impact of any changes to laws and regulations or other actions by regulatory agencies could adversely affect Peoples' business. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of an institution, the classification of assets held by an institution and the appropriateness of an institution's allowance for loan losses. Additionally, actions by regulatory agencies or significant litigation against Peoples could cause Peoples to devote significant time and resources to defending its business and may lead to penalties that materially affect Peoples and its shareholders. Even the reduction of regulatory restrictions could have an adverse effect on Peoples and its shareholders if such lessening of restrictions increases competition within the financial services industry or Peoples' market area.

In light of conditions in the global financial markets and the global economy that occurred in the last decade, regulators have increased their focus on the regulation of the financial services industry. Most recently, the U.S. Congress and the federal agencies regulating the financial services industry have acted on an unprecedented scale in responding to the stresses experienced in the global financial markets. Some of the laws enacted by the U.S. Congress and regulations promulgated by federal regulatory agencies subject Peoples, Peoples Bank and other financial institutions to which such laws and regulations apply, to additional restrictions, oversight and costs that may have an impact on Peoples' business, results of operations or the trading price of Peoples' common shares. In addition to laws, regulations and actions directed at the operations of banks, proposals to reform the housing finance market consider winding down Fannie Mae and Freddie Mac, which could negatively affect sales of loans.

In July 2013, Peoples' primary federal regulator, the Federal Reserve, published the Basel III Capital Rules, establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards, as well as certain provisions of the Dodd-Frank Act. The Basel III Capital Rules substantially revise the risk-based capital requirements applicable to financial holding companies and other bank holding companies as well as depository institutions, including Peoples and Peoples Bank, compared to the previous U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach, which was derived from Basel I capital accords of the Basel Committee, with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee's 2004 "Basel II" capital accords. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. The Basel III Capital Rules became effective for Peoples and Peoples Bank on January 1, 2015 (subject to a phase-in period). Although the implementation of Basel III, once fully phased in, is not expected to have a material impact on Peoples' or Peoples Bank's capital ratios, any future changes to capital requirements may have such an effect.

Further information about government regulation of Peoples' business can be found under the caption "Supervision and Regulation" in "ITEM 1. BUSINESS" of this Form 10-K.

- Defaults by larger financial institutions could adversely affect Peoples' business, earnings and financial condition.

The soundness of many financial institutions may be closely interrelated as a result of relationships between and among the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This "systemic risk" may adversely affect Peoples' business.

Additionally, Peoples' investment portfolio continues to include a limited amount of investments in individual bank-issued trust preferred securities. Under current market conditions, the fair value of these security types is based predominately on the present value of cash flows expected to be received in future periods. Significant defaults by other financial institutions could adversely affect conditions within the financial services industry, thereby causing investors to require higher rates of return for these investments. These factors could cause Peoples to recognize impairment losses on its investment in bank-issued trust preferred securities in future periods.

- Peoples' failure to be in compliance with any material provision or covenant of its debt instruments could have a material adverse effect on Peoples' liquidity and operations.

The revolving credit note of Peoples imposes operating and financial restrictions on Peoples. These restrictions may affect Peoples' operations and may limit the ability to take advantage of potential business opportunities as they arise. Peoples' ability to comply with the covenants may be affected by events beyond Peoples' control, including deteriorating economic conditions, and these events could require Peoples to seek waivers or amendments of covenants, or alternative sources of financing. Peoples' ability to obtain such waivers, amendments or alternative financing, may be on terms unfavorable to Peoples.

A breach of any of the covenants or restrictions contained in any of the existing or future financing agreements, including the financial covenants, could result in an event of default under the agreements. Such a default could allow the lenders under the financing agreements, if the agreements so provide, to discontinue lending, to accelerate the related debt, and/or to declare all borrowings outstanding thereunder to be due and payable. In addition, the lenders could terminate any commitments they have to provide Peoples with further funds. If any of these events occur, Peoples may not have sufficient funds available to pay in full the total amount of obligations that become due as a result of any such acceleration, or Peoples may not be able to find additional or alternative financing to refinance any such accelerated obligations. Even if additional or alternative financing is obtained, it may be on terms that would be unfavorable to Peoples. As of December 31, 2016, Peoples was in compliance with the applicable covenants.

- Increases in FDIC insurance premiums may have a material adverse affect on Peoples' earnings.

Peoples Bank has limited ability to control the amount of premiums it is required to pay for FDIC insurance. The Deposit Insurance Fund maintained by the FDIC to resolve bank failures is funded by fees assessed on insured depository institutions, such as Peoples Bank. The costs of resolving bank failures increased for a period of time and decreased the Deposit Insurance Fund balance. The FDIC collected a special assessment in 2009 to replenish the Deposit Insurance Fund and also required a prepayment of an estimated amount of future deposit insurance premiums. If the costs of future bank failures increase, deposit insurance premiums may also increase. Increases in FDIC insurance premiums may have a material adverse effect on Peoples' results of operations and ability to continue to pay dividends on its common shares at the current rate or at all.

The FDIC has recently adopted rules revising its assessments in a manner benefiting banks with assets totaling less than $10 billion. Effective July 1, 2016, the FDIC changed the deposit insurance premium assessment method for banks with less than $10 billion in assets that have been insured by the FDIC for at least five years. This revision changed the assessment method to the financial ratios method so that it is based on a statistical model estimating the probability of failure of a bank over three years. The FDIC also updated the financial measures used in the financial ratios method consistent with the statistical model; eliminated risk categories for established small banks; and used the financial ratios method to determine assessment rates for all such banks (subject to minimum or maximum initial assessment rates based upon a bank’s composite examination rating). This change to the assessment decreased Peoples' premiums beginning in late 2016. However, there can be no assurance that the assessment will continue to be at the lower rate indefinitely.

• Changes in interest rates may adversely affect Peoples' profitability.

Peoples' earnings and cash flows are dependent to a significant degree on net interest income, which is the amount by which interest income exceeds interest expense. For the year ended December 31, 2016, Peoples' net interest income was 67.2% of total revenue. Interest rates are highly sensitive to many factors that are beyond Peoples' control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Federal Reserve Board. Changes in monetary policy, including changes in interest rates, could influence not only the

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interest Peoples receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (1) Peoples' ability to originate loans and obtain deposits, (2) the fair value of Peoples' financial assets and liabilities, and (3) the average duration of Peoples' mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, Peoples' net interest income and, therefore, earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Management uses various measures to monitor interest rate risk and believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on Peoples' results of operations. Management also periodically adjusts the mix of assets and liabilities to manage interest rate risk. However, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on Peoples' financial condition and results of operations. See the sections captioned "Interest Income and Expense" and "Interest Rate Sensitivity and Liquidity" in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K for further discussion related to Peoples' interest rate risk.

- Peoples' exposure to credit risk could adversely affect Peoples' earnings and financial condition.

There are certain risks inherent in making loans. These risks include interest rate changes over the time period in which loans may be repaid, risks resulting from changes in the economy, risks that Peoples will have inaccurate or incomplete information about borrowers, risks that borrowers will become unable to repay loans, and, in the case of loans secured by collateral, risks resulting from uncertainties about the future value of the collateral.

Commercial loans comprise a significant portion of Peoples' loan portfolio. Commercial loans generally are viewed as having a higher credit risk than residential real estate or consumer loans because they usually involve larger loan balances to a single borrower and are more susceptible to a risk of default during an economic downturn. Since Peoples' loan portfolio contains a significant number of commercial loans, the deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, and ultimately could have a material adverse effect on Peoples' earnings and financial condition. Peoples may also have concentrated credit exposures to a particular industry, resulting in a risk of a material adverse effect on earnings or financial condition, if there is an event adversely affecting that industry.

- Peoples' allowance for loan losses may be insufficient to absorb the probable, incurred losses in its loan portfolio.

Peoples maintains an allowance for loan losses that is believed to be a reasonable estimate of the probable, incurred losses within the loan portfolio based on management's quarterly analysis of the portfolio. The determination of the allowance for loan losses requires management to make various assumptions and judgments about the collectability of Peoples' loans, including the creditworthiness of its borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. Additional information regarding Peoples' allowance for loan losses methodology and the sensitivity of the estimates can be found in the discussion of Peoples' "Critical Accounting Policies" included in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.

Peoples' estimation of future loan losses is susceptible to changes in economic, operating and other conditions, including changes in regulations and interest rates, which may be beyond Peoples' control, and the losses may exceed current estimates. Peoples cannot be assured of the amount or timing of losses, nor whether the loan loss allowance will be adequate in the future.

If Peoples' assumptions prove to be incorrect, Peoples' allowance for loan losses may not be sufficient to cover the incurred losses from its loan portfolio, resulting in the need for additions to the allowance for loan losses which could have a material adverse impact on Peoples' financial condition and results of operations. In addition, bank regulators periodically review Peoples' allowance for loan losses as part of their examination process and may require management to increase the allowance or recognize further loan charge-offs based on judgments different than those of management. Moreover, the Financial Accounting Standards Board ("FASB") has changed its requirements for establishing the allowance for loan losses.

On June 16, 2016, the FASB issued Accounting Standard Update ("ASU") 2016-13 "Financial Instruments - Credit Losses", which replaces the incurred loss model with an expected loss model, and is referred to as the current expected credit loss ("CECL") model. Under the incurred loss model, loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. The new accounting guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning

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after December 15, 2019. Under the CECL model, financial institutions will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. The transition to the CECL model will bring with it significantly greater data requirements and changes to methodologies to accurately account for expected losses under the new parameters.

Any significant increase in the allowance for loan losses or loan charge-offs, as required by these regulatory authorities, might have a material adverse effect on Peoples' financial condition and results of operations.

- Changes in accounting standards, policies, estimates or procedures may impact Peoples' reported financial condition or results of operations.

The accounting standard setters, including the FASB, the SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of Peoples' Consolidated Financial Statements. The pace of change continues to accelerate and changes in accounting standards can be difficult to predict and can materially impact how Peoples records and reports its financial condition and results of operations. In some cases, Peoples could be required to apply a new or revised standard retroactively, resulting in the restatement of prior period financial statements.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("US GAAP") requires management to make significant estimates that affect the financial statements. Due to the inherent nature of these estimates, actual results may vary materially from management's estimates. Additional information regarding Peoples' critical accounting policies and the sensitivity of estimates can be found in the section captioned "Critical Accounting Policies" in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.

- Peoples and Peoples Bank may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed.

Peoples and Peoples Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations. Federal banking agencies have adopted extensive changes to their capital requirements, including raising required amounts and eliminating the inclusion of certain instruments from the calculation of capital. If Peoples Bank experiences significant losses, additional capital may be needed. In addition, Peoples and Peoples Bank may elect to raise additional capital to support their businesses or to finance acquisitions, if any, or for other unanticipated reasons. Their ability to raise additional capital, if needed, will depend on financial performance, conditions in the capital markets, economic conditions and a number of other factors, many of which are outside their control. Therefore, there can be no assurance additional capital can be raised when needed or that capital can be raised on acceptable terms. The inability to raise capital may have a material adverse effect on Peoples' financial condition, results of operations or potential acquisitions.

- The financial services industry is very competitive.

Peoples experiences significant competition in originating loans, principally from other commercial banks, savings associations and credit unions. Several of Peoples' competitors have greater resources, larger branch systems and a wider array of banking services. This competition could reduce Peoples' net income by decreasing the number and size of loans that Peoples originates and the interest rates it may charge on these loans. Moreover, technology and other changes are allowing businesses and individuals to utilize alternative methods to complete financial transactions that historically have involved banks. For example, consumers can now maintain funds in brokerage accounts or mutual funds that in the past had been held as bank deposits. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating the use of banks to complete financial transactions could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and lower cost deposits as a source of funding could have a material adverse effect on Peoples' financial condition and results of operations. If Peoples is unable to compete effectively, Peoples would lose market share, which could reduce income generated from deposits, loans and other products. For a more complete discussion of Peoples' competitive environment, see

"Competition" in "ITEM 1. BUSINESS" of this Form 10-K.

- Peoples' ability to pay dividends is limited, and Peoples may not be in the position to pay dividends in the future.

Although Peoples has paid dividends on its common shares in the past, Peoples may reduce or eliminate dividends in the future, in the discretion of the Board of Directors, for any reason, including a determination to use funds for other purposes, or due to regulatory constraints. Peoples is a separate and distinct legal entity from Peoples' subsidiaries. Peoples receives nearly all of its liquidity from dividends from Peoples Bank, which are limited by federal and state banking laws and regulations. These dividends also serve as the primary source of funds to pay dividends on Peoples' common shares. The inability of Peoples Bank to pay sufficient dividends to Peoples could have a material, adverse

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effect on its business. Further discussion of Peoples' ability to pay dividends can be found under the caption "Supervision and Regulation - Dividend Restrictions" in "ITEM 1. BUSINESS" of this Form 10-K and Note 15 of the Notes to the Consolidated Financial Statements.

- Peoples' business could be adversely affected by interruptions in the effective operations of, or security breaches affecting its computer systems and telecommunications networks, or those of a third-party service provider.

Peoples collects, processes and stores sensitive consumer data by utilizing computer systems and telecommunications networks operated by both Peoples and third-party service providers. Peoples has security and backup and recovery systems in place, as well as a business continuity plan, designed to ensure the computer systems will not be inoperable, to the extent possible. Nonetheless, risks to the systems result from a variety of factors, including the potential for bad acts on the part of hackers, criminals, employees or others. As one example, in recent years, some banks have experienced denial of service attacks in which individuals or organizations flood the bank's website with extraordinarily high volumes of traffic, with the goal and effect of disrupting the ability of the bank to process transactions. Peoples is also at risk from the impact of natural disasters, terrorism and internal hostilities on its systems or for the effects of outages or other failures involving power or communications systems operated by others. These risks also arise from the same types of threats to businesses with which Peoples deals.

Peoples' systems and those of its third-party service providers may also be vulnerable to security breaches that result in confidential customer information being lost or misappropriated. Any security breach involving confidential customer information, whether by Peoples or its vendors, or any interruption to Peoples' systems, could result in damage to its reputation, loss of customer business, litigation or increased regulatory scrutiny, which might also result in financial loss and require additional efforts and expense to attempt to prevent such adverse consequences in the future.

- Anti-takeover provisions may delay or prevent an acquisition or change in control by a third party.

Provisions in the Ohio General Corporation Law and Peoples' Amended Articles of Incorporation and Code of Regulations, including a staggered board and a supermajority vote requirement for significant corporate changes, could discourage potential takeover attempts and make attempts by shareholders to remove Peoples' Board of Directors and management more difficult. These provisions may also have the effect of delaying or preventing a transaction or change in control that might be in the best interests of Peoples' shareholders.

- Peoples is exposed to operational risk.

Similar to any large organization, Peoples is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

Peoples may be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses, cyber-attacks, spikes in transaction volume and/or customer activity, electrical or telecommunications outages, or natural disasters. Peoples could be adversely affected by operating systems disruptions if new or upgraded business management systems are defective, not installed properly or not properly integrated into existing operations. Although Peoples has programs in place related to business continuity, disaster recovery and information security to maintain the confidentiality, integrity and availability of its systems, business applications and customer information, such disruptions may give rise to interruptions in service to customers, loss of data privacy and loss or liability to Peoples.

Any failure or interruption in Peoples' operations or information systems, or any security or data breach, could cause reputational damage, jeopardize the confidentiality of customer information, result in a loss of customer business, subject Peoples to regulatory intervention or expose Peoples to civil litigation and financial loss or liability, any of which could have a material adverse effect on Peoples.

Negative public opinion can result from Peoples' actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by governmental regulators and community organizations in response to those activities. Negative public opinion can adversely affect Peoples' ability to attract and keep customers, and can expose Peoples to potential litigation and regulatory action.

Given the volume of transactions Peoples processes, certain errors may be repeated or compounded before they are discovered and successfully rectified. Peoples' necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical system flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. Peoples may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability.

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Peoples is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as Peoples is) and to the risk that Peoples' (or its vendors') business continuity and data security systems prove to be inadequate.

- Peoples' business could be adversely affected by third-party service providers, data breaches and cyber-attacks.

Peoples faces the risk of operational disruption, failure or capacity constraints due to its dependency on third-party vendors for components of its business infrastructure. While Peoples has selected these third-party vendors through its vendor management processes, Peoples does not control their operations. As such, any failure on the part of these business partners to perform their various responsibilities could also adversely affect Peoples' business and operations. Further, Peoples may be affected by data breaches at retailers and other third parties who participate in data interchanges with Peoples and its customers that involve the theft of customer credit and debit card data, which may include the theft of Peoples' debit card PIN numbers and commercial card information used to make purchases at such retailers and other third parties. Such data breaches could result in Peoples' incurring significant expenses to reissue debit cards and cover losses, which could result in a material adverse effect on Peoples' results of operations.

To date, Peoples has not experienced any material losses relating to cyber-attacks or other information security breaches, but there can be no assurance that Peoples will not suffer such attacks or attempted breaches, or incur resulting losses in the future. Peoples' risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, Peoples' plans to continue to implement internet and mobile banking to meet customer demand, and the current economic and political environment. As cyber and other data security threats continue to evolve, Peoples may be required to expend significant additional resources to continue to modify and enhance its protective measures or to investigate and remediate any security vulnerabilities.

Peoples's assets at risk for cyber-attacks include financial assets and non-public information belonging to customers. Peoples utilizes several third-party vendors who have access to Peoples' assets via electronic media. Certain cyber security risks arise due to this access, including cyber espionage, blackmail, ransom, and theft. Peoples employs many preventive and detective controls to protect its assets, and provides mandatory recurring information security training to all employees. Peoples maintains certain insurance coverage to prevent material financial loss from cyber-attacks.

- Peoples depends upon the accuracy and completeness of information about customers and counterparties.

In deciding whether to extend credit or enter into other transactions with customers and counterparties, Peoples may rely on information provided by customers and counterparties, including financial statements and other financial information. Peoples may also rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, Peoples Bank may assume that the customer's audited financial statements conform with US GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Peoples Bank may also rely on the audit report covering those financial statements. Peoples' financial condition, results of operations and cash flows could be negatively impacted to the extent that Peoples Bank relies on financial statements that do not comply with US GAAP or on financial statements and other financial information that are materially misleading.

- Peoples Bank may be required to repurchase loans it has sold or indemnify loan purchasers under the terms of the sale agreements, which could adversely affect Peoples' liquidity, results of operations and financial condition.

When Peoples Bank sells a mortgage loan, it may agree to repurchase or substitute a mortgage loan if it is later found to have breached any representation or warranty Peoples Bank made about the loan or if the borrower is later found to have committed fraud in connection with the origination of the loan. While Peoples Bank has underwriting policies and procedures designed to avoid breaches of representations and warranties as well as borrower fraud, there can be no assurance that no breach or fraud will ever occur. Required repurchases, substitutions or indemnifications could have an adverse effect on Peoples' liquidity, results of operations and financial condition.

- Changes in tax laws could adversely affect Peoples' performance.

Peoples is subject to extensive federal, state and local taxes, including income, excise, sales/use, payroll, franchise, withholding and ad valorem taxes. Changes to tax laws could have a material adverse effect on Peoples' results of operations, fair values of net deferred tax assets and obligations of states and political subdivisions held in Peoples' investment securities portfolio. In addition, Peoples' customers are subject to a wide variety of federal, state and local taxes. Changes in taxes paid by Peoples' customers may adversely affect their ability to purchase homes or consumer products, which could adversely affect their demand for loans and deposit products. In addition, such negative effects on Peoples' customers could result in defaults on the loans made by Peoples Bank and decrease the value of mortgage-backed securities in which Peoples has invested.

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- Peoples and its subsidiaries are subject to examinations and challenges by tax authorities.

In the normal course of business, Peoples and its subsidiaries are routinely subject to examinations and challenges from federal and state tax authorities regarding positions taken regarding their respective tax returns. State tax authorities have become increasingly aggressive in challenging tax positions taken by financial institutions, especially those positions relating to tax compliance and calculation of taxes subject to apportionment. Any challenge or examination by a tax authority may result in adjustments to the timing or amount of taxable net worth or taxable income, or deductions or the allocation of income among tax jurisdictions.

Management believes it has taken appropriate positions on all tax returns filed, to be filed or not filed, and does not anticipate any examination would have a material impact on Peoples' Consolidated Financial Statements. However, the outcome of such examinations and ultimate resolution of any resulting assessments are inherently difficult to predict. Thus, no assurance can be given that Peoples' tax liability for any tax year open to examination will not be different than what is reflected in Peoples' current and historical Consolidated Financial Statements. Further information can be found in the "Critical Accounting Policies - Income Taxes" section of "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K.

- Peoples or one of its subsidiaries may be a defendant from time to time in the future in a variety of litigation and other actions, which could have a material adverse effect on Peoples' financial condition, results of operations and cash flows.

Peoples and its subsidiaries may be involved from time to time in the future in a variety of litigation arising out of their respective businesses. The risk of litigation increases in times of increased troubled loan collection activity. Peoples' insurance may not cover all claims that may be asserted against Peoples and its subsidiaries, and any claims asserted against them, regardless of merit or eventual outcome, may harm their respective reputations. Should the ultimate judgments or settlements in any litigation exceed the applicable insurance coverage, they could have a material adverse effect on Peoples' financial condition, results of operations and cash flows. In addition, Peoples or one of its subsidiaries may not be able to obtain appropriate types or levels of insurance in the future, nor may they be able to obtain adequate replacement policies with acceptable terms, if at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Peoples' sole banking subsidiary, Peoples Bank, generally owns its offices, related facilities and unimproved real property. In Ohio, Peoples Bank operates offices in Akron (2 offices), Athens (2 offices), Baltimore, Batavia, Beachwood, Belpre (2 offices), Blanchester, Byesville, Caldwell, Cambridge (2 offices), Carlisle, Centerville, Coshocton (2 Offices), Cuyahoga Falls, Franklin, Gallipolis, Georgetown, Heath, Hillsboro, Jackson, Lancaster (2 offices), Lebanon (2 offices), Lowell, Maineville, Marietta (4 offices), Mason, McConnelsville, Milford, Mount Orab, Mount Vernon, Munroe Falls, Nelsonville, New Philadelphia, New Vienna, Newark, Norton, Piketon, Pomeroy (2 offices), Sabina, Sardina, Springboro, Waynesville, Wellston, Williamsburg, Wilmington (3 offices), Worthington and Zanesville. In West Virginia, Peoples Bank operates offices in Charleston, Huntington (2 offices), Milton, New Martinsville (2 offices), Parkersburg (4 offices), Point Pleasant (2 offices), Sistersville and Vienna (2 offices). In Kentucky, Peoples Bank's office locations include Ashland (2 offices), Greenup, Pikeville and Russell. Of these 80 offices, 20 are leased and the rest are owned by Peoples Bank.

Peoples Insurance rents office space in various Peoples Bank offices, and also leases office space from third parties in Chillicothe, Jackson, Lebanon and Piketon, Ohio, and in Pikeville, Kentucky.

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Rent expense on the leased properties totaled $1.0 million in both 2016 and 2015, which excludes intercompany rent expense. The following are the only properties that have a lease term expiring on or before June 2018:

Location	Address	Lease Expiration Date [a]
Pikeville Insurance Office	108 Trivette Dr Pikeville, Kentucky	September 2017
Milton Office	1763 Suite A Route 60 Milton, West Virginia	November 2017
New Philadelphia Office	136A Second St NE New Philadelphia, Ohio	January 2018
Lancaster Fair Avenue Office	2211 West Fair Ave Lancaster, Ohio	March 2018
Athens Mall Office	801 East State Street Athens, Ohio	June 2018
Worthington Office	130 East Wilson Bride Rd, Suite 327 Worthington, Ohio	June 2018

[a] Information represents the ending date of the current lease period. For some locations, Peoples has the option to renew the lease beyond the current expiration date under the terms of the lease agreement.

Additional information concerning the property and equipment owned or leased by Peoples and its subsidiaries is incorporated herein by reference from Note 5 of the Notes to the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Peoples' common shares are traded on The NASDAQ Global Select Market® under the symbol PEBO. At December 31, 2016, Peoples had 2,284 shareholders of record. The table presented below provides the high and low sales prices for Peoples' common shares as reported on The NASDAQ Global Select Market® and the cash dividends per common share declared during the indicated periods.

	High Sales	Low Sales	Dividends Declared
2016			
Fourth Quarter	$32.82	$24.13	$ 0.17
Third Quarter	24.82	21.40	0.16
Second Quarter	22.14	19.13	0.16
First Quarter	19.55	16.50	0.15
2015			
Fourth Quarter	$22.00	$18.12	$ 0.15
Third Quarter	24.33	20.63	0.15
Second Quarter	24.74	22.65	0.15
First Quarter	26.01	22.63	0.15

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Peoples plans to continue to pay quarterly cash dividends, subject to certain regulatory restrictions described in Note 15 of the Notes to the Consolidated Financial Statements, as well as in the section captioned "Supervision and Regulation – Dividend Restrictions" of "ITEM 1 - BUSINESS" of this Form 10-K.

Issuer Purchases of Equity Securities

The following table details repurchases by Peoples and purchases by "affiliated purchasers" as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of Peoples' common shares during the three months ended December 31, 2016:

Period	(a) Total Number of Common Shares Purchased		(b) Average Price Paid per Common Share		(c) Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1 - 31, 2016	1,688	(2)(3)	$ 24.63	(2)(3)	—	$ 15,049,184
November 1 - 30, 2016	1,147	(2)(3)	$ 25.16	(2)(3)	—	$ 15,049,184
December 1 - 31, 2016	2,107	(2)(3)	$ 30.47	(2)(3)	—	$ 15,049,184
Total	4,942		$ 27.24		—	$ 15,049,184

(1) On November 3, 2015, Peoples announced that on that same date, Peoples' Board of Directors authorized a share repurchase program authorizing Peoples to purchase up to $20 million of its outstanding common shares. No common shares were purchased under this share repurchase program during the three months ended December 31, 2016. Additional information regarding the share repurchase program can be found in Note 10 of the Notes to the

Consolidated Financial Statements.

(2) Information includes 1,314 common shares, 15 common shares, and 285 common shares purchased in open market transactions during October, November, and December, respectively, by Peoples Bank under the Rabbi Trust Agreement. The Rabbi Trust Agreement establishes a rabbi trust that holds assets to provide funds for the payment of the benefits under the Peoples Bancorp Inc. Third Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries.

(3) Includes 374 common shares, 1,132 common shares, and 1,822 common shares withheld during October, November, and December, respectively, to pay income tax or other tax liabilities associated with vested restricted common shares.

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Performance Graph

The following Performance Graph and related information shall not be deemed “soliciting material” or to be “filed” with the SEC, nor shall such information be deemed to be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that Peoples specifically incorporates the Performance Graph by reference into such filing.

The following line graph compares the five-year cumulative total shareholder return of Peoples' common shares, based on an initial investment of $100 on December 31, 2011, and assuming reinvestment of dividends, against that of an index comprised of all domestic common shares traded on The NASDAQ Stock Market (“NASDAQ Stocks (U.S. Companies)”), and an index comprised of all depository institutions (SIC Code #602) and depository institution holding companies (SIC Code #671) that are traded on The NASDAQ Stock Market (“NASDAQ Bank Stocks”).

COMPARISON OF FIVE-YEAR TOTAL SHAREHOLDER RETURN AMONG
PEOPLES BANCORP INC., NASDAQ STOCKS (U.S. COMPANIES),
AND NASDAQ BANK STOCKS

	At December 31,					
	2011	2012	2013	2014	2015	2016
Peoples Bancorp Inc.	$100.00	$140.94	$159.18	$187.97	$140.34	$248.73
NASDAQ Stocks (U.S. Companies)	$100.00	$117.63	$164.88	$189.33	$202.80	$220.95
NASDAQ Bank Stocks	$100.00	$118.58	$168.05	$176.32	$191.91	$264.66

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ITEM 6. SELECTED FINANCIAL DATA

The information below has been derived from Peoples' Consolidated Financial Statements.

	At or For the Year Ended December 31,				
	2016	2015	2014	2013	2012
Operating Data (a)					
Total interest income	$115,444	$108,333	$80,200	$67,071	$69,470
Total interest expense	10,579	10,721	10,694	11,686	14,995
Net interest income	104,865	97,612	69,506	55,385	54,475
Provision for (recovery of) loan losses	3,539	14,097	339	(4,410)	(4,716)
Net (loss) gain on investment securities and other transactions	(203)	(1,059)	(33)	334	(778)
Total non-interest income	51,070	47,441	40,053	37,220	34,971
FDIC insurance expense	1,899	2,084	1,260	1,036	1,002
Other expense	105,012	112,997	83,749	67,229	62,472
Net income available to common shareholders	$31,157	$10,941	$16,684	$17,574	$20,385
Balance Sheet Data (a)					
Total investment securities	$859,455	$868,830	$713,659	$680,526	$709,085
Loans, net of deferred fees and costs	2,224,936	2,072,440	1,620,898	1,196,234	985,172
Allowance for loan losses	18,429	16,779	17,881	17,065	17,811
Total intangible assets	146,018	149,617	109,158	77,603	68,525
Total assets	3,432,348	3,258,970	2,567,769	2,059,108	1,918,050
Non-interest-bearing deposits	734,421	717,939	493,162	409,891	317,071
Brokered certificates of deposits	15,696	33,857	39,691	49,041	55,599
Other interest-bearing deposits	1,759,605	1,784,148	1,400,221	1,121,826	1,119,633
Short-term borrowings	305,607	160,386	88,277	113,590	47,769
Junior subordinated debentures held by subsidiary trust	6,924	6,736	—	—	—
Other long-term borrowings	138,231	106,934	179,083	121,826	128,823
Total stockholders' equity	435,261	419,789	340,118	221,553	221,728
Tangible assets (b)	3,286,330	3,109,353	2,458,611	1,981,505	1,849,525
Tangible equity (b)	289,243	270,172	230,960	143,950	153,203
Per Common Share Data (a)					
Earnings per common share – basic	$1.72	$0.62	$1.36	$1.65	$1.92
Earnings per common share – diluted	1.71	0.61	1.35	1.63	1.92
Cash dividends declared per common share	0.64	0.60	0.60	0.54	0.45
Book value per common share (c)	23.92	22.81	22.92	20.89	21.02
Tangible book value per common share (b)(c)	$15.89	$14.68	$15.57	$13.57	$14.52
Weighted-average number of common shares outstanding – basic	18,013,693	17,555,140	12,183,352	10,581,222	10,527,885
Weighted-average number of common shares outstanding – diluted	18,155,463	17,687,795	12,306,224	10,679,417	10,528,286
Common shares outstanding at end of period	18,200,067	18,404,864	14,836,727	10,605,782	10,547,960
Closing stock price at end of period	$32.46	$18.84	$25.93	$22.51	$20.43

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	At or For the Year Ended December 31,				
	2016	2015	2014	2013	2012
Significant Ratios (a)					
Return on average stockholders' equity	7.20 %	2.69 %	6.16 %	7.92 %	9.52 %
Return on average assets	0.94	0.35	0.74	0.91	1.11
Average stockholders' equity to average assets	13.03	13.09	12.08	11.48	11.63
Average loans to average deposits	83.22	80.08	79.58	70.79	68.23
Net interest margin	3.54	3.53	3.45	3.23	3.36
Efficiency ratio (c)(d)	65.13	75.50	75.37	71.90	69.55
Pre-provision net revenue to total average assets (e)	1.48	0.96	1.10	1.26	1.41
Dividend payout ratio	37.40 %	96.35 %	43.10 %	33.20 %	23.58 %
Asset Quality Ratios (a)					
Nonperforming loans as a percent of total loans (c)(f)	1.13 %	0.94 %	0.69 %	0.60 %	1.43 %
Nonperforming assets as a percent of total assets (c)(f)	0.75	0.62	0.47	0.39	0.78
Nonperforming assets as a percent of total loans and other real estate owned ("OREO") (c)(f)	1.16	0.98	0.75	0.67	1.52
Criticized loans as a percent of total loans (c)(g)	4.46	5.89	4.60	4.94	9.01
Classified loans as a percent of total loans (c)(h)	2.59	2.91	2.76	3.07	4.72
Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (c)(i)	1.08	1.19	1.48	1.58	1.86
Allowance for loan losses as a percent of nonperforming loans (c)(f)(i)	73.43	86.05	159.58	237.87	125.34
Provision for (recovery of) loan losses as a percent of average total loans	0.17	0.72	0.02	(0.42)	(0.49)
Net charge-offs (recoveries) as a percent of average total loans (j)	0.09 %	0.78 %	(0.03)%	(0.35)%	0.12 %
Capital Ratios (a)					
Common Equity Tier 1 (k)	12.91 %	13.36 %	N/A	N/A	N/A
Tier 1	13.21	13.67	14.32	12.42	14.06
Total (Tier 1 and Tier 2)	14.11	14.54	15.48	13.78	15.43
Tier 1 leverage	9.66	9.52	9.92	8.52	8.83
Tangible equity to tangible assets (b)	8.80	8.69	9.39	7.26	8.28

(a) Reflects the impact of the acquisition of NB&T beginning March 6, 2015, of Midwest Bancshares, Inc. ("Midwest") beginning May 30, 2014, of Ohio Heritage Bancorp, Inc. ("Ohio Heritage") beginning August 22, 2014 and of North Akron Savings Bank ("North Akron") beginning October 24, 2014.

(b) This amount represents a non-GAAP financial measure since it excludes the balance sheet impact of intangible assets acquired through acquisitions on total stockholders' equity and total assets. Additional information regarding the calculation of this amount can be found in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Capital/Stockholders' Equity".

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

(d) Total other expenses (less amortization of other intangible assets) as a percentage of fully tax-equivalent net interest income plus total non-interest income. This amount represents a non-GAAP financial measure since it excludes amortization of other intangible assets, and all gains and/or losses included in earnings, and uses fully tax-equivalent net interest income. Additional information regarding the calculation of this amount can be found in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Efficiency Ratio".

(e) This ratio represents a non-GAAP financial measure since it excludes the provision for loan losses and all gains and/or losses included in earnings. Additional information regarding the calculation of this ratio can be found in

"ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption “Pre-Provision Net Revenue”.

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

(g) Includes loans categorized as watch, substandard or doubtful.

(h) Includes loans categorized as substandard or doubtful.

(i) The decreases since 2013 were primarily due to a reduction in the five year historical loss rates. Additional information regarding the allowance for loan losses can be found in "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K under the caption "Allowance for Loan Losses".

(j) Net charge-offs (recoveries) as a percent of average total loans increased in 2015 as Peoples recorded a $13.1 million charge-off associated with one large commercial relationship, resulting in 0.67% of the reported amount of 0.78%.

(k) Peoples' capital conservation buffer was 6.11% at December 31, 2016, compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

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

(1) Peoples' ability to leverage the system conversion (including the related core operating systems, data systems and products) without complications or difficulties that may otherwise result in the loss of customers, operational problems or one-time costs currently not anticipated to arise in connection with such conversion;

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

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

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

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

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

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

(8) changes in prepayment speeds, loan originations, levels of non-performing assets, delinquent loans and charge-offs, which may be less favorable than expected and adversely impact the amount of interest income generated;

(9) adverse changes in economic conditions and/or activities, including, but not limited to, continued economic uncertainty in the U.S., the European Union (including the uncertainty created by the June 23, 2016 referendum by British voters to exit the European Union), Asia, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults;

(10) uncertainty regarding the nature, timing and effect of legislative or regulatory changes or actions, promulgated and to be promulgated by governmental and regulatory agencies including the ODFI, the FDIC, the OCC, the Federal Reserve Board and the CFPB, which may subject Peoples, its subsidiaries, or one or more acquired companies to a variety of new and more stringent legal and regulatory requirements which adversely affect their respective businesses, including in particular the rules and regulations promulgated and to be promulgated under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the Basel III regulatory capital reform;

(11) deterioration in the credit quality of Peoples' loan portfolio, which may adversely impact the provision for loan losses;

(12) changes in accounting standards, policies, estimates or procedures which may adversely affect Peoples' reported financial condition or results of operations;

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

(14)

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

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sensitivity of Peoples' consolidated balance sheet, and the income generated by Peoples' trust and investment activities;

(15) Peoples' ability to receive dividends from its subsidiaries;

(16) Peoples' ability to maintain required capital levels and adequate sources of funding and liquidity;

(17) the impact of new minimum capital thresholds established as a part of the implementation of Basel III;

(18) the impact of larger or similar sized financial institutions encountering problems, which may adversely affect the banking industry and/or Peoples' business generation and retention, funding and liquidity;

(19) the costs and effects of regulatory and legal developments, including the outcome of potential regulatory or other governmental inquiries and legal proceedings and results of regulatory examinations;

(20) Peoples' ability to secure confidential information through the use of computer systems and telecommunications networks, including those of Peoples' third-party vendors and other service providers, may prove inadequate, which could adversely affect customer confidence in Peoples and/or result in Peoples incurring a financial loss;

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

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

(23) the impact on Peoples' businesses, as well as on the risks described above, of various domestic or international military or terrorist activities or conflicts;

(24) significant changes in the tax laws, which may adversely affect the fair values of net deferred tax assets and obligations of states and political subdivisions held in Peoples' investment securities portfolio; and

(25) other risk factors relating to the banking industry or Peoples as detailed from time to time in Peoples' reports filed with the SEC, including those risk factors included in the disclosures under the heading "ITEM 1A. RISK FACTORS" of this Form 10-K.

All forward-looking statements speak only as of the filing date of this Form 10-K 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-K 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.

The following discussion and analysis of Peoples' Consolidated Financial Statements is presented to provide insight into management's assessment of the financial position and results of operations for the periods presented. This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto, as well as the ratios and statistics, contained elsewhere in this Form 10-K.

Summary of Significant Transactions and Events

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

On January 31, 2017, Peoples Insurance acquired a third-party insurance administration company with annual net revenue of $0.4 million. This acquisition did not materially impact Peoples' financial position, results of operations or cash flows.

On November 7, 2016, Peoples converted its core banking system (including the related operating systems, data systems and products). The conversion resulted in a pre-tax combined revenue and expense impact of $1.3 million, or $0.05 in earnings per diluted share, for the full year. Deposit account service charges were impacted by the system conversion as Peoples granted waivers of $85,000 related to account services charges in the month of the conversion. The remainder of the $1.3 million was recorded in various expense categories, primarily in other non-interest expense, professional fees, and salaries and employee benefit costs.

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In 2016, Peoples closed three Ohio branches that were located in Owensville, Marietta and The Plains. Additional branches to close in 2017 include two Ohio offices located in Belpre and Wilmington, and two West Virginia offices located in Huntington and Point Pleasant. These four branches will remain open through March 31, 2017.
Peoples continually evaluates the overall balance sheet position given the interest rate environment. During 2016, Peoples executed transactions to take advantage of the low interest rates, which included:
Peoples restructured $20.0 million of FHLB long-term advance borrowings that had a weighted-average rate of 2.97%, resulting in a $700,000 loss. Peoples replaced these borrowings with a long-term FHLB advance, which has an interest rate of 2.17% and matures in 2026.
Peoples borrowed an additional $35.0 million of long-term FHLB amortizing advances, which had interest rates ranging from 1.08% to 1.40%, and mature between 2019 and 2031.
Peoples entered into five forward starting interest rate swaps to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.83%, which become effective in 2018 and mature between 2022 and 2026. These swaps locked in funding rates for $40.0 million in FHLB advances that mature in 2018, which have interest rates ranging from 3.57% to 3.92%.
On June 8, 2016, Peoples purchased an additional $35.0 million in bank owned life insurance ("BOLI").
During the second quarter of 2016, Peoples sold $28.9 million of available-for-sale securities with a weighted average yield of 2.14%, for a gain of $767,000.
Effective March 2, 2016, Peoples terminated the loan agreement with U.S. Bank National Association dated as of December 18, 2012, as amended (the "U.S. Bank Loan Agreement"). As of the termination date, Peoples had no outstanding borrowings under the U.S. Bank Loan Agreement. Peoples paid an immaterial non-usage fee in connection with the termination of the U.S. Bank Loan Agreement.
On March 4, 2016, Peoples entered into a Credit Agreement (the "RJB Credit Agreement") with Raymond James Bank, N.A. ("Raymond James Bank"), which provides Peoples with a revolving line of credit in the maximum aggregate principal amount of $15 million, for the purpose of: (i) to the extent that any amounts remained outstanding, paying off the then outstanding $15 million revolving line of credit to Peoples pursuant to the U.S. Bank Loan Agreement; (ii) making acquisitions; (iii) making stock repurchases; (iv) working capital needs; and (v) other general corporate purposes. On March 4, 2016, Peoples paid upfront fees for the establishment of a revolving line of credit agreement of $70,600, representing 0.47% of the loan commitment under the RJB Credit Agreement.
On January 6, 2016, Peoples Bank acquired a small financial advisory book of business in Marietta, Ohio for cash consideration of $0.5 million. This acquisition did not materially impact Peoples' financial position, results of operations or cash flows.
During 2015, Peoples recorded aggregate charge-offs of $13.1 million on a single, impaired commercial loan relationship consisting of four impaired loans. As of December 31, 2015, Peoples net recorded investment with respect to these loans was zero.
On December 30, 2015, Peoples announced that Peoples Bank, National Association, the banking subsidiary of Peoples, converted from a national banking association into an Ohio state-chartered bank which is a member of the Federal Reserve System. As a result of the charter conversion, the legal name of Peoples' banking subsidiary was changed to "Peoples Bank" and the converted bank operates under the trade name and federally registered service mark "Peoples Bank." Additionally, Peoples' banking subsidiary saw a reduction in the annual cost associated with regulatory examination fees commencing in 2016.
On November 3, 2015, Peoples announced that its Board of Directors approved and adopted a share repurchase program authorizing Peoples to purchase, from time to time, up to an aggregate of $20 million of its outstanding common shares. As of December 31, 2016, Peoples had repurchased an aggregate of 279,770 common shares with a total cost of $5.0 million. All of these common shares were purchased in the first half of 2016 with none being purchased in 2015.
On July 24, 2015, Peoples repaid the principal balance of the $12.0 million term loan then outstanding under the U.S. Bank Loan Agreement. There were no early termination fees associated with the repayment. The revolving credit loan

commitment available under the U.S. Bank Loan Agreement remained outstanding until the termination of the U.S. Bank Loan Agreement effective March 2, 2016, as described above.
On July 21, 2015, Peoples Insurance acquired an insurance agency and related customer accounts in the Lebanon, Ohio area for total cash consideration of $0.9 million, and recorded $0.5 million of customer relationship intangibles and $0.4 million of goodwill.

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In December 2016, the Federal Reserve Board raised short-term rates, including the Federal Funds Rate and the Discount Rate by 0.25%, to a range of 0.50% to 0.75% for the Federal Funds Rate and to 1.25% for the Discount Rate. The Federal Reserve Board had previously maintained its target Federal Funds Rate at a level of 0.25% to 0.50% since December 2015 and had maintained the Discount Rate at 1.00% since December 2015. The Federal Reserve Board has indicated the possibility that these short-term rates could again be raised in 2017.

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

Critical Accounting Policies

The accounting and reporting policies of Peoples conform to US GAAP and to general practices within the financial services industry. A summary of significant accounting policies is contained in Note 1 of the Notes to the Consolidated Financial Statements. While all of these policies are important to understanding the Consolidated Financial Statements, certain accounting policies require management to exercise judgment and make estimates or assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates and assumptions are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates or assumptions.

Management has identified the accounting policies described below as those that, due to the judgments, estimates and assumptions inherent in the policies, are critical to an understanding of Peoples' Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

Interest Income Recognition

Interest income on loans and investment securities is recognized by methods that result in level rates of return on principal amounts outstanding, including yield adjustments resulting from the amortization of loan costs and premiums on investment securities and accretion of loan fees and discounts on investment securities. Since mortgage-backed securities comprise a sizable portion of Peoples' investment portfolio, a significant increase in principal payments on those securities could impact interest income due to the corresponding acceleration of premium amortization or discount accretion.

Peoples discontinues the accrual of interest on a loan when conditions cause management to believe collection of all or any portion of the loan's contractual interest is doubtful. Such conditions may include the borrower being 90 days or more past due on any contractual payments or current information regarding the borrower's financial condition and repayment ability. All unpaid accrued interest deemed uncollectable is reversed, which would reduce Peoples' net interest income. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured.

Allowance for Loan Losses

In general, determining the amount of the allowance for loan losses requires significant judgment and the use of estimates by management. Peoples maintains an allowance for loan losses based on a quarterly analysis of the loan portfolio and estimation of the losses that are probable of occurrence within the loan portfolio. This formal analysis determines an appropriate level and allocation of the allowance for loan losses among loan types and the resulting recovery of or provision for loan losses by considering factors affecting losses, including specific losses, levels and trends in impaired and nonperforming loans; historical loan loss experience; current national and local economic conditions; volume; growth and composition of the portfolio; regulatory guidance and other relevant factors. Management continually monitors the loan portfolio through Peoples Bank's Credit Administration Department and Loan Loss Committee to evaluate the appropriateness of the allowance. The recovery or provision could increase or decrease each quarter based upon the results of management's formal analysis.

The amount of the allowance for loan losses for the various loan types represents management's estimate of probable losses from existing loans. Management evaluates lending relationships deemed to be impaired on an individual basis and makes specific allocations of the allowance for loan losses for each relationship based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans.

For all other loans, management evaluates pools of homogeneous loans (such as residential mortgage loans, and direct and indirect consumer loans) and makes general allocations for each loan pool based upon historical loss experience. While allocations are made to specific loans and pools of loans, the allowance is available for all loan losses.

The evaluation of individual impaired loans requires management to make estimates of the amounts and timing of future cash flows on impaired loans, which consist primarily of loans placed on nonaccrual status, restructured or internally classified as substandard or doubtful. These reviews are based upon specific quantitative and qualitative criteria, including the size of the loan, the loan cash flow characteristics, the loan quality ratings, the value of collateral, the repayment ability of the borrower, and historical experience factors. Allowances for homogeneous loans are evaluated based upon historical loss experience, adjusted for qualitative risk factors, such as trends in losses and delinquencies, growth of loans in particular markets, and known changes in economic conditions in each lending market. As part of the process of identifying the pools of homogenous loans, management takes into account any concentrations of risk within any portfolio segment, including any significant industrial concentrations. Consistent with the evaluation of allowances for homogenous loans, the allowance relating to the Overdraft Privilege program is based upon management's monthly analysis of accounts in the program. This analysis considers factors that could affect losses on existing accounts, including historical loss experience and length of overdraft.

There can be no assurance that the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses at December 31, 2016 was adequate to provide for probable losses from existing loans based on information currently available. While management uses available information to estimate losses, the ultimate collectability of a substantial portion of the loan portfolio, and the need for future additions to the allowance, will be based on changes in economic conditions and other relevant factors. As such, adverse changes in economic activity could reduce currently estimated cash flows for both commercial and individual borrowers, which would likely cause Peoples to experience increases in problem assets, delinquencies and losses on loans in the future.

Investment Securities

Peoples' investment portfolio accounted for 25.0% and 26.7% of total assets at December 31, 2016, and December 31, 2015 respectively, of which approximately 90% of the securities were classified as available-for-sale. Correspondingly, Peoples carries these securities at fair value on its Consolidated Balance Sheets, with any unrealized gain or loss recorded in stockholders' equity as a component of accumulated other comprehensive income or loss. As a result, Peoples' Consolidated Balance Sheet may be sensitive to changes in the overall market value of the investment portfolio, due to changes in market interest rates, investor confidence and other factors affecting market values.

While temporary changes in the fair value of available-for-sale securities are not recognized in earnings, Peoples is required to evaluate all investment securities with an unrealized loss on a quarterly basis to identify potential other-than-temporary impairment ("OTTI") losses. This analysis requires management to consider various factors that involve judgment and estimation, including the duration and magnitude of the decline in value, the financial condition of the issuer or pool of issuers, and the structure of the security.

Under current US GAAP, an OTTI loss is recognized in earnings only when (1) Peoples intends to sell the investment security; (2) it is more likely than not that Peoples will be required to sell the investment security before recovery of its amortized cost basis; or (3) Peoples does not expect to recover the entire amortized cost basis of the investment security. In situations where Peoples intends to sell, or when it is more likely than not that Peoples will be required to sell the investment security, the entire OTTI loss must be recognized in earnings. In all other situations, only the portion of the OTTI losses representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of accumulated other comprehensive income or loss, net of deferred taxes.

Management performed its quarterly analysis of the investment securities with an unrealized loss at December 31, 2016, and concluded no individual securities were other-than-temporarily impaired. Peoples has not recognized an impairment loss in 2016, 2015 or 2014.

Goodwill and Other Intangible Assets

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

Peoples records goodwill and other intangible assets as a result of acquisitions accounted for under the acquisition method of accounting. Under the acquisition method, Peoples is required to allocate the consideration paid for an acquired company to the assets acquired, including identified intangible assets, and liabilities assumed based on their estimated fair values at the date of acquisition. Goodwill represents the excess cost over the fair value of net assets acquired and is not amortized but is tested for impairment when indicators of impairment exist, or at least annually. Peoples' other intangible assets consist of customer relationship intangible assets, including core deposit intangibles, representing the present value of future net income to be earned from acquired customer relationships with definite useful lives, which are required to be amortized over their estimated useful lives.

The value of recorded goodwill is supported ultimately by revenue that is driven by the volume of business transacted and Peoples' ability to provide quality, cost-effective services in a competitive market place. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods. Potential goodwill impairment exists when the fair value of the reporting unit (as defined by US GAAP) is less than its carrying value. An impairment loss is recognized in earnings only when the carrying amount of goodwill is less than its implied fair value.

The process of evaluating goodwill for impairment involves highly subjective or complex judgments, estimates and assumptions regarding the fair value of Peoples' reporting unit and, in some cases, goodwill itself. As a result, changes to these judgments, estimates and assumptions in future periods could result in materially different results.

Peoples currently possesses a single reporting unit for goodwill impairment testing. While quoted market prices exist for Peoples' common shares since they are publicly traded, these market prices do not necessarily reflect the value associated with gaining control of an entity. Thus, management takes into account all appropriate fair value measurements in determining the estimated fair value of the reporting unit.

The measurement of any actual impairment loss requires management to calculate the implied fair value of goodwill by deducting the fair value of all tangible and separately identifiable intangible net assets (including unrecognized intangible assets) from the fair value of the reporting unit. The fair value of net tangible assets is calculated using the methodologies described in Note 2 of the Notes to the Consolidated Financial Statements.

Peoples performs its required annual impairment test as of October 1st each year, beginning in 2016. Peoples first assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount, including goodwill. In this evaluation, Peoples assesses relevant events and circumstances, which may include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, events specific to Peoples, significant changes in the reporting unit, or a sustained decrease in stock price. If Peoples determines that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, then performing the two-step impairment test is unnecessary. However, if there are indicators of impairment, Peoples must complete a two-step process that includes (1) determining if potential goodwill impairment exists and (2) measuring the impairment loss, if any. At October 1, 2016, management's qualitative analysis concluded that the estimated fair value of Peoples' single reporting unit exceeded its carrying value.

Peoples is required to perform interim tests for goodwill impairment in subsequent quarters if events occur or circumstances change that indicate potential goodwill impairment exists, such as adverse changes to Peoples' business or a significant decline in Peoples' market capitalization. For further information regarding goodwill, refer to Note 6 of the Notes to the Consolidated Financial Statements.

Peoples records servicing rights (“SRs”) in connection with its mortgage banking and small business lending activities, which are intangible assets representing the right to service loans sold to third-party investors. These intangible assets are recorded initially at fair value and subsequently amortized over the estimated life of the loans sold. SRs are stratified based on their predominant risk characteristics and assessed for impairment at the strata level at each reporting date based on their fair value. At December 31, 2016, management concluded no portion of the recorded SRs was impaired since the fair value equaled or exceeded the carrying value. However, future events, such as a significant increase in prepayment speeds, could result in a fair value that is less than the carrying amount, which would require the recognition of an impairment loss in earnings.

Income Taxes

Income taxes are recorded based on the liability method of accounting, which includes the recognition of deferred tax assets and liabilities for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. In general, Peoples records deferred tax assets when the event giving rise to the tax benefit has been recognized in the Consolidated Financial Statements.

A valuation allowance is recognized to reduce any deferred tax asset when, based upon available information, it is more-likely-than-not all, or any portion, of the deferred tax asset will not be realized. Assessing the need for, and amount of, a valuation allowance for deferred tax assets requires significant judgment and analysis of evidence regarding realization of the deferred tax assets. In most cases, the realization of deferred tax assets is dependent upon Peoples generating a sufficient level of taxable income in future periods, which can be difficult to predict. Peoples' largest deferred tax assets involve differences related to Peoples' allowance for loan losses and accrued employee benefits. At December 31, 2016 and December 31, 2015, management determined a valuation allowance would be recorded against the deferred tax assets associated with its investment in a partnership investment. No other valuation allowances were recorded at either December 31, 2016 or 2015.

The calculation of tax liabilities is complex and requires the use of estimates and judgment since it involves the application of complex tax laws that are subject to different interpretations by Peoples and the various tax authorities. Peoples' interpretations are subject to challenge by the tax authorities upon audit or to reinterpretation based on management's ongoing assessment of facts and evolving case law.

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From time-to-time and in the ordinary course of business, Peoples is involved in inquiries and reviews by tax authorities that normally require management to provide supplemental information to support certain tax positions taken by Peoples in its tax returns. Uncertain tax positions are initially recognized in the Consolidated Financial Statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. The amount of unrecognized tax benefits was immaterial at both December 31, 2016 and 2015. Management believes it has taken appropriate positions on its tax returns, although the ultimate outcome of any tax review cannot be predicted with certainty. Consequently, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the current and historical financial statements.

Fair Value Measurements

As a financial services company, the carrying value of certain financial assets and liabilities is impacted by the application of fair value measurements, either directly or indirectly. In certain cases, an asset or liability is measured and reported at fair value on a recurring basis, such as available-for-sale investment securities. In other cases, management must rely on estimates or judgments to determine if an asset or liability not measured at fair value warrants an impairment write-down or whether a valuation reserve should be established. Given the inherent volatility, the use of fair value measurements may have a significant impact on the carrying value of assets or liabilities, or result in material changes to the consolidated financial statements, from period to period.

Detailed information regarding fair value measurements can be found in Note 2 of the Notes to the Consolidated Financial Statements. The following is a summary of those assets and liabilities that may be affected by fair value measurements, as well as a brief description of the current accounting practices and valuation methodologies employed by Peoples:

Available-for-Sale Investment Securities

Investment securities classified as available-for-sale are measured and reported at fair value on a recurring basis. For most securities, the fair value is based upon quoted market prices (Level 1) or determined by pricing models that consider observable market data (Level 2). For structured investment securities, the fair value often must be based upon unobservable market data, such as non-binding broker quotes and discounted cash flow analysis or similar models, due to the absence of an active market for these securities (Level 3). As a result, management's determination of fair value for these securities is highly dependent on subjective or complex judgments, estimates and assumptions, which could change materially between periods. Management occasionally uses information from independent third-party consultants in its determination of the fair value of more complex structured investment securities. At December 31, 2016, all of Peoples' available-for-sale investment securities were measured using observable market data.

At December 31, 2016, the majority of the investment securities with Level 2 fair values were determined using information provided by third-party pricing services. 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. To the extent available, management utilizes an independent third-party pricing source to assist in its assessment of the values provided by its primary pricing services. Management reviews the fair values provided by these third parties on a quarterly basis and challenges prices when it believes a discrepancy in pricing exists. Based on Peoples' past experience, no discrepancies were noted related to current pricing and values.

Impaired loans

For loans considered impaired, the amount of impairment loss recognized is determined based on a discounted cash flow analysis or the fair value of the underlying collateral if repayment is expected solely from the sale of the collateral. Management typically relies on the fair value of the underlying collateral due to the significant uncertainty surrounding the borrower's ability to make future payments. The vast majority of the collateral securing impaired loans is real estate, although the collateral may also include accounts receivable and equipment, inventory or similar personal property. The fair value of the collateral used by management represents the estimated proceeds to be received from the sale of the collateral, less costs incurred during the sale, based upon observable market data or market value data provided by independent, licensed or certified appraisers.

Servicing Rights

SRs are carried at the lower of amortized cost or market value, and, therefore, can be subject to fair value measurements on a nonrecurring basis. SRs do not trade in an active market with readily observable prices. Thus, management determines fair value based upon a valuation model that calculates the present value of estimated future net servicing income provided by an independent third-party consultant. This valuation model is affected by various input factors, such as servicing costs, expected prepayment speeds and discount rates, which are subject to change between reporting periods. As a result, significant changes to these factors could result in a material change to the calculated fair value of SRs.

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To determine the fair value of its SRs each reporting quarter, Peoples provides information representing loan information accompanied by escrow amounts to a third-party valuation firm. The third-party valuation firm then evaluates the possible impairment of SRs as described below. Loans are evaluated on a discounted earnings basis to determine the present value of future earnings that Peoples expects to realize from the portfolio. Earnings are projected from a variety of sources including loan service fees, net interest earned on escrow balances, miscellaneous income and costs to service the loans. The present value of future earnings is the estimated fair value, calculated using consensus assumptions that a third-party purchaser would utilize in evaluating a potential acquisition of the SRs. Events that may significantly affect the estimates used are changes in interest rates and the related impact on mortgage loan prepayment speeds, and the payment performance of the underlying loans. Peoples believes this methodology provides a reasonable estimate. Mortgage loan prepayment estimates were determined through the application of the current dealer projected prepayment rates by product type and interest rate as published by Bloomberg, L.P. as of January 3, 2017, and adjusted for historical prepayment factors based on state, type of servicing, year of origination, and pass through coupon. The adjustable rate mortgage loan prepayment estimates were determined through the application of market trading assumptions as of January 3, 2017, and adjusted for historical prepayment factors based on state, type of servicing, year of origination, and pass through coupon.

These earnings are used to calculate the approximate cash flow that could be received from the servicing portfolio. Valuation results are provided quarterly to Peoples. At that time, Peoples reviews the information and SRs are marked to the lower of amortized cost or fair value for the current quarter.

Cash flow hedges

Cash flow hedges are carried at fair value on Peoples' Consolidated Balance Sheets. Cash flow hedges do not trade in an active market with readily observable prices. Management determines the fair value of cash flow hedges based on third-party pricing, which is driven by changes in market interest rates. As of December 31, 2016, the fair value of the cash flow hedges, based on market interest rates, resulted in an asset of $1.8 million.

EXECUTIVE SUMMARY

Net income for the year ended December 31, 2016 was $31.2 million, compared to $10.9 million in 2015 and $16.7 million in 2014, representing earnings per diluted common share of $1.71, $0.61 and $1.35, respectively. The increase in earnings during 2016 was driven by a decrease in the provision for loan losses of $10.6 million, primarily due to the control of credit quality and associated credit costs. In 2016, earnings also benefited from a decrease in acquisition-related charges of $10.7 million compared to 2015, which was partially offset by costs related to the conversion of Peoples' core banking system of $1.3 million. The increase in the provision for loan losses and acquisition-related charges in 2015 were the primary reasons for the decrease in net income for the year ended December 31, 2015 compared to 2014.

In 2016, Peoples had a provision for loan losses of $3.5 million, a decrease of $10.6 million compared to the $14.1 million that was recorded in 2015. The decrease in 2016 from 2015 was primarily related to Peoples recording net charge-offs of $1.9 million compared to $15.2 million for 2016 and 2015, respectively. The charge-off in 2015 was primarily due to the charge-off of one large commercial loan relationship. The provision for loan losses represented amounts needed, in management's opinion, to maintain the appropriate level of the allowance for loan losses.

Net interest income grew 7% to $104.9 million in 2016 mostly due to higher loan balances. In 2015, net interest income grew 40% to $97.6 million, primarily due to acquisitions. Net interest margin was 3.54% in 2016, higher than the 3.53% in 2015 and 3.45% in 2014. Accretion income from acquisitions added approximately 11 basis points to net interest margin in 2016 compared to 17 basis points in 2015 and 13 basis points in 2014. The increase in net interest margin in 2015 compared to 2014 was mostly due to higher loan balances in connection with acquisitions and organic loan growth.

Total non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, increased 8% in 2016 compared to 2015 and 18% in 2015 compared to 2014. The increase in 2016 compared to 2015 was due to increases in electronic banking income, trust and investment income, bank owned life insurance income and commercial loan swap fee income, with a portion of the growth attributable to the NB&T

acquisition. The increase in electronic banking income was the result of the increased usage of debit cards by more customers. The increase in trust and investment income was due largely to growth in assets under management and the full year effect of NB&T operations. The increase in bank owned life insurance income was the result of the additional $35.0 million of bank owned life insurance policies that were purchased late in the second quarter of 2016.
Commercial loan swap fee income is dependent upon customers' preference for fixed versus variable interest rate loans, and the ability of the customers seeking the swap product to satisfy the financially sophisticated criteria to be eligible, which leads to variability in this income stream.

Total non-interest income increased 18% in 2015 and was primarily due to increases in trust and investment income, deposit account service charges and electronic banking income. The noted increases reflected a full year of income from the 2014 acquisitions and approximately nine months of income related to the NB&T acquisition.

Total other expense decreased 7%, or $8.2 million, for the year ended December 31, 2016, due largely to acquisition-related expenses of $10.7 million in 2015, partially offset by a full-year effect of operating expenses associated with the NB&T acquisition, and increased sales-based and incentive compensation earned under the corporate incentive plan.

At December 31, 2016, total assets were up 5%, or $173.4 million, to $3.43 billion versus $3.26 billion at year-end 2015. The increase was primarily related to an increase of 7% in loan growth coupled with the additional $35.0 million of bank owned life insurance policies that were purchased late in the second quarter of 2016. The allowance for loan losses increased $1.7 million to $18.4 million, or 1.08% of originated loans, net of deferred fees and costs, compared to $16.8 million and 1.19% at December 31, 2015.

Total liabilities were $3.00 billion at December 31, 2016, up $157.9 million since December 31, 2015. At December 31, 2016, total borrowed funds were $450.8 million, up $176.7 million compared to the prior year-end, which was largely used to fund loan growth. Non-interest-bearing deposits were up $16.5 million, or 2%, and comprised 29% of total deposits at December 31, 2016, versus 28% at year-end 2015.

At December 31, 2016, total stockholders' equity was $435.3 million, up $15.5 million from December 31, 2015. The increase was primarily due to the increase in retained earnings as the $31.2 million of earnings in 2016 was only partially offset by dividends of $11.7 million. Peoples' regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Capital ratio decreased to 13.21% at December 31, 2016, versus 13.67% at December 31, 2015, while the Total Capital ratio was 14.11% versus 14.54% at December 31, 2015. In addition, Peoples' book value per share was $23.92 at December 31, 2016. Peoples' tangible book value per share was $15.89 at December 31, 2016, and its tangible equity to tangible assets ratio was 8.80%, versus $14.68 and 9.39% at December 31, 2015, respectively. Additional information regarding capital requirements can be found in Note 15 of the Notes to the Consolidated Financial Statements.

RESULTS OF OPERATIONS

Interest Income and Expense

Peoples earns interest income on loans and investments and incurs interest expense on interest-bearing deposits and borrowed funds. 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 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.

Peoples monitors net interest income performance and manages its balance sheet composition through regular ALCO meetings. The asset-liability management process employed by the ALCO is intended to mitigate the impact of future interest rate changes on Peoples' net interest income and earnings. However, the frequency and/or magnitude of changes in market interest rates are difficult to predict, and may have a greater impact on net interest income than adjustments management is able to make.

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The following table details Peoples’ average balance sheets for the years ended December 31:

	2016			2015			2014		
(Dollars in thousands)	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost	Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$9,667	$50	0.52 %	$50,858	$123	0.24 %	$15,394	$1	0.01 %
Other long-term investments	—	—	— %	1,261	12	0.95 %	1,913	8	0.42 %
Investment Securities (1)(2):									
Taxable	753,213	18,606	2.47 %	727,239	18,235	2.51 %	630,057	17,023	2.70 %
Nontaxable	112,808	4,810	4.26 %	106,518	4,603	4.32 %	59,759	2,785	4.66 %
Total investment securities	866,021	23,416	2.70 %	833,757	22,838	2.74 %	689,816	19,808	2.87 %
Loans (2)(3):									
Commercial real estate, construction	88,559	3,455	3.84 %	64,421	2,730	4.24 %	44,205	1,808	4.09 %
Commercial real estate, other	721,535	33,651	4.59 %	692,773	31,781	4.59 %	494,440	22,724	4.60 %
Commercial and industrial	376,881	15,769	4.12 %	329,030	14,003	4.26 %	250,248	11,079	4.43 %
Residential real estate (4)	557,537	24,279	4.35 %	554,909	24,554	4.42 %	345,398	16,051	4.65 %
Home equity lines of credit	109,164	4,853	4.45 %	99,984	4,575	4.58 %	66,826	2,398	3.59 %
Consumer	279,499	11,998	4.29 %	211,124	9,695	4.59 %	163,691	7,658	4.68 %
Total loans	2,133,175	94,005	4.41 %	1,952,241	87,338	4.47 %	1,364,808	61,718	4.52 %
Less: Allowance for loan losses	(17,564)			(19,174)			(17,362)		
Net loans	2,115,611	94,005	4.40 %	1,933,067	87,338	4.52 %	1,347,446	61,718	4.58 %
Total earning assets	2,991,299	117,471	3.90 %	2,818,943	110,311	3.91 %	2,054,569	81,535	3.97 %
Intangible assets	147,981			144,013			87,821		
Other assets	181,167			148,897			98,144		
Total assets	$3,320,447			$3,111,853			$2,240,534		
Deposits:									
Savings accounts	$434,140	$231	0.05 %	$388,802	$209	0.05 %	$247,419	$135	0.05 %
Government deposit accounts	296,590	570	0.19 %	276,367	597	0.22 %	165,622	470	0.28 %
Interest-bearing demand accounts	260,788	217	0.08 %	222,868	178	0.08 %	148,687	124	0.08 %
Money market accounts	401,693	702	0.17 %	384,258	614	0.16 %	293,214	472	0.16 %
Brokered deposits	24,231	846	3.49 %	36,303	1,352	3.72 %	42,598	1,568	3.68 %
Retail certificates of deposit	423,680	3,376	0.80 %	465,861	3,256	0.70 %	383,574	3,337	0.87 %
Total interest-bearing deposits	1,841,122	5,942	0.32 %	1,774,459	6,206	0.35 %	1,281,114	6,106	0.48 %
Borrowed Funds:									
	86,260	384	0.45 %	16,863	42	0.25 %	36,678	47	0.13 %

Short-term FHLB advances									
Retail repurchase agreements	72,909	124	0.17 %	83,574	140	0.17 %	59,362	99	0.17 %
Total short-term borrowings	159,169	508	0.32 %	100,437	182	0.18 %	96,040	146	0.15 %
Long-term FHLB advances	84,605	2,238	2.65 %	82,184	2,256	2.75 %	80,837	2,299	2.84 %
Wholesale repurchase agreements	40,000	1,475	3.69 %	40,000	1,471	3.68 %	40,000	1,471	3.68 %
Other borrowings	6,781	416	6.13 %	13,064	606	4.58 %	17,334	672	3.88 %
Total long-term borrowings	131,386	4,129	3.14 %	135,248	4,333	3.20 %	138,171	4,442	3.21 %
Total borrowed funds	290,555	4,637	1.60 %	235,685	4,515	1.92 %	234,211	4,588	1.96 %
Total interest-bearing liabilities	2,131,677	10,579	0.50 %	2,010,144	10,721	0.53 %	1,515,325	10,694	0.71 %
Non-interest-bearing deposits	722,291			663,395			433,798		
Other liabilities	33,813			31,018			20,722		
Total liabilities	2,887,781			2,704,557			1,969,845		
Total stockholders' equity	432,666			407,296			270,689		
Total liabilities and stockholders' equity	$3,320,447			$3,111,853			$2,240,534		
Interest rate spread		$106,892	3.40 %		$99,590	3.38 %		$70,841	3.26 %
Net interest margin			3.54 %			3.53 %			3.45 %

(1) Average balances are based on carrying value.

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

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

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

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

(Dollars in thousands)	Changes from 2015 to 2016			Changes from 2014 to 2015		
Increase (decrease) in:	Rate	Volume	Total [(1)]	Rate	Volume	Total [(1)]
INTEREST INCOME:						
Short-term investments	$74	$(147)	$(73)	$123	$(1)	$122
Other long-term investments	(6)	(6)	(12)	8	(4)	4
Investment Securities (2):						
Taxable	(274)	645	371	(1,285)	2,497	1,212
Nontaxable	(62)	269	207	(216)	2,034	1,818
Total investment income	(336)	914	578	(1,501)	4,531	3,030
Loans (2):						
Commercial real estate, construction	(232)	957	725	67	855	922
Commercial real estate, other	468	1,402	1,870	(42)	9,099	9,057
Commercial and industrial	(267)	2,033	1,766	(444)	3,368	2,924
Residential real estate	(391)	116	(275)	(802)	9,305	8,503
Home equity lines of credit	(133)	411	278	777	1,400	2,177
Consumer	(666)	2,969	2,303	(143)	2,180	2,037
Total loan income	(1,221)	7,888	6,667	(587)	26,207	25,620
Total interest income	(1,489)	8,649	7,160	(1,957)	30,733	28,776
INTEREST EXPENSE:						
Deposits:						
Savings accounts	(2)	24	22	(2)	76	74
Government deposit accounts	(69)	42	(27)	(132)	259	127
Interest-bearing demand accounts	8	31	39	(5)	59	54
Money market accounts	59	29	88	(3)	145	142
Brokered certificates of deposit	(80)	(426)	(506)	18	(234)	(216)
Retail certificates of deposit	431	(311)	120	(724)	643	(81)
Total deposit cost	347	(611)	(264)	(848)	948	100
Borrowed funds:						
Short-term borrowings	19	307	326	39	(3)	36
Long-term borrowings	81	(285)	(204)	31	(140)	(109)
Total borrowed funds cost	100	22	122	70	(143)	(73)
Total interest expense	447	(589)	(142)	(778)	805	27
Net interest income	$(1,936)	$9,238	$7,302	$(1,179)	$29,928	$28,749

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

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

As part of the analysis of net interest income, management converts tax-exempt income earned on obligations of states and political subdivisions to the pre-tax equivalent of taxable income using an effective tax rate of 35%. Management believes the resulting FTE net interest income allows for a more meaningful comparison of tax-exempt income and yields to their taxable equivalents. Net interest margin, which is calculated by dividing FTE net interest income by average interest-

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earning assets, serves as an important measurement of the net revenue stream generated by the volume, mix and pricing of earning assets and interest-bearing liabilities.

The following table details the calculation of FTE net interest income for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Net interest income, as reported	$104,865	$97,612	$69,506
Taxable equivalent adjustments	2,027	1,978	1,335
Fully tax-equivalent net interest income	$106,892	$99,590	$70,841

The comparison of the income statement and average balance sheet results between the full year of 2015 and the full year of 2016 was affected by the NB&T acquisition, which closed March 6, 2015.

During 2016, Peoples recognized accretion income, net of amortization expense, from acquisitions of $3.5 million, which added approximately 11 basis points to net interest margin, compared to $4.8 million and 17 basis points and $2.6 million and 13 basis points in 2015 and 2014, respectively. Also during 2016, additional interest income from prepayment fees and interest recovered on nonaccrual loans was $964,000 compared to $591,000 in 2015 and $240,000 in 2014. The primary driver of the increase in net interest income during 2015 was the higher loan balances resulting from organic growth and acquired loans.

The yield on investment securities decreased in 2016 as interest rates fell and prepayment speeds on mortgage-backed securities increased. The increase in prepayment speeds was due primarily to greater mortgage refinancing activity driven by lower interest rates. This resulted in higher monthly principal cashflows in the investment portfolio. In 2016, the average monthly principal cashflow was approximately $10.6 million compared to $10.1 million in 2015 and $6.0 million in 2014.

Funding costs have declined since 2013 as Peoples has continued to execute a strategy of replacing higher-cost funding with low-cost deposits. In 2016, funding costs decreased 3 basis points, compared to 18 basis points in 2015 and 15 basis points in 2014. In 2015, the improvement included deploying excess cash on the balance sheet by buying securities in the investment portfolio and paying off a $12.0 million term loan.

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

Provision for Loan Losses

The following table details Peoples’ provision for loan losses recognized for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Loan losses	$2,890	$13,485	$—
Checking account overdrafts	649	612	339
Provision for loan losses	$3,539	$14,097	$339
As a percent of average total loans	0.17 %	0.72 %	0.02 %

The provision for loan losses represents the amount needed to maintain the appropriate level of the allowance for loan losses based on management’s formal quarterly analysis of the loan portfolio and procedural methodology that estimates the amount of probable credit losses. This process considers various factors that affect losses, such as changes in Peoples’ loan quality, historical loss experience and current economic conditions. The provision for loan losses recorded in 2016 was primarily due to loan growth and stable asset quality trends. The provision for loan losses recorded in 2015 was primarily due to the charge-off of one large commercial loan relationship, coupled with organic loan growth and increases in criticized loans. The provision for loan losses recorded in 2014 was driven by checking account overdrafts, while the impact of increases in criticized loans was mitigated by $1.8 million of recoveries on three loans that were previously charged-off.

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

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Net Loss on Asset Disposals and Other Transactions

The following table details the other (losses) gains for the years ended December 31 recognized by Peoples:

(Dollars in thousands)	2016	2015	2014
Net (loss) gain on debt extinguishment	$(707)	$(520)	$67
Net loss on bank premises and equipment	(188)	(696)	(430)
Net loss on OREO	(34)	(529)	(68)
Net loss on other assets	(204)	(43)	—
Net loss on asset disposals and other transactions	$(1,133)	$(1,788)	$(431)

The net loss on debt extinguishment in 2016 was due to the prepayment of $20.0 million of long-term FHLB advances. The net loss on bank premises and equipment during 2016 was due mainly to the closing of a leased office and related disposal of leasehold improvements. The net loss on other assets during 2016 was related to the write-down of an investment made in an asset that had a corresponding tax benefit to Peoples. The net loss on OREO during 2015 was due mainly to the sale of six OREO properties and the write-down of four OREO properties during the period. During the first quarter of 2015, Peoples recognized a loss on debt extinguishment from the prepayment of several FHLB advances. The losses on bank premises and equipment in 2015 and 2014 of $575,000, and $380,000, respectively, were associated with acquisition-related activity. The remaining net loss on bank premises and equipment in 2015 was attributable to the write-off of obsolete fixed assets and the write-down of closed office locations that were for sale. Peoples recognized a gain on debt extinguishment from a restructuring of acquired FHLB advances in 2014.

Non-Interest Income

Peoples generates non-interest income, which excludes gains and losses on investments and other assets, from four primary sources: insurance sales revenues; deposit account service charges; trust and investment activities; and electronic banking ("e-banking"). Peoples continues to focus on revenue growth from non-interest income sources in order to maintain a diversified revenue stream through greater reliance on fee-based revenues. As a result, total non-interest income accounted for 32.8% of Peoples' total revenues in 2016 compared to 32.7% in 2015 and 36.6% in 2014. The decline in Peoples' total non-interest income as a percent of total revenue during 2015 from 2014 was primarily due to increased net interest income from recent acquisitions and organic growth.

Insurance income comprised the largest portion of Peoples' non-interest income. The following table details Peoples' insurance income for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Property and casualty insurance commissions	$10,064	$10,097	$9,981
Performance-based commissions	1,742	1,625	1,722
Life and health insurance commissions	1,733	1,756	1,630
Credit life and A&H insurance commissions	35	50	38
Other fees and charges	272	255	233
Insurance income	$13,846	$13,783	$13,604

Insurance income in 2016 was relatively flat compared to 2015 due to a soft commercial insurance market, resulting in reduced commercial insurance premiums. Performance-based commissions are typically recorded annually in the first quarter and are based on a combination of factors, such as loss experience of insurance policies sold, production volumes, and overall financial performance of the individual insurance carriers.

Service charges and other fees on deposit accounts, which are based on the recovery of costs associated with services provided, comprised a significant portion of Peoples' non-interest income. The following table details Peoples' deposit account service charges for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Overdraft and non-sufficient funds fees	$7,849	$8,276	$7,177
Account maintenance fees	2,260	2,126	1,690
Other fees and charges	553	443	306

Deposit account service charges	$10,662	$10,845	$9,173

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The amount of deposit account service charges, particularly fees for overdrafts and non-sufficient funds, is largely dependent on the timing and volume of customer activity. Management periodically evaluates its cost recovery fees to ensure they are reasonable based on operational costs and similar to fees charged in Peoples' markets by competitors. The yearly increases in account maintenance fees were the result of higher fees received on commercial accounts and checking accounts.

Peoples' fiduciary and brokerage revenues continue to be based primarily upon the value of assets under management. The following table details Peoples' trust and investment income for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Fiduciary	$7,418	$6,950	$5,567
Brokerage	3,171	2,627	2,118
Trust and investment income	$10,589	$9,577	$7,685

The following table details Peoples' managed assets at year-end December 31:

(Dollars in thousands)	2016	2015	2014
Trust assets under management	$1,301,509	$1,275,253	$1,022,189
Brokerage assets under management	777,771	664,153	590,089
Total managed assets	$2,079,280	$1,939,406	$1,612,278
Annual average	$2,002,537	$1,859,336	$1,576,656

During 2016, the increase in fiduciary and brokerage revenues was primarily due to the increase in average managed assets which included a full year of the impact related to the acquisition of NB&T, coupled with a fee increase implemented during 2016. Additionally, during 2015 and 2014, fiduciary income increased primarily due to higher managed asset account balances and retirement benefits plan income due to the addition of new plans. The U.S. financial markets also have an impact on managed assets. In recent years, Peoples has added experienced financial advisors in previously underserved market areas, and generated new business and revenue related to retirement plans for which it manages the assets and provides services.

Peoples' e-banking services include ATM and debit cards, direct deposit services, internet and mobile banking, and serve as alternative delivery channels to traditional sales offices for providing services to clients. During 2016, electronic banking income grew $1.4 million, or 16%, compared to 2015. During 2015, electronic banking income increased $2.3 million, or 35%, compared to 2014. The increase in electronic banking income in 2016 was the result of the increased usage of debit cards by more customers. The increase in 2015 was due to acquisitions and an increase in the volume of debit card transactions. In 2016, Peoples' customers used their debit cards to complete $728 million of transactions, versus $591 million in 2015 and $467 million in 2014.

During 2016, bank owned life insurance income increased to $1.4 million, compared to $598,000 million in 2015. The increase in bank owned life insurance income was the result of the additional $35.0 million of bank owned life insurance policies that were purchased late in the second quarter of 2016.

Mortgage banking income is comprised mostly of net gains from the origination and sale of long-term, fixed-rate real estate loans in the secondary market. As a result, the amount of income recognized by Peoples is largely dependent on customer demand and long-term interest rates for residential real estate loans offered in the secondary market. Mortgage banking income decreased 1% in 2016, while increasing 6% in 2015 due to refinancing activity. In 2016, Peoples sold approximately $67.1 million of loans to the secondary market compared to $56.0 million in 2015 and $48.8 million in 2014.

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Non-Interest Expense

Salaries and employee benefit costs remain Peoples' largest non-interest expense, accounting for over half of the total non-interest expense. The following table details Peoples' salaries and employee benefit costs for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Base salaries and wages	$39,422	$42,140	$29,265
Sales-based and incentive compensation	8,752	6,340	7,265
Employee benefits	5,742	6,016	5,880
Stock-based compensation	1,332	1,843	2,111
Deferred personnel costs	(1,779)	(1,593)	(1,396)
Payroll taxes and other employment costs	3,964	4,470	3,468
Salaries and employee benefit costs	$57,433	$59,216	$46,593
Full-time equivalent employees:			
Actual at end of the period	782	817	699
Average during the period	804	799	602

Base salaries and wages, employee benefits, and payroll taxes and other employment costs decreased in 2016, primarily due to severance payments of $4.3 million related to the NB&T acquisition in 2015, which were offset partially by yearly merit increases and costs associated with the system conversion. The increase in 2015 from 2014 was due to completed acquisitions, additional operational staff and the addition of new sales talent in several markets, which significantly impacted the number of full-time equivalent employees. Peoples' sales-based and incentive compensation is tied to corporate incentive plans and commission from sales production. Sales-based and incentive compensation increased in 2016, due primarily to corporate goals and incentives being attained. Peoples' sales-based and incentive compensation plans are designed to grow core earnings while managing risk, and do not encourage unnecessary and excessive risk-taking that could threaten the value of Peoples. The sales-based and incentive compensation plans reward employees for appropriate behaviors and include provisions for inappropriate practices with respect to Peoples and its customers.

The decrease in employee benefits in 2016 was partially due to no pension settlement charges in 2016, compared to $0.5 million and $1.4 million in 2015 and 2014, respectively. Effective March 1, 2011, Peoples froze the accrual of pension benefits, and since then, settlement charges have been largely based on the timing of retirements of plan participants and their election of lump-sum distributions. Under US GAAP, Peoples is required to recognize a settlement gain or loss when the aggregate amount of lump-sum distributions to participants equals or exceeds the sum of the service and interest cost components of the net periodic pension cost. The amount of settlement gain or loss recognized is the pro rata amount of the unrealized gain or loss existing immediately prior to the settlement. Management anticipates continued pension settlement charges in future years as plan participants retire and elect lump-sum distributions from the plan.

Stock-based compensation is generally recognized over the vesting period, typically ranging from 6 months to 3 years. For all awards, expense is initially only recognized for the portion of awards that is expected to vest, and at the vesting date, an adjustment is made to recognize the entire expense for vested awards and reverse expense for non-vested awards. The majority of Peoples' stock-based compensation expense is attributable to annual equity-based incentive awards to employees, which are awarded in the first quarter and based upon Peoples achieving certain performance goals during the prior year. During 2016, Peoples granted restricted shares to officers and key employees with performance-based vesting periods and time-based vesting periods. Stock-based compensation expense recorded in 2016 related to the awards granted in 2016, for 2015 performance, was $209,000, compared to $792,000 recorded in 2015 related to awards granted for 2014 performance. The decrease in expense in 2016 compared to 2015 was primarily due to the difference in Peoples' results between the years which resulted in fewer awards granted and expensed.

The remaining expense was recognized for grants awarded in previous years. As it is probable that all outstanding performance-based vesting conditions will be satisfied, Peoples recorded the pro-rata expense for all outstanding performance-based awards in 2016, as required by US GAAP. Stock-based compensation expense in 2014 included $298,000 related to a one-time stock award of unrestricted common shares to all full-time and part-time employees who did not already participate in the equity plan. Additional information regarding Peoples' stock-based compensation plans and awards can be found in Note 16 of the Notes to the Consolidated Financial Statements.
Deferred personnel costs represent the portion of current period salaries and employee benefit costs considered to be direct loan origination costs. These costs are capitalized and recognized over the life of the loan as a yield adjustment to interest income. As a result, the amount of deferred personnel costs for each year corresponds directly with the level of new

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loan originations. Additional information regarding Peoples' loan activity can be found later in this discussion under the caption “Loans”.

Peoples’ net occupancy and equipment expense for the years ended December 31 was comprised of the following:

(Dollars in thousands)	2016	2015	2014
Depreciation	$5,079	$4,639	$2,986
Repairs and maintenance costs	2,345	2,908	2,057
Net rent expense	901	844	931
Property taxes, utilities and other costs	2,410	2,816	1,865
Net occupancy and equipment expense	$10,735	$11,207	$7,839

During 2016, depreciation increased as a full year of depreciation was recognized on the acquired NB&T offices, and office renovations that were completed in 2015. Repairs and maintenance costs, coupled with property taxes, utilities and other costs, declined during 2016, compared to 2015, as expenses recognized on the acquired offices decreased. Management continues to monitor capital expenditures and explore opportunities to enhance Peoples' operating efficiency.

During 2015, Peoples acquired 22 offices which resulted in higher depreciation, repairs and maintenance costs, and property taxes, utilities and other costs compared to 2014. In addition, in 2015, Peoples completed renovations on the 22 acquired offices and several operations areas to accommodate recent growth.

Peoples' e-banking expense, which is comprised of bankcard, internet and mobile banking costs, increased in 2016, 2015 and 2014 due to the addition of accounts related to acquisitions, customers completing a higher volume of transactions using their debit cards and Peoples' internet banking service. These factors also produced a greater increase in the corresponding e-banking revenues over the same periods.

Peoples' intangible asset amortization expense is driven by acquisition-related activity. Amortization expense was $4.0 million in 2016, compared to $4.1 million and $1.4 million in 2015 and 2014, respectively. The increase in 2015 related to the completed NB&T acquisition in 2015 and recognition of a full year of amortization for acquisitions completed during 2014.

Data processing and software expense includes software support, maintenance and depreciation expense. These costs increased during 2016 due to increased software support. The increase from 2014 to 2015 was due to the recent acquisitions and new software projects completed.

Peoples is subject to state franchise taxes, which are based largely on Peoples Bank's equity at year-end, in the states where Peoples Bank has a physical presence. Franchise taxes increased during 2016 due to an increase in equity and revenues. In 2015, the increase was from the issuance of common shares related to acquisitions in 2014 and 2015.

Peoples is subject to Ohio Financial Institution Tax ("FIT") which is a business privilege tax that is imposed on financial institutions organized for profit and doing business in Ohio. The FIT is based on the total equity capital in proportion to the taxpayer's gross receipts in Ohio.

Peoples' FDIC insurance costs decreased in 2016 as a result of the FDIC Insurance Fund’s reserve ratio reaching 1.15% effective June 30. The increases during 2015 and 2014 were the result of recent acquisitions. Additional information regarding Peoples' FDIC insurance assessments may be found in "ITEM 1 - BUSINESS" of this Form 10-K in the section captioned "Supervision and Regulation".

In 2016, marketing expense, which includes advertising, donation and other public relations costs, decreased $1.2 million. The marketing expense in 2015 and 2014 was higher due to the timing of acquisitions and the additional marketing associated with acquired branches and additional community donations in those markets. Peoples contributed $225,000 in 2016, $350,000 in 2015 and $300,000 in 2014 to Peoples Bank Foundation, Inc. Peoples formed this private foundation in 2004 to make charitable contributions to organizations within Peoples' primary market area. Future contributions to Peoples Bank Foundation, Inc. will be evaluated on a quarterly basis, with the determination of the amount of any contribution based largely on the perceived level of need within the communities Peoples serves.

Other non-interest expense decreased $5.1 million in 2016 compared to 2015. The decrease was primarily driven by $3.7 million of acquisition-related expenses incurred in other expenses during 2015, which was partially offset by $0.7 million of system conversion costs. The acquisition-related expenses incurred in 2015 was the primary increase compared to 2014.

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Peoples' efficiency ratio, calculated as total other expenses less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 65.13% for 2016, compared to 75.50% for 2015 and 75.37% for 2014. The increases in 2015 and 2014 were largely the result of one-time costs for acquisitions plus higher salaries and employee benefit costs. For the full year of 2016, the efficiency ratio, when adjusted for non-core items, was 64.3% compared to 67.5% in 2015. The decrease in the adjusted efficiency ratio in 2016 compared to 2015 was due primarily to 8% revenue growth between 2016 and 2015.

Income Tax Expense

A key driver of the amount of income tax expense or benefit recognized by Peoples each year is the amount of pre-tax income. Additionally, Peoples receives tax benefits from its investments in tax credit funds, which reduce Peoples' effective tax rate. A reconciliation of Peoples' recorded income tax expense/benefit and effective tax rate to the statutory tax rate can be found in Note 12 of the Notes to the Consolidated Financial Statements.

Pre-Provision Net Revenue

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

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

(Dollars in thousands)	2016	2015	2014	2013	2012
Income before income taxes	$45,282	$14,816	$24,178	$29,084	$29,910
Add: provision for loan losses	3,539	14,097	339	—	—
Add: net loss on debt extinguishment	707	520	—	—	4,144
Add: net loss on loans held-for-sale and OREO	34	529	68	—	—
Add: net loss on other assets	392	739	430	241	248
Less: recovery of loan losses	—	—	—	4,410	4,716
Less: net gain on debt extinguishment	—	—	67	—	—
Less: net gain on loans held-for-sale and OREO	—	—	—	86	66
Less: net gain on securities transactions	930	729	398	489	3,548
Pre-provision net revenue	$49,024	$29,972	$24,550	$24,340	$25,972
Total average assets	$3,320,447	$3,111,853	$2,240,534	$1,932,367	$1,841,289
Pre-provision net revenue to total average assets	1.48 %	0.96 %	1.10 %	1.26 %	1.41 %

During 2016, PPNR and the pre-provision net revenue to total average assets ratio increased compared to previous years due largely to the increase in revenue as a result of increased net interest income growth coupled with a decrease in non-interest expenses. The increase in the PPNR in 2015 was primarily due to the completion of the NB&T acquisition and recognition of a full year of revenue for acquisitions completed during 2014 with the decrease in the pre-provision net revenue to total average assets ratio reflecting the increase in PPNR being offset by the increase of average assets, which also was reflective of the NB&T acquisition.

Core Non-Interest Income and Expense

Core non-interest income and expense are financial measures used to evaluate Peoples' recurring revenue and expense streams. These measures are non-GAAP since they exclude the impact of system conversion revenue and costs, acquisition-related costs, pension settlement charges, search firm fees and legal settlement charges.

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The following tables provide reconciliations of these non-GAAP measures to the amounts reported in Peoples' Consolidated Financial Statements for the periods presented:

(Dollars in thousands)	2016	2015	2014	2013	2012
Core non-interest income:					
Total non-interest income	$51,070	$47,441	$40,053	$37,220	$34,971
Plus: system conversion revenue waived	85	—	—	—	—
Core non-interest income	$51,155	$47,441	$40,053	$37,220	$34,971

(Dollars in thousands)	2016	2015	2014	2013	2012
Core non-interest expenses:					
Total non-interest expense	$106,911	$115,081	$85,009	$68,265	$63,474
Less: system conversion costs	1,259	—	—	—	—
Less: acquisition-related costs	—	10,722	4,752	1,412	569
Less: pension settlement charges	—	459	1,400	270	835
Less: other non-core charges	—	592	298	—	—
Core non-interest expenses	$105,652	$103,308	$78,559	$66,583	$62,070

Efficiency Ratio

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

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

(Dollars in thousands)	2016	2015	2014	2013	2012
Efficiency ratio:					
Total other expenses	$106,911	$115,081	$85,009	$68,265	$63,474
Less: Amortization of other intangible assets	4,030	4,077	1,428	807	509
Adjusted total other expenses	$102,881	$111,004	$83,581	$67,458	$62,965
Total non-interest income	51,070	47,441	40,053	37,220	34,971
Net interest income	$104,865	$97,612	$69,506	$55,385	$54,475
Add: Fully tax-equivalent adjustment	2,027	1,978	1,335	1,211	1,087
Net interest income on a fully taxable-equivalent basis	$106,892	$99,590	$70,841	$56,596	$55,562
Adjusted revenue	$157,962	$147,031	$110,894	$93,816	$90,533
Efficiency ratio	65.13 %	75.50 %	75.37 %	71.90 %	69.55 %
Core non-interest expenses	$105,652	$103,308	$78,559	$66,583	$62,070
Less: Amortization of other intangible assets	4,030	4,077	1,428	807	509
Adjusted non-interest expense	$101,622	$99,231	$77,131	$65,776	$61,561
Core non-interest income	$51,155	$47,441	$40,053	$37,220	$34,971

Net interest income on a fully taxable-equivalent basis	$106,892	$99,590	$70,841	$56,585	$55,562
Adjusted core revenue	$158,047	$147,031	$110,894	$93,805	$90,533
Efficiency ratio adjusted for non-core items	64.30 %	67.49 %	69.55 %	70.12 %	68.00 %

FINANCIAL CONDITION

Cash and Cash Equivalents

Peoples considers cash and cash equivalents to consist of federal funds sold, cash and balances due from banks, interest-bearing balances in other institutions and other short-term investments that are readily liquid. The amount of cash and cash equivalents fluctuates on a daily basis due to customer activity and Peoples' liquidity needs. At December 31, 2016, excess cash reserves at the Federal Reserve Bank were $4.4 million, compared to $8.7 million at December 31, 2015. The amount of excess cash reserves maintained is dependent upon Peoples' daily liquidity position, which is driven primarily by changes in deposit and loan balances.

In 2016, Peoples' total cash and cash equivalents decreased $5.0 million, as $198.4 million of cash was used in investing activities which were offset partially by operating activities of $60.3 million and $133.1 million of financing activities. Cash used in investing activities was primarily due to funded loan growth of $149.0 million. The loan growth was partially funded by the increase of Peoples' financing activities of short and long-term borrowings of $175.9 million, and the increase in operating activities of $31.2 million of net income.

In 2015, Peoples' total cash and cash equivalents increased $9.7 million, as cash provided by Peoples' operating activities of $47.9 million was partially offset by cash used in financing activities of $37.1 million and investing activities of $1.1 million. Cash provided by investing activities from business combinations of $97.3 million was offset by activities in
available-for-sale securities of $12.8 million and funded loan growth of $77.9 million. Within Peoples' financing activities,
the decrease in interest-bearing deposits of $125.4 million was tempered by an increase in non-interest bearing deposits of $99.3 million. The paydown of long-term borrowings of $72.4 million was substantially offset by an increase of $72.1 million in short-term borrowings.

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

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Investment Securities

The following table provides information regarding Peoples' investment portfolio at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	$—	$—	$1	$20	$26
U.S. government sponsored agencies	1,000	2,966	5,950	319	516
States and political subdivisions	117,230	114,726	64,743	50,962	45,668
Residential mortgage-backed securities	626,567	632,293	527,291	510,097	514,096
Commercial mortgage-backed securities	19,291	23,845	27,847	32,304	64,416
Bank-issued trust preferred securities	4,899	4,635	5,645	7,829	10,357
Equity securities	8,953	6,236	5,403	4,577	4,106
Total fair value	$777,940	$784,701	$636,880	$606,108	$639,185
Total amortized cost	$777,017	$780,304	$632,967	$621,126	$628,584
Net unrealized gain (loss)	$923	$4,397	$3,913	$(15,018)	$10,601
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	$3,820	$3,831	$3,841	$3,850	$3,860
Residential mortgage-backed securities	33,858	35,367	36,945	37,536	33,494
Commercial mortgage-backed securities	5,466	6,530	7,682	7,836	7,921
Total amortized cost	$43,144	$45,728	$48,468	$49,222	$45,275
Other investment securities, at cost	$38,371	$38,401	$28,311	$25,196	$24,625
Total investment securities:					
Amortized cost	$858,532	$864,433	$709,746	$695,544	$698,484
Carrying value	$859,455	$868,830	$713,659	$680,526	$709,085

At December 31, 2016, Peoples' investment securities were approximately 25.0% of total assets compared to 26.7% at December 31, 2015. The decline in available-for-sale investment securities during 2016, compared to 2015, was due to principal paydowns and declines in market values outpacing the reinvestment of cash into the portfolio.

In 2015, Peoples acquired $156.4 million of investment securities as part of the NB&T acquisition, with the remaining fluctuation due to purchases being more than offset by principal paydowns, sales, calls and maturities.

In 2014, Peoples acquired $69.7 million of available-for-sale investment securities, and retained approximately $11.9 million, with the remainder being sold.

In 2013 and 2012, Peoples designated certain securities as "held-to-maturity" at the time of their purchase, as management made the determination Peoples would hold these securities until maturity and concluded Peoples had the ability to do so. The unrealized gain or loss related to held-to-maturity securities does not directly impact total stockholders' equity, in contrast to the impact from the available-for-sale securities portfolio.

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

The amount of these "non-agency" securities included in the residential mortgage-backed securities totals above was as follows at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Fair Value	$2,991	$4,201	$14,058	$23,446	$37,267

Amortized cost	3,206	4,331	13,604	22,926	36,395
Net unrealized (loss) gain	$(215)	$(130)	$454	$520	$872

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Management continues to reinvest the principal runoff from the non-agency securities in U.S. agency investments, which has accounted for the continued decline in the fair value of these securities. At December 31, 2016, Peoples' non-agency portfolio consisted entirely of first lien residential mortgages, with nearly all of the underlying loans in these securities originated prior to 2004 and possessing fixed interest rates. Management continues to monitor the non-agency portfolio closely for leading indicators of increasing stress and will continue to be proactive in taking actions to mitigate such risk when necessary.

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

Loans

The following table provides information regarding outstanding loan balances at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Gross originated loans:					
Commercial real estate, construction	$84,626	$63,785	$37,901	$44,703	$32,000
Commercial real estate, other	531,557	471,184	434,660	394,532	378,073
Commercial real estate	616,183	534,969	472,561	439,235	410,073
Commercial and industrial	378,131	288,130	249,975	206,276	180,131
Residential real estate	307,490	288,783	254,169	248,883	211,404
Home equity lines of credit	85,617	74,176	62,463	55,178	49,691
Consumer, indirect	252,024	165,320	112,563	76,619	48,851
Consumer, other	67,579	61,813	57,350	57,245	50,160
Consumer	319,603	227,133	169,913	133,864	99,011
Deposit account overdrafts	1,080	1,448	2,933	2,060	6,563
Total originated loans	$1,708,104	$1,414,639	$1,212,014	$1,085,496	$956,873
Gross acquired loans:					
Commercial real estate, construction	$10,100	$12,114	$1,051	$2,836	$2,265
Commercial real estate, other	204,466	265,092	121,475	55,638	—
Commercial real estate	214,566	277,206	122,526	58,474	2,265
Commercial and industrial	44,208	63,589	30,056	26,478	—
Residential real estate	228,435	276,772	225,274	19,734	22,437
Home equity lines of credit	25,875	32,253	18,232	4,898	1,362
Consumer, indirect	808	1,776	2,445	—	—
Consumer, other	2,940	6,205	10,351	1,154	2,235
Consumer	3,748	7,981	12,796	1,154	2,235
Total acquired loans (a)	$516,832	$657,801	$408,884	$110,738	$28,299
Total loans	$2,224,936	$2,072,440	$1,620,898	$1,196,234	$985,172

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(Dollars in thousands)	2016	2015	2014	2013	2012
Average total loans	2,133,175	1,952,241	1,364,808	1,046,371	967,166
Average allowance for loan losses	(17,564)	(19,174)	(17,362)	(17,935)	(21,473)
Average loans, net of average allowance for loan losses	$2,115,611	$1,933,067	$1,347,446	$1,028,436	$945,693
Percent of loans to total loans:					
Commercial real estate, construction	4.3%	3.7%	2.4%	4.0%	3.5%
Commercial real estate, other	33.0%	35.5%	34.2%	37.6%	38.4%
Commercial real estate	37.3%	39.2%	36.6%	41.6%	41.9%
Commercial and industrial	19.0%	17.0%	17.3%	19.5%	18.3%
Residential real estate	24.1%	27.3%	29.6%	22.5%	23.7%
Home equity lines of credit	5.0%	5.1%	5.0%	5.0%	5.2%
Consumer, indirect	11.4%	8.0%	7.1%	6.4%	5.0%
Consumer, other	3.2%	3.3%	4.2%	4.9%	5.3%
Consumer	14.6%	11.3%	11.3%	11.3%	10.3%
Deposit account overdrafts	—	0.1%	0.2%	0.1%	0.6%
Total percentage	100.0%	100.0%	100.0%	100.0%	100.0%
Residential real estate loans being serviced for others	$398,134	$390,398	$352,779	$341,183	$330,721

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

During 2016, total loans grew 7%, or $152.5 million, with growth of 8% in commercial loan balances and 7% in consumer loan balances. Indirect lending experienced the largest growth across all loan categories for the year, increasing by $85.7 million, or 51%. Commercial and industrial loan growth was $70.6 million, or 20%, for the year.

During 2015, total originated loans (excluding acquired loans) grew 17%, or $202.6 million, due to increases in all categories except deposit account overdrafts. Consumer loan balances, which consist mostly of loans to finance automobile purchases, have continued to increase in recent years due largely to Peoples placing greater emphasis on its consumer lending activity. The increase in total acquired loans in 2015 was due to the NB&T acquisition. At December 31, 2015, loans acquired from NB&T were approximately $333.8 million compared to $384.6 million at acquisition date.

During 2014, total originated loans grew 12%, or $126.5 million, largely due to growth in commercial real estate, commercial and industrial and consumer loan balances. At December 31, 2014, loans acquired from the Midwest, Ohio Heritage and North Akron acquisitions were approximately $52.5 million, $166.6 million and $108.8 million, respectively. During 2013, total originated loans increased 13%, while acquired loans grew $84.5 million due to the Ohio Commerce Bank acquisition. Also during 2013, Peoples retained a larger percentage of residential mortgage loans originated than in prior years which caused the increase in residential real estate loans.

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The following table details the maturities of Peoples' commercial real estate and commercial and industrial loans at December 31, 2016:

(Dollars in thousands)	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total	% of Total
Commercial real estate, construction:					
Fixed	$908	$4,117	$6,302	$11,327	12.0 %
Variable	12,907	32,354	38,138	83,399	88.0 %
Total	$13,815	$36,471	$44,440	$94,726	100.0%
Commercial real estate, other:					
Fixed	$15,959	$98,807	$81,539	$196,305	26.7 %
Variable	20,783	99,904	419,031	539,718	73.3 %
Total	$36,742	$198,711	$500,570	$736,023	100.0%
Commercial and industrial:					
Fixed	$5,224	$73,372	$18,636	$97,232	23.0 %
Variable	162,383	75,518	87,206	325,107	77.0 %
Total	$167,607	$148,890	$105,842	$422,339	100.0%
Total commercial loans:					
Fixed	$22,091	$176,296	$106,477	$304,864	24.3 %
Variable	196,073	207,776	544,375	948,224	75.7 %
Total	$218,164	$384,072	$650,852	$1,253,088	100.0%

Loan Concentration

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

Loans secured by commercial real estate, including commercial construction loans, continue to comprise the largest portion of Peoples' loan portfolio.

The following table provides information regarding the largest concentrations of commercial real estate loans within the loan portfolio at December 31, 2016:

(Dollars in thousands)	Outstanding Balance	Available Loan Commitments	Total Exposure	% of Total
Commercial real estate, construction:				
Apartment complexes	$ 39,892	$ 33,641	$73,533	36.2 %
Mixed commercial use facilities	12,080	28,616	40,696	20.1 %
Assisted living facilities and nursing homes	6,316	6,247	12,563	6.2 %
Land development	2,533	6,585	9,118	4.5 %
Residential property	1,904	4,534	6,438	3.2 %
Lodging and lodging related	4,004	—	4,004	2.0 %
School	2,224	544	2,768	1.4 %
Light industrial facilities	796	1,772	2,568	1.3 %
Childcare facilities	2,424	—	2,424	1.2 %
Other	22,553	26,258	48,811	23.9 %
Commercial real estate, construction	$ 94,726	$ 108,197	$202,923	100.0%

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(Dollars in thousands)	Outstanding Balance	Available Loan Commitments	Total Exposure	% of Total
Commercial real estate, other:				
Office buildings and complexes:				
Owner occupied	$ 36,071	$ 896	$ 36,967	4.8 %
Non-owner occupied	42,856	909	43,765	5.7 %
Total office buildings and complexes	78,927	1,805	80,732	10.5 %
Apartment complexes	65,392	1,301	66,693	8.7 %
Light industrial facilities:				
Owner occupied	47,873	38	47,911	6.3 %
Non-owner occupied	7,556	—	7,556	1.0 %
Total light industrial facilities	55,429	38	55,467	7.3 %
Retail facilities:				
Owner occupied	20,833	163	20,996	2.7 %
Non-owner occupied	32,942	1,327	34,269	4.5 %
Total retail facilities	53,775	1,490	55,265	7.2 %
Mixed commercial use facilities:				
Owner occupied	24,631	729	25,360	3.3 %
Non-owner occupied	22,985	249	23,234	3.0 %
Total mixed commercial use facilities	47,616	978	48,594	6.3 %
Lodging and lodging related	40,505	1,881	42,386	5.5 %
Warehouse facilities	19,332	603	19,935	2.6 %
Assisted living facilities and nursing homes	18,775	250	19,025	2.5 %
Restaurants:				
Owner occupied	15,072	213	15,285	2.0 %
Non-owner occupied	1,223	—	1,223	0.2 %
Total restaurants	16,295	213	16,508	2.2 %
Residential property:				
Owner occupied	1,307	1,732	3,039	0.4 %
Non-owner occupied	7,895	2,120	10,015	1.3 %
Total residential property	9,202	3,852	13,054	1.7 %
Other	330,775	16,080	346,855	45.5 %
Commercial real estate, other	$ 736,023	$ 28,491	$ 764,514	100.0 %

Peoples' commercial lending activities continue to focus on lending opportunities inside its primary and secondary market areas within Ohio, West Virginia and Kentucky. In all other states, the aggregate outstanding balances of commercial loans in each state were less than $4.0 million at both December 31, 2016 and December 31, 2015.

Allowance for Loan Losses

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

The following details management's allocation of the allowance for loan losses at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Commercial real estate	$7,172	$7,076	$9,825	$13,215	$14,215
Commercial and industrial	6,353	5,382	4,036	2,174	1,733
Total commercial	13,525	12,458	13,861	15,389	15,948

Residential real estate	982	1,257	1,627	881	801
Home equity lines of credit	688	732	694	343	479
Consumer	2,830	1,971	1,587	316	438
Deposit account overdrafts	171	121	112	136	145
Originated allowance for loan losses	18,196	16,539	17,881	17,065	17,811
Purchased credit impaired loan losses	233	240	—	—	—
Acquired allowance for loan losses	233	240	—	—	—
Allowance for loan losses	$18,429	$16,779	$17,881	$17,065	$17,811
As a percent of originated loans, net of deferred fees and costs	1.08 %	1.19 %	1.48 %	1.58 %	1.86 %

The allowance for loan losses as a percent of originated loans decreased in 2016 from previous years as a result of the continuation of the reduction in historic loss rates, coupled with the current stable credit quality trends. Past years included historic periods dating closer to the recession which included larger charge-offs. Peoples also considers recent trends in criticized loans and loan growth associated with each loan portfolio, as well as qualitative factors that could negatively impact these trends, such as unemployment, rising interest rates, fragile real estate values, and fluctuating oil and gas prices. Peoples believes the reserves remain appropriate to cover probable losses that exist in the current portfolio.

The allowance for loan losses allocated to the residential real estate and consumer loan categories was based upon Peoples' allowance methodology for homogeneous pools of loans. The fluctuations in these allocations have been directionally consistent with the changes in loan quality, loss experience and loan balances in these categories. The increase in the allowance for loan losses for consumer loans has been mostly driven by loan growth in indirect lending in recent periods.

The increase of 9% in the allowance for loan losses related to total commercial loans in 2016 was in relation to the commercial loan balance growth of 8%.

The reductions in the allowance for loan losses allocated to commercial real estate during 2015 and 2014 were driven by net recoveries in recent years reducing the historical loss rates. During 2015, increases in the commercial and industrial, home equity lines of credit and consumer categories of the allowance for loan losses were driven by net charge-off activity, and increases in the balances of the respective loan portfolios.

The significant allocations to commercial loans reflect the higher credit risk associated with these types of lending and the size of these loan categories in relationship to the entire loan portfolio. Criticized loans, which are those classified as watch, substandard or doubtful, decreased by $23.0 million during 2016, compared to an increase of $47.6 million in 2015. Net charge-offs were elevated during 2015 as a result of the full charge-off of one large commercial loan relationship.

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The following table summarizes the changes in the allowance for loan losses for the years ended December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Allowance for loan losses, January 1	$16,779	$17,881	$17,065	$17,811	$23,717
Gross charge-offs:					
Commercial real estate (a)	68	302	203	1,053	5,146
Commercial and industrial	1,017	13,576	199	44	34
Residential real estate (b)	611	631	478	621	1,091
Home equity lines of credit	73	125	128	162	94
Consumer	2,655	1,353	1,191	1,084	572
Deposit account overdrafts	774	774	516	527	574
Total gross charge-offs	5,198	16,761	2,715	3,491	7,511
Recoveries:					
Commercial real estate	1,209	104	2,060	5,839	4,399
Commercial and industrial	306	98	77	40	358
Residential real estate	278	315	169	536	773
Home equity lines of credit	56	119	36	26	32
Consumer	1,285	755	697	552	561
Deposit account overdrafts	175	171	153	162	198
Total recoveries	3,309	1,562	3,192	7,155	6,321
Net charge-offs (recoveries):					
Commercial real estate	(1,141)	198	(1,857)	(4,786)	747
Commercial and industrial	711	13,478	122	4	(324)
Residential real estate	333	316	309	85	318
Home equity lines of credit	17	6	92	136	62
Consumer	1,370	598	494	532	11
Deposit account overdrafts	599	603	363	365	376
Total net charge-offs (recoveries)	$1,889	$15,199	$(477)	$(3,664)	$1,190
Provision for (recoveries of) loan losses, December 31 (c)	3,539	14,097	339	(4,410)	(4,716)
Allowance for loan losses, December 31	$18,429	$16,779	$17,881	$17,065	$17,811
Net charge-offs (recoveries) as a percent of average total loans:					
Commercial real estate	(0.05)%	0.01%	(0.14)%	(0.46)%	0.08%
Commercial and industrial	0.03%	0.69%	0.01%	—%	(0.03)%
Residential real estate	0.02%	0.02%	0.02%	0.01%	0.03%
Home equity lines of credit	—%	—%	0.01%	0.01%	—%
Consumer	0.06%	0.03%	0.04%	0.05%	—%
Deposit account overdrafts	0.03%	0.03%	0.03%	0.04%	0.04%
Total	0.09%	0.78%	(0.03)%	(0.35)%	0.12%

(a) Includes purchase credit impaired loan charge-offs of $44,000 in 2016 and $60,000 in 2015.
(b) Includes purchase credit impaired loan charge-offs of $23,000 in 2016 and $3,000 in 2015.
(c) Includes purchase credit impaired loan provision for loan losses of $66,000 in 2016 and $303,000 in 2015.

During 2016, net charge-offs were nominal at 0.09% of average total loans and were positively impacted by a $1.0 million recovery of a prior period commercial real estate charge-off. Gross charge-offs totaled $5.2 million in 2016, and were largely associated with the consumer loan portfolio.

In 2015, Peoples recorded charge-offs related to one large commercial loan relationship in the aggregate amount of $13.1 million, or .67% of average total loans. Peoples also experienced higher net charge-offs in residential real estate and consumer loans due to higher balances from recent originated loan growth.

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The following table details Peoples' nonperforming assets at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Loans 90+ days past due and accruing:					
Commercial real estate, other	$1,506	$2,425	$567	$—	$—
Commercial and industrial	387	1,986	301	78	181
Residential real estate	1,855	1,522	1,901	289	293
Home equity lines of credit	—	35	20	873	1,050
Consumer, indirect	—	1	2	—	—
Consumer, other	23	—	8	—	4
Total loans 90+ days past due and accruing	3,771	5,969	2,799	1,240	1,528
Nonaccrual loans:					
Commercial real estate, construction	826	921	—	96	—
Commercial real estate, other	10,792	7,357	2,278	1,882	7,233
Commercial and industrial	1,620	350	1,800	630	627
Residential real estate	4,481	2,991	2,695	1,615	1,864
Home equity lines of credit	554	340	315	81	24
Consumer, indirect	9	31	—	—	—
Consumer, other	81	—	3	58	12
Total nonaccrual loans	18,363	11,990	7,091	4,362	9,760
Nonaccrual troubled debt restructurings (TDRs):					
Commercial real estate, construction	—	—	96	—	—
Commercial real estate, other	751	153	306	916	2,572
Commercial and industrial	482	377	194	—	—
Residential real estate	1,614	864	658	650	350
Home equity lines of credit	60	79	45	6	—
Consumer, indirect	6	34	16	—	—
Consumer, other	49	34	—	—	—
Total nonaccrual TDRs	2,962	1,541	1,315	1,572	2,922
Total nonperforming loans (NPLs)	25,096	19,500	11,205	7,174	14,210
Other real estate owned (OREO):					
Commercial	594	644	582	465	815
Residential	67	89	364	428	21
Total OREO	661	733	946	893	836
Total nonperforming assets (NPAs)	$25,757	$20,233	$12,151	$8,067	$15,046
Criticized loans (a)	99,182	122,147	74,545	59,059	88,744
Classified loans (b)	57,736	60,315	44,723	36,673	46,470
Asset Quality Ratios:					
NPLs as a percent of total loans	1.13%	0.94%	0.69%	0.60%	1.43%
NPAs as a percent of total assets	0.75%	0.62%	0.47%	0.39%	0.78%
NPAs as a percent of total loans and OREO	1.16%	0.98%	0.75%	0.67%	1.52%
Allowance for loan losses as a percent of NPLs	73.43%	86.05%	159.58%	237.87%	125.34%
Criticized loans as a percent of total loans	4.46%	5.89%	4.60%	4.94%	9.01%
Classified loans as a percent of total loans	2.59%	2.91%	2.76%	3.07%	4.72%

(a) Includes loans categorized as watch, substandard or doubtful.
(b) Includes loans categorized as substandard or doubtful.

Nonperforming loans increased in 2016, largely due to the increase in nonaccrual loans, which was partially offset by a decrease in loans 90+ days past due and accruing. The increase in nonaccrual loans was driven by several relatively smaller relationships that were placed on nonaccrual status during 2016.

At December 31, 2015, loans 90+ days past due and accruing included $2.3 million of acquired loans that were purchase credit impaired loans, as they had evidence of credit quality deterioration since acquisition. Interest income on these loans is recognized on a level-yield method over the life of the loan.

The majority of Peoples' nonaccrual commercial real estate loans continued to consist of non-owner occupied commercial properties and real estate development projects. In general, management believes repayment of these loans is dependent on the sale of the underlying collateral. As such, the carrying values of these loans are ultimately supported by management's estimate of the net proceeds Peoples would receive upon the sale of the collateral. These estimates are based in part on market values provided by independent, licensed or certified appraisers periodically, but no less frequently than annually. Given the volatility in commercial real estate values, management continues to monitor changes in real estate values from quarter-to-quarter and updates its estimates as needed based on observable changes in market prices and/or updated appraisals for similar properties. The significant increase in nonaccrual commercial real estate loans during 2016 was a result of three commercial loans moving to nonaccrual status, while the increase in 2015 was a result of one commercial real estate relationship in the skilled nursing sector being placed on nonaccrual status. The increase in nonaccrual commercial and industrial loans during 2014 was driven by a single $1.2 million relationship placed on nonaccrual. The significant decreases in nonaccrual status from 2012 and 2013 was a result of the addition of a special assets group and their efforts in collecting and recovering payments on delinquent commercial loans.

Interest income on loans classified as nonaccrual and renegotiated at each year-end that would have been recorded under the original terms of the loans was $1.9 million for 2016, $2.1 million for 2015 and $1.4 million for 2014. No portion of these amounts was recorded during 2016, 2015 or 2014, consistent with the income recognition policy described in the “Critical Accounting Policies” section of this discussion.

Overall, management believes the allowance for loan losses was adequate at December 31, 2016, based on all significant information currently available. Still, there can be no assurance that the allowance for loan losses will be adequate to cover future losses or that the amount of nonperforming loans will remain at current levels, especially considering the current economic uncertainty that exists and the concentration of commercial loans in Peoples’ loan portfolio.

Deposits

The following table details Peoples’ deposit balances at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Non-interest-bearing deposits	$734,421	$717,939	$493,162	$409,891	$317,071
Interest-bearing deposits:					
Retail certificates of deposit	384,861	448,992	432,563	363,226	392,313
Savings accounts	436,344	414,375	295,307	215,802	183,499
Money market deposit accounts	407,754	394,119	337,387	275,801	288,404
Governmental deposit accounts	251,671	276,639	161,305	132,379	130,630
Interest-bearing demand accounts	278,975	250,023	173,659	134,618	124,787
Brokered certificates of deposits	15,696	33,857	39,691	49,041	55,599
Total interest-bearing deposits	1,775,301	1,818,005	1,439,912	1,170,867	1,175,232
Total deposits	$2,509,722	$2,535,944	$1,933,074	$1,580,758	$1,492,303

In 2016, deposits decreased primarily due to decreases in retail and brokered certificates of deposits ("CDs") and governmental deposit accounts. Peoples continued its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as CDs and brokered deposits. These actions accounted for much of the changes in deposit balances over the last year.

In 2015, the increase in deposits included increases in governmental deposit accounts which were due to fluctuations of balances held by state and local governmental entities and their cash flow needs. Peoples also maintained its deposit strategy of growing low-cost core deposits, such as checking and savings accounts, and reducing its reliance on higher-cost, non-core deposits, such as CDs and brokered deposits. These actions accounted for a portion of the changes in deposit balances. Some of the increase in deposit balances was due to the NB&T acquisition, which included non-interest bearing deposits of $177.2 million, retail CDs totaling $48.0 million, savings accounts of $88.3 million, money market deposit accounts of $64.6 million, governmental deposit accounts of $104.8 million, and interest-bearing demand accounts of $57.9 million at December 31, 2015.

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The increase in total deposits in 2014, included the Midwest, Ohio Heritage and North Akron acquisitions which added an aggregate of $5.5 million of non-interest-bearing deposits, $105.0 million of CDs, $53.1 million of savings accounts, $165.1 million of money market deposit accounts, $2.1 million of governmental deposit accounts and $1.0 million of interest-bearing demand accounts at December 31, 2014.

Peoples' governmental deposit accounts represent savings and interest-bearing transaction accounts from state and local governmental entities. In 2016, governmental deposit accounts decreased due primarily to the loss of one relationship. Additionally, these funds are subject to periodic fluctuations based on the timing of tax collections and subsequent expenditures or disbursements. Peoples normally experiences an increase in balances annually during the first quarter corresponding with tax collections, with declines normally in the second half of each year corresponding with expenditures by the governmental entities. Peoples continues to emphasize growth of low-cost deposits that do not require Peoples to pledge assets as collateral, which is required in the case of governmental deposit accounts.

The maturities of retail CDs with total balances of $100,000 or more at December 31 were as follows:

(Dollars in thousands)	2016	2015	2014	2013	2012
3 months or less	$27,780	$36,597	$29,110	$44,476	$55,579
Over 3 to 6 months	20,102	24,401	19,551	16,435	18,592
Over 6 to 12 months	25,028	32,227	31,356	24,118	26,749
Over 12 months	75,860	72,115	84,591	90,801	83,638
Total	$148,770	$165,340	$164,608	$175,830	$184,558

Borrowed Funds

The following table details Peoples’ short-term and long-term borrowings at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Short-term borrowings:					
FHLB advances	$231,000	$76,000	$15,000	$71,000	$15,000
Retail repurchase agreements	74,607	84,386	73,277	42,590	32,769
Short-term borrowings	305,607	160,386	88,277	113,590	47,769
Long-term borrowings:					
FHLB advances	98,282	66,934	124,714	62,679	64,904
Callable national market repurchase agreements	40,000	40,000	40,000	40,000	40,000
Term note payable (parent company)	—	—	14,369	19,147	23,919
Subordinated debentures held by subsidiary trust	6,873	6,736	—	—	—
Long-term borrowings	145,155	113,670	179,083	121,826	128,823
Total borrowed funds	$450,762	$274,056	$267,360	$235,416	$176,592

Peoples' short-term FHLB advances generally consist of overnight borrowings being maintained in connection with the management of Peoples' daily liquidity position. Peoples continually evaluates the overall balance sheet position given the interest rate environment.

During 2016, Peoples executed transactions to take advantage of the low interest rates, which included:

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

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

Peoples entered into five forward starting interest rate swaps to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.83%, which become effective in 2018 and mature between 2022 and 2026. These swaps locked in funding rates for $40.0 million in FHLB advances that mature in 2018, which have interest rates ranging from 3.57% to 3.92%.

Peoples repaid approximately $52.1 million of long-term FHLB advances during 2015 and recorded a loss on debt extinguishment of $520,000. Peoples increased its usage of short-term FHLB advances due to the decrease and pre-payment

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of long-term FHLB advances. During 2014, Peoples had reduced its usage of short-term FHLB advances due to acquiring long-term FHLB advances from Ohio Heritage. Peoples' retail repurchase agreements consist of overnight agreements with commercial customers and serve as a cash management tool. Additionally, in 2015, Peoples acquired subordinated debt in the NB&T acquisition.

On March 4, 2016, Peoples entered into the RJB Credit Agreement, with Raymond James Bank, which provides Peoples with a revolving line of credit in the maximum aggregate principal amount of $15 million (the "RJB Loan Commitment"). Peoples is subject to certain covenants imposed by the RJB Credit Agreement and was in compliance as of December 31, 2016.

Additional information regarding Peoples' borrowed funds can be found in Note 8 and Note 9 of the Notes to the Consolidated Financial Statements.

Capital/Stockholders’ Equity

During 2016, Peoples' total stockholders' equity increased due to higher retained earnings, which were offset slightly by the repurchase of 279,770 treasury shares and the slight decline in the market value of investments. At December 31, 2016, capital levels for both Peoples and Peoples Bank remained substantially higher than the minimum amounts needed to be considered "well capitalized" under banking regulations. These higher capital levels reflect Peoples' desire to maintain a strong capital position. During the first quarter of 2015, Peoples adopted the new Basel III regulatory capital framework, as approved by the federal banking agencies. The adoption of this new framework modified the calculations and well capitalized thresholds of the existing risk-based capital ratios and added the Common Equity Tier 1 risk-based capital ratio. Additionally, under the new rules, in order to avoid limitations on dividends, equity repurchases and compensation, Peoples must exceed the three minimum required ratios by at least the capital conservation buffer. The capital conservation buffer is being phased in from 0.625% beginning January 1, 2016 to 2.50% by January 1, 2019, and applies to the Common Equity Tier 1 ("CET1") ratio, tier 1 capital ratio and total risk-based capital ratio. At December 31, 2016, Peoples' had a capital buffer of 6.11% compared to 2.50% for the fully phased-in capital conservation buffer required by January 1, 2019. As such, Peoples exceeded the minimum ratios including the capital conservation buffer at December 31, 2016.

In 2015, Peoples' total stockholders' equity increased primarily due to $76.0 million of common equity issued in connection with the NB&T acquisition.

The following table details Peoples' actual risk-based capital levels and corresponding ratios at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Capital Amounts:					
Common Equity Tier 1	$306,506	$288,416	N/A	N/A	N/A
Tier 1	313,430	295,151	241,707	166,217	160,604
Total (Tier 1 and Tier 2)	334,957	313,974	261,371	184,457	176,224
Net risk-weighted assets	$2,373,359	$2,158,713	$1,687,968	$1,338,811	$1,141,938
Capital Ratios:					
Common Equity Tier 1	12.91%	13.36%	N/A	N/A	N/A
Tier 1	13.21%	13.67%	14.32%	12.42%	14.06%
Total (Tier 1 and Tier 2)	14.11%	14.54%	15.48%	13.78%	15.43%
Tier 1 leverage	9.66%	9.52%	9.92%	8.52%	8.83%

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

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The following table reconciles the calculation of these non-GAAP financial measures to amounts reported in Peoples' Consolidated Financial Statements at December 31:

(Dollars in thousands)	2016	2015	2014	2013	2012
Tangible Equity:					
Total stockholders' equity	$435,261	$419,789	$340,118	$221,553	$221,728
Less: goodwill and other intangible assets	146,018	149,617	109,158	77,603	68,525
Tangible equity	$289,243	$270,172	$230,960	$143,950	$153,203
Tangible Assets:					
Total assets	$3,432,348	$3,258,970	$2,567,769	$2,059,108	$1,918,050
Less: goodwill and other intangible assets	146,018	149,617	109,158	77,603	68,525
Tangible assets	$3,286,330	$3,109,353	$2,458,611	$1,981,505	$1,849,525
Tangible Book Value per Share:					
Tangible equity	$289,243	$270,172	$230,960	$143,950	$153,203
Common shares outstanding	18,200,067	18,404,864	14,836,727	10,605,782	10,547,960
Tangible book value per share	$15.89	$14.68	$15.57	$13.57	$14.52
Tangible Equity to Tangible Assets Ratio:					
Tangible equity	$289,243	$270,172	$230,960	$143,950	$153,203
Tangible assets	$3,286,330	$3,109,353	$2,458,611	$1,981,505	$1,849,525
Tangible equity to tangible assets	8.80 %	8.69 %	9.39 %	7.26 %	8.28 %

The increase in tangible equity for 2016, and tangible equity to tangible assets ratio, compared to 2015, was due mainly to the increase in retained earnings, offset slightly by the repurchase of 279,770 treasury shares and the decline in the market value of investment securities.

In 2015, the decrease in the tangible equity to tangible assets ratio compared to the ratio in 2014 was due to the impact of assets acquired in the NB&T acquisition as well as a reduction in retained earnings as most of the net income was paid to common shareholders as dividends.

Future Outlook

Peoples achieved success in several major areas in 2016, which included generating quality loan growth, increasing net interest margin, effectively managing credit costs, growing fee income and successfully controlling expenses. Success in these areas resulted in positive operating leverage for the year, an efficiency ratio below 65% and record net income for Peoples. The achievements of 2016 were all done while executing a system conversion of Peoples' core banking systems, which was a time consuming endeavor but one that was critical to the future success of Peoples.

For 2017, Peoples expects to leverage the new core banking systems and build off the momentum that was gained in 2016 related to loan growth, fee income growth and expense management. Key strategic priorities continue to include generating positive operating leverage, maintaining superior asset quality, and remaining prudent with the use of capital. Overall, Peoples' key strategic objectives are to be a steady, dependable performer for its shareholders and to take advantage of market expansion opportunities. Peoples' long-term strategic goals include generating results in the top quartile of performance relative to Peoples' peer group, as defined in Peoples' Proxy Statement, and providing returns for its shareholders superior to those of its peers, regardless of operating conditions.

In 2016, net interest income made up 67% of Peoples' revenue, and therefore, remained a major source of revenue. Thus, Peoples' ability to grow revenue in 2017 will be impacted by the amount of net interest income generated. The

Federal Reserve Board is expected to raise interest rates throughout 2017. Long-term rates could increase but remain more volatile than in prior years. Changes in long-term interest rates would affect reinvestment rates within the loan and investment portfolios. Should the yield curve flatten, Peoples would have limited opportunities to offset the impact on asset yields with a

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similar reduction in funding costs. Thus, Peoples' ability to produce meaningful loan growth remains the key driver for improving net interest income and margin in 2017.

Net interest margin for 2017 is expected to be in the range of 3.45% and 3.50% given the interest rate environment. Loan growth will again be the key driver in stabilizing asset yields. The net accretion income impact on net interest margin is expected to be slightly less than that experienced in 2016.

Management would expect both net interest income and margin to benefit from any meaningful increase in market interest rates based upon the current interest rate risk profile. However, it remains inherently difficult to predict and manage the future trend of Peoples' net interest income and margin due to the uncertainty surrounding the timing and magnitude of future interest rate changes, as well as the impact of competition for loans and deposits.

Peoples seeks to maintain a diversified revenue stream though its strong fee-based businesses, such as insurance and wealth management. However, in 2016, Peoples' fee revenue comprised 33% of its total revenue, consistent with 2015 but down from the high of 40% in 2013. The decline in recent years was due primarily to the bank acquisitions completed since 2013, only one of which had a wealth management practice. In addition, only two relatively small insurance agencies and one small financial advisory book of business were purchased during the same period of time. Peoples has capabilities that many banks in its market area lack, including some of the largest national banks, which include robust retirement plan services and comprehensive insurance products. Thus, management considers Peoples to have a competitive advantage that directly enhances revenue growth potential. For 2017, management expects fee-based revenue growth of between 4% and 6%.

While the primary focus will be on revenue growth, management remains disciplined with operating expenses. Peoples continues to have limited control over some expenses, such as employee medical and pension costs. Peoples continues to be exposed to more pension settlement charges given the frozen status of its defined benefit plan. The recognition of settlement charges is largely dependent upon the timing of distributions, the amount of pension benefit earned by the retirees, and whether the individuals elect a lump-sum distribution. For 2017, management anticipates a higher volume of settlement charges to that incurred in 2016, during which time there were no settlement charges. This expectation is based on normal retirement activity within the defined benefit plan, but assumes all potential distributions are lump-sum payouts. For total expenses, management expects growth in the low single digits.

Management expects 4% to 6% growth in total revenue in 2017, and low-single digit percentage expense growth, which would result in positive operating leverage. Peoples' efficiency ratio is expected to be between 62% and 64% for 2017.

The expected revenue growth goal for 2017 is largely dependent upon achieving meaningful loan growth. Management believes period-end loan balances could increase by 5% to 7% in 2017. Within Peoples' commercial lending activity, the primary emphasis continues to be on non-mortgage commercial lending opportunities and capitalizing on growth opportunities provided by the acquisitions completed. Consumer lending activity grew significantly during 2016 and is expected to remain a large contributor to overall loan growth in 2017, primarily indirect lending.

At December 31, 2016, the investment portfolio comprised 25% of total assets. In 2017, the investment portfolio is anticipated to continue to comprise approximately 25% of total assets. Management can use the cash flow generated by Peoples’ significant investment in mortgage-backed securities to fund new loan production. Peoples will continue to seek opportunities to execute a shift in the mix on the asset side of the balance sheet to reduce the relative size of the investment portfolio. Management may adjust the size or composition of the investment portfolio in response to other factors, such as changes in liquidity needs and interest rate conditions.

Peoples' funding strategy continues to emphasize growth of core deposits, such as checking and savings accounts, rather than higher-cost deposits. Thus, CD balances could continue the declining trend experienced in recent years. Given the expected increase in earning assets, borrowed funds are expected to increase in 2017 to the extent earning asset growth is more than deposit growth. Should this occur, management would evaluate using longer-term borrowings to match the duration of the assets being funded to minimize the long-term interest rate risk.

Peoples remains committed to sound underwriting and prudent risk management. Management believes this credit discipline will benefit Peoples during any future economic downturns. The long-term goal is to maintain key metrics in the top-quartile of Peoples' peer group regardless of economic conditions. Net charge-off trends are expected to normalize in 2017 as the prospects of large charge-offs and recoveries diminish. Management anticipates Peoples' provision for loan losses and the net charge-off rate for 2017 will normalize, with the net charge-off rate near the low end of its long-term historical range of 0.20% to 0.30% of average loans. For 2017, management intends to remain prudent with the level of Peoples' allowance for loan losses. However, the level will continue to be based upon management's quarterly assessment of

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the losses inherent in the loan portfolio, and the amount of any provision for loan losses should be driven mostly by a combination of the net charge-off rate and loan growth.

Peoples' capital position remains strong. Given the excess capital position and the increase in Peoples' stock price, Peoples will continue to look for ways to effectively manage its capital, including, but not limited to, bank acquisitions and dividends. Late in 2015, Peoples approved a share repurchase program of up to $20 million, under which Peoples purchased $5.0 million in 2016. Given the activity in the stock market in late 2016 and early 2017, specifically as it related to the price of Peoples' common shares, Peoples' appetite to repurchase common shares has diminished. However, given that there is a share repurchase program still in place, with capacity of $15.0 million remaining, Peoples will continue to evaluate additional purchase opportunities throughout 2017.

Management has built a culture where it is paramount that the associates take care of customers and take care of each other. Management is committed to profitable growth of the company and building long-term shareholder value. This will require management to remain focused on four key areas: responsible risk management; extraordinary client experience; profitable revenue growth; and maintaining a superior workforce. Success will be achieved through disciplined execution of strategies and providing extraordinary service to Peoples' clients and communities.

Interest Rate Sensitivity and Liquidity

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

Interest Rate Risk

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

Peoples has assigned overall management of IRR to the ALCO, which has established an IRR management policy that sets minimum requirements and guidelines for monitoring and managing the level of IRR. The objective of Peoples' IRR policy is to assist the ALCO in its evaluation of the impact of changing interest rate conditions on earnings and economic value of equity, as well as assist with the implementation of strategies intended to reduce Peoples' IRR. The management of IRR involves either maintaining or changing the level of risk exposure by changing the repricing and maturity characteristics of the cash flows for specific assets or liabilities. Additional oversight of Peoples' IRR is provided by the Board of Directors of Peoples Bank, who reviews and approves Peoples' IRR management policy at least annually.

The ALCO uses various methods to assess and monitor the current level of Peoples' IRR and the impact of potential strategies or other changes. However, the ALCO predominantly relies on simulation modeling in its overall management of IRR since it is a dynamic measure. Simulation modeling also estimates the impact of potential changes in interest rates and balance sheet structures on future earnings and projected economic value of equity.

The modeling process starts with a base case simulation using the current balance sheet and current interest rates held constant for the next twenty-four months. Alternate scenarios are prepared which simulate the impact of increasing and decreasing market interest rates, assuming parallel yield curve shifts. Comparisons produced from the simulation data, showing the changes in net interest income from the base interest rate scenario, illustrate the risks associated with the current balance sheet structure. Additional simulations, when deemed appropriate or necessary, are prepared using different interest rate scenarios from those used with the base case simulation and/or possible changes in balance sheet composition. The additional simulations include non-parallel shifts in interest rates whereby the direction and/or magnitude of change of short-term interest rates is different than the changes applied to longer-term interest rates. Comparisons showing the earnings and economic value of equity variance from the base case are provided to the ALCO for review and discussion.

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The ALCO has established limits on changes in the twelve-month net interest income forecast and the economic value of equity from the base case. The ALCO may establish risk tolerances for other parallel and non-parallel rate movements, as deemed necessary.
The following table details the current policy limits used to manage the level of Peoples' IRR:

Immediate and Sustained Shift in Interest Rates	Net Interest Income	Economic Value of Equity
+ / - 100 basis points	-5%	-10%
+ / - 200 basis points	-10%	-15%
+ / - 300 basis points	-15%	-20%

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

Increase in Interest Rate	Estimated (Decrease) Increase in Net Interest Income				Estimated Decrease in Economic Value of Equity			
(in Basis Points)	December 31, 2016		December 31, 2015		December 31, 2016		December 31, 2015	
300	$(1,100)	(1.0)%	$1,477	1.5 %	$(88,004)	(15.0)%	$(88,774)	(15.3)%
200	83	0.1 %	1,943	1.9 %	(57,925)	(9.9)%	(57,205)	(9.9)%
100	603	0.6 %	1,823	1.8 %	(27,441)	(4.7)%	(27,036)	(4.7)%

This table uses a standard, parallel shock analysis for assessing the IRR to net interest income and the economic value of equity. A parallel shock means all points on the yield curve (one year, two year, three year, etc.) are directionally changed the same amount of basis points. For example, 100 basis points equals 1%. While management regularly assesses the impact of both increasing and decreasing interest rates, the table above only reflects the impact of upward shocks due to the fact a downward parallel shock of 100 basis points or more is not possible given that most short-term rates are currently less than 1%.
Although a parallel shock table can give insight into the current direction and magnitude of IRR inherent in the balance sheet, interest rates do not usually move in a complete parallel manner during interest rate cycles. These nonparallel movements in interest rates, commonly called yield curve steepening or flattening movements, tend to occur during the beginning and end of an interest rate cycle, with differences in the timing, direction and magnitude of changes in short-term and long-term interest rates. Thus, any benefit that could occur as a result of the Federal Reserve Board increasing short-term interest rates in future quarters could be offset by an inverse movement in long-term interest rates. As a result, management conducts more advanced interest rate shock scenarios to gain a better understanding of Peoples' exposure to nonparallel rate shifts.
During 2016, Peoples' Consolidated Balance Sheet remained positioned for a relatively neutral interest rate environment as illustrated by the overall small changes in net interest income shown in the above table. The largest factors affecting Peoples' interest rate sensitivity were the amount of cash on the balance sheet and the asset/liability mix in the balance sheet. This positioning was appropriate given the Federal Reserve Board's stated goal of potentially raising interest rates at a slow and measured pace. In fact, the Federal funds rate was raised only one time in 2016 by 25 basis points in December.
An asset/liability model, used to produce the analysis above, requires assumptions to be made such as prepayment rates on interest-earning assets and repricing impact on non-maturity deposits. These business assumptions are based on business plans, economic and market trends, and available industry data. Management believes that its methodology for developing such assumptions is reasonable; however, there can be no assurance that modeled results will be achieved.
Liquidity
In addition to IRR management, another major objective of the ALCO is to maintain sufficient levels of liquidity. The ALCO defines liquidity as the ability to meet anticipated and unanticipated operating cash needs, loan demand and

deposit withdrawals without incurring a sustained negative impact on profitability.
A primary source of liquidity for Peoples is retail deposits. Liquidity is also provided by cash generated from earning assets such as maturities, calls, and principal and interest payments from loans and investment securities. Peoples also uses various wholesale funding sources to supplement funding from customer deposits. These external sources

provide Peoples with the ability to obtain large quantities of funds in a relatively short time period in the event of sudden unanticipated cash needs. However, an over-utilization of external funding sources can expose Peoples to greater liquidity risk as these external sources may not be accessible during times of market stress. Additionally, Peoples may be exposed to the risk associated with providing excess collateral to external funding providers, commonly referred to as counterparty risk. As a result, the ALCO's liquidity management policy sets limits on the net liquidity position and the concentration of non-core funding sources, both wholesale funding and brokered deposits.

In addition to external sources of funding, Peoples considers certain types of deposits to be less stable or "volatile funding". These deposits include special money market products, large CDs and public funds. Peoples has established volatility factors for these various deposit products, and the liquidity management policy establishes a limit on the total level of volatile funding. Additionally, Peoples measures the maturities of external sources of funding for periods of 1 month, 3 months, 6 months and 12 months and has established policy limits for the amounts maturing in each of these periods. The purpose of these limits is to minimize exposure to what is commonly termed rollover risk.

An additional strategy used by Peoples in the management of liquidity risk is maintaining a targeted level of liquid assets. These are assets that can be converted into cash in a relatively short period of time. Management defines liquid assets as unencumbered cash (including cash on deposit at the Federal Reserve Bank), and the market value of U.S. government and agency securities that are not pledged. Excluded from this definition are pledged securities, non-government and agency securities, municipal securities and loans. Management has established a minimum level of liquid assets in the liquidity management policy, which is expressed as a percentage of loans and unfunded loan commitments. Peoples also has established a policy limit around the level of liquefiable assets also expressed as a percentage of loans and unfunded loan commitments. Liquefiable assets are defined as liquid assets plus the market value of unpledged securities not included in the liquid asset measurement. Peoples remained within these two parameters throughout the year.

An essential element in the management of liquidity risk is a forecast of the sources and uses of anticipated cash flows. On a monthly basis, Peoples forecasts sources and uses of cash for the next twelve months. To assist in the management of liquidity, management has established a liquidity coverage ratio, which is defined as the total sources of cash divided by the total uses of cash. A ratio of greater than 1.0 times indicates that forecasted sources of cash are adequate to fund forecasted uses of cash. The liquidity management policy establishes a minimum limit of 1.0 times. As of December 31, 2016, Peoples had a ratio of 1.8 times, which was within policy limits. Peoples also forecasts secondary or contingent sources of cash, and this includes external sources of funding and liquid assets. These sources of cash would be required if and when the forecasted liquidity coverage ratio dropped below the policy limit of 1.0 times. An additional liquidity measurement used by management includes the total forecasted sources of cash and the contingent sources of cash divided by the forecasted uses of cash. Management has established a minimum ratio of 3.0 times for this liquidity management policy limit. As of December 31, 2016, Peoples had a ratio of 7.4 times, which was within policy limits.

Disruptions in the sources and uses of cash can occur which can drastically alter the actual cash flows and negatively impact Peoples' ability to access internal and external sources of cash. Such disruptions might occur due to increased withdrawals of deposits, increases in the funding required for loan commitments, a decrease in the ability to access external funding sources and other forces that would increase the need for funding and limit Peoples' ability to access needed funds. As a result, Peoples maintains a liquidity contingency funding plan ("LCFP") that considers various degrees of disruptions and develops action plans around these scenarios.

Peoples' LCFP identifies scenarios where funding disruptions might occur and creates scenarios of varying degrees of severity. The disruptions considered include an increase in funding of unfunded loan commitments, unanticipated withdrawals of deposits, decreases in the renewal of maturing CDs and reductions in cash earnings. Additionally, the LCFP creates stress scenarios where access to external funding sources, or contingency funding, is suddenly limited which includes a significant increase in the margin requirements where securities or loans are pledged, limited access to funding from other banks and limited access to funding from the FHLB and the Federal Reserve Bank. Peoples' LCFP scenarios include a base scenario, a mild stress scenario, a moderate stress scenario and a severe stress scenario.

Each of these is defined as to the severity, and action plans are developed around each.
Liquidity management also requires the monitoring of risk indicators that may alert the ALCO to a developing liquidity situation or crisis. Early detection of stress scenarios allows Peoples to take actions to help mitigate the impact to Peoples Bank's business operations. The LCFP contains various indicators, termed key risk indicators ("KRI's") that are monitored on a monthly basis, at a minimum. The KRI's include both internal and external indicators and include loan delinquency levels, classified and watch list loan levels, non-performing loans to loans and to total assets, the loan to deposit ratio, the level of net non-core funding dependence, the level of contingency funding sources, the liquidity

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coverage ratio, changes in regulatory capital levels, forecasted operating loss and negative media concerning Peoples, irrational competitor pricing that persists and an increase in rates for external funding sources. The LCFP establishes levels that define each of these KRI's under base, mild, moderate and severe scenarios.

The LCFP is reviewed and updated at least on an annual basis by the ALCO and Peoples Bank's Board of Directors. Additionally, testing of the LCFP is required on an annual basis. Various stress scenarios and the related actions are simulated according to the LCFP. The results are reviewed and discussed, and changes or revisions are made to the LCFP accordingly. Additionally, every two years, the LCFP is subjected to a third-party review for effectiveness and regulatory compliance.

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

Off-Balance Sheet Activities and Contractual Obligations

Peoples routinely engages in activities that involve, to varying degrees, elements of risk that are not reflected in whole or in part in the Consolidated Financial Statements. These activities are part of Peoples' normal course of business and include traditional off-balance sheet credit-related financial instruments, interest rate contracts and commitments to make additional capital contributions in low-income housing tax credit investments.

The following is a summary of Peoples' significant off-balance sheet activities and contractual obligations. Detailed information regarding these activities and obligations can be found in the Notes to the Consolidated Financial Statements as follows:

Activity or Obligation	Note
Off-balance sheet credit-related financial instruments	14
Operating lease obligations	5
Long-term debt obligations	9

Traditional off-balance sheet credit-related financial instruments are primarily commitments to extend credit and standby letters of credit. These activities are necessary to meet the financing needs of customers and could require Peoples to make cash payments to third parties in the event certain specified future events occur. The contractual amounts represent the extent of Peoples' exposure in these off-balance sheet activities. However, since certain off-balance sheet commitments, particularly standby letters of credit, are expected to expire or only partially be used, the total amount of commitments does not necessarily represent future cash requirements.

Peoples continues to lease certain facilities and equipment under noncancellable operating leases with terms providing for fixed monthly payments over periods generally ranging from two to ten years. Several of Peoples' leased facilities are inside retail shopping centers or office buildings and, as a result, are not available for purchase. Management believes these leased facilities increase Peoples' visibility within its markets and afford sales associates additional access to current and potential clients.

For certain acquisitions, often those involving insurance businesses and wealth management books of business, a portion of the consideration is contingent upon revenue metrics being achieved. US GAAP requires that the amounts be recorded upon acquisition based on the best estimate of the future amounts to be paid at the time of acquisition. Any subsequent adjustment to the estimate is recorded in earnings. Based on the acquisitions completed to date, management does not expect contingent consideration to have a material impact on Peoples' future performance.

The following table details the aggregate amount of future payments Peoples is required to make under certain contractual obligations as of December 31, 2016:

		Payments due by period			
(Dollars in thousands)	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Time deposits	$400,557	$194,394	$136,026	$70,025	$112
Long-term debt (a)	145,155	5,545	78,479	17,543	43,588

Operating leases	2,685	745	1,162	424	354
Contingent consideration related to acquisitions (b)	85	85	—	—	—
Pension benefits	318	318	—	—	—
Total	$548,800	$201,087	$215,667	$87,992	$44,054

(a) Amounts reflect solely the minimum required principal payments.
(b) Amounts assume projected revenue metrics are achieved.

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

Effects of Inflation on Financial Statements

Substantially all of Peoples' assets relate to banking and are monetary in nature. As a result, inflation does not impact Peoples to the same degree as companies in capital-intensive industries in a replacement cost environment. During a period of rising prices, a net monetary asset position results in a loss in purchasing power and conversely a net monetary liability position results in an increase in purchasing power. The opposite would be true during a period of decreasing prices. In the banking industry, monetary assets typically exceed monetary liabilities. The current monetary policy targeting low levels of inflation has resulted in relatively stable price levels. Therefore, inflation has had little impact on Peoples' net assets.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Please refer to the section captioned "Interest Rate Sensitivity and Liquidity" under "ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" of this Form 10-K, which is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and accompanying notes, and the report of independent registered public accounting firm, are set forth immediately following "ITEM 9B. OTHER INFORMATION" of this Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

No response required.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Peoples' management, with the participation of Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer, has evaluated the effectiveness of Peoples' disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2016. Based upon that evaluation, Peoples' President and Chief Executive Officer and Peoples' Executive Vice President, Chief Financial Officer and Treasurer have concluded that:

(a) information required to be disclosed by Peoples in this Form 10-K and other reports Peoples files or submits under the Exchange Act would be accumulated and communicated to Peoples' management, including its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure;

(b) information required to be disclosed by Peoples in this Form 10-K and other reports Peoples files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

(c) Peoples' disclosure controls and procedures were effective as of the end of the period covered by this Form 10-K.

Management's Annual Report on Internal Control Over Financial Reporting

The "Report of Management's Assessment of Internal Control Over Financial Reporting" required by Item 308(a) of SEC Regulation S-K is included on page 67 of this Form 10-K.

Attestation Report of Independent Registered Public Accounting Firm

The "Report of Independent Registered Public Accounting Firm on Effectiveness of Internal Control Over Financial Reporting" required by Item 308(b) of SEC Regulation S-K is included on page 66 of this Form 10-K.

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Changes in Internal Control Over Financial Reporting

There were no changes in Peoples' internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the fiscal quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, Peoples' internal control over financial reporting. On November 7, 2016, Peoples converted its core banking system (including the related operating systems, data systems and products). Peoples does not believe the conversion of these systems materially changed its internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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Report of Management's Assessment of Internal Control Over Financial Reporting

Peoples' management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Peoples' internal control over financial reporting has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation, integrity, and fair presentation of Peoples' Consolidated Financial Statements for external purposes in accordance with United States generally accepted accounting principles.

With the supervision and participation of its President and Chief Executive Officer and its Executive Vice President, Chief Financial Officer and Treasurer, management evaluated the effectiveness of Peoples' internal control over financial reporting as of December 31, 2016, using the Internal Control-Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).

No matter how well designed, internal control over financial reporting may not prevent or detect all misstatements. Projection of the evaluation of effectiveness to future periods is subject to risks, including but not limited to (a) controls may become inadequate due to changes in conditions; (b) a deterioration may occur in the degree of compliance with policies or procedures; and (c) the possibility of control circumvention or override occurring, any of which may lead to misstatements due to undetected error or fraud. Effective internal control over financial reporting can provide only a reasonable assurance with respect to financial statement preparation and financial reporting.

Management assessed the effectiveness of Peoples' internal control over financial reporting as of December 31, 2016, and, based on this assessment, has concluded Peoples' internal control over financial reporting was effective as of that date.

Peoples' independent registered public accounting firm, Ernst & Young LLP has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and has issued an attestation report on Peoples' internal control over financial reporting.

By: /s/	CHARLES W. SULERZYSKI	By: /s/	JOHN C. ROGERS
	Charles W. Sulerzyski		John C. Rogers
	President and Chief Executive Officer		Executive Vice President,
			Chief Financial Officer and Treasurer

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Report of Ernst & Young, LLP, Independent Registered Public Accounting Firm on Effectiveness of Internal Control Over Financial Reporting

The Audit Committee of the Board of Directors and Shareholders
Peoples Bancorp Inc.

We have audited Peoples Bancorp Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Peoples Bancorp Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Peoples Bancorp Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Peoples Bancorp Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of Peoples Bancorp Inc. and subsidiaries and our report dated February 27, 2017 expressed an unqualified opinion thereon.

Charleston, West Virginia
February 27, 2017

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Report of Ernst & Young, LLP, Independent Registered Public Accounting Firm on Consolidated Financial Statements

The Audit Committee of the Board of Directors and the Shareholders
Peoples Bancorp Inc.

We have audited the accompanying consolidated balance sheets of Peoples Bancorp Inc. and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Peoples Bancorp Inc. and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Peoples Bancorp Inc. and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 27, 2017 expressed an unqualified opinion thereon.

Charleston, West Virginia
February 27, 2017

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
(Dollars in thousands)	2016	2015
Assets		
Cash and cash equivalents:		
Cash and due from banks	$58,129	$53,663
Interest-bearing deposits in other banks	8,017	17,452
Total cash and cash equivalents	66,146	71,115
Available-for-sale investment securities, at fair value (amortized cost of $777,017 at December 31, 2016 and $780,304 at December 31, 2015)	777,940	784,701
Held-to-maturity investment securities, at amortized cost (fair value of $43,227 at December 31, 2016 and $45,853 at December 31, 2015)	43,144	45,728
Other investment securities, at cost	38,371	38,401
Total investment securities	859,455	868,830
Loans, net of deferred fees and costs	2,224,936	2,072,440
Allowance for loan losses	(18,429)	(16,779)
Net loans	2,206,507	2,055,661
Loans held for sale	4,022	1,953
Bank premises and equipment, net	53,616	53,487
Bank owned life insurance	60,225	23,811
Goodwill	132,631	132,631
Other intangible assets	13,387	16,986
Other assets	36,359	34,496
Total assets	$3,432,348	$3,258,970
Liabilities		
Deposits:		
Non-interest-bearing	$734,421	$717,939
Interest-bearing	1,775,301	1,818,005
Total deposits	2,509,722	2,535,944
Short-term borrowings	305,607	160,386
Long-term borrowings	145,155	113,670
Accrued expenses and other liabilities	36,603	29,181
Total liabilities	2,997,087	2,839,181
Stockholders' Equity		
Preferred stock, no par value, 50,000 shares authorized, no shares issued at December 31, 2016 and December 31, 2015	—	—
Common stock, no par value, 24,000,000 shares authorized, 18,939,091 shares issued at December 31, 2016 and 18,931,200 shares issued at December 31, 2015, including shares in treasury	344,404	343,948
Retained earnings	110,294	90,790
Accumulated other comprehensive loss, net of deferred income taxes	(1,554)	(359)
Treasury stock, at cost, 795,758 shares at December 31, 2016 and 586,686 shares at December 31, 2015	(17,883)	(14,590)
Total stockholders' equity	435,261	419,789
Total liabilities and stockholders' equity	$3,432,348	$3,258,970

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)	2016	2015	2014
Interest Income:			
Interest and fees on loans	$ 93,845	$ 87,155	$ 61,541
Interest and dividends on taxable investment securities	18,423	18,051	16,840
Interest on tax-exempt investment securities	3,126	2,992	1,810
Other interest income	50	135	9
Total interest income	115,444	108,333	80,200
Interest Expense:			
Interest on deposits	5,942	6,206	6,106
Interest on short-term borrowings	508	182	146
Interest on long-term borrowings	4,129	4,333	4,442
Total interest expense	10,579	10,721	10,694
Net interest income	104,865	97,612	69,506
Provision for loan losses	3,539	14,097	339
Net interest income after provision for loan losses	101,326	83,515	69,167
Other Income:			
Insurance income	13,846	13,783	13,604
Deposit account service charges	10,662	10,845	9,173
Trust and investment income	10,589	9,577	7,685
Electronic banking income	10,353	8,958	6,642
Bank owned life insurance income	1,414	598	106
Mortgage banking income	1,304	1,317	1,237
Commercial loan swap fee income	1,076	565	450
Net gain on investment securities	930	729	398
Net loss on asset disposals and other transactions	(1,133)	(1,788)	(431)
Other non-interest income	1,826	1,798	1,156
Total other income	50,867	46,382	40,020
Other Expenses:			
Salaries and employee benefit costs	57,433	59,216	46,593
Net occupancy and equipment expense	10,735	11,207	7,839
Professional fees	7,436	7,295	5,649
Electronic banking expense	5,992	5,300	4,529
Amortization of other intangible assets	4,030	4,077	1,428
Data processing and software expense	3,763	3,671	2,424
Communication expense	2,261	2,286	1,642
Franchise tax expense	2,192	1,968	1,392
FDIC insurance expense	1,899	2,084	1,260
Marketing expense	1,594	2,838	2,299
Foreclosed real estate and other loan expenses	859	1,276	789
Other non-interest expense	8,717	13,863	9,165
Total other expenses	106,911	115,081	85,009
Income before income taxes	45,282	14,816	24,178
Income tax expense	14,125	3,875	7,494
Net income	$ 31,157	$ 10,941	$ 16,684
Earnings per common share - basic	$ 1.72	$ 0.62	$ 1.36

Earnings per common share - diluted	$ 1.71	$ 0.61	$ 1.35
Weighted-average number of common shares outstanding - basic	18,013,693	17,555,140	12,183,352
Weighted-average number of common shares outstanding - diluted	18,155,463	17,687,795	12,306,224

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Dollars in thousands)	2016	2015	2014
Net income	$31,157	$10,941	$16,684
Other comprehensive (loss) income:			
Available-for-sale investment securities:			
Gross unrealized holding (loss) gain arising in the period	(2,590)	1,232	19,326
Related tax benefit (expense)	906	(431)	(6,764)
Less: reclassification adjustment for net gain included in net income	930	729	398
Related tax expense	(326)	(255)	(139)
Net effect on other comprehensive (loss) income	(2,288)	327	12,303
Defined benefit plans:			
Net (loss) gain arising during the period	(232)	373	(2,083)
Related tax benefit (expense)	81	(130)	729
Amortization of unrecognized loss and service cost on benefit plans	89	112	129
Related tax expense	(31)	(38)	(45)
Recognition of loss due to settlement and curtailment	—	459	1,400
Related tax expense	—	(161)	(490)
Net effect on other comprehensive (loss) income	(93)	615	(360)
Cash flow hedges:			
Net gain arising during the period	1,824	—	—
Related tax expense	(638)	—	—
Net effect on other comprehensive income	1,186	—	—
Total other comprehensive (loss) income, net of tax	(1,195)	942	11,943
Total comprehensive income	$29,962	$11,883	$28,627

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 2013	$168,869	$80,898	$ (13,244)	$(14,970)	$ 221,553
Net income	—	16,684	—	—	16,684
Other comprehensive income, net of tax	—	—	11,943	—	11,943
Cash dividends declared	—	(7,191)	—	—	(7,191)
Reissuance of treasury stock for stock option exercises	—	—	—	72	72
Tax benefit from exercise of stock options	85	—	—	—	85
Reissuance of treasury stock for deferred compensation plan for Boards of Directors	—	—	—	175	175
Reissuance of treasury stock for common stock awards	(10)	—	—	10	—
Purchase of treasury stock	—	—	—	(520)	(520)
Common shares issued under dividend reinvestment plan	409	—	—	—	409
Common shares issued under compensation plan for Board of Directors	(14)	—	—	221	207
Stock-based compensation expense	1,813	—	—	298	2,111
Issuance of common shares related to acquisitions:					
Midwest Bancshares, Inc.	6,305	—	—	—	6,305
Ohio Heritage Bancorp, Inc.	32,017	—	—	—	32,017
North Akron Savings Bank	16,106	—	—	—	16,106
Common shares issued to institutional investors in private placement	40,162	—	—	—	40,162
Balance, December 31, 2014	$265,742	$90,391	$ (1,301)	$(14,714)	$ 340,118
Net income	—	10,941	—	—	10,941
Other comprehensive income, net of tax	—	—	942	—	942
Cash dividends declared	—	(10,542)	—	—	(10,542)
Tax benefit from exercise of stock options	51	—	—	—	51
Reissuance of treasury stock for deferred compensation plan for Boards of Directors	—	—	—	184	184
Purchase of treasury stock	—	—	—	(741)	(741)
Common shares issued under dividend reinvestment plan	397	—	—	—	397
Common shares issued under compensation plan for Board of Directors	(43)	—	—	177	134
Stock-based compensation expense	1,843	—	—	—	1,843
Common shares issued under employee stock purchase plan	(69)	—	—	504	435
Issuance of common shares related to acquisition of NB&T Financial Group, Inc.	76,027	—	—	—	76,027
Balance, December 31, 2015	$343,948	$90,790	$ (359)	$(14,590)	$ 419,789

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

(Dollars in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Net income	—	31,157	—	—	31,157
Other comprehensive loss, net of tax	—	—	(1,195)	—	(1,195)
Cash dividends declared	—	(11,653)	—	—	(11,653)
Exercise of stock options	(40)	—	—	40	—
Reissuance of treasury stock for common stock awards	(1,297)	—	—	1,297	—
Tax benefit from exercise of stock options	26	—	—	—	26
Reissuance of treasury stock for deferred compensation plan for Boards of Directors	—	—	—	232	232
Purchase of treasury stock	—	—	—	(515)	(515)
Common shares repurchased under share repurchase program	—	—	—	(4,965)	(4,965)
Common shares issued under dividend reinvestment plan	437	—	—	—	437
Common shares issued under compensation plan for Board of Directors	(18)	—	—	263	245
Stock-based compensation expense	1,332	—	—	—	1,332
Common shares issued under employee stock purchase plan	16	—	—	355	371
Balance, December 31, 2016	$344,404	$110,294	$ (1,554)	$(17,883)	$ 435,261

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	2016	2015	2014
Operating activities:			
Net income	$31,157	$10,941	$16,684
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	19,169	18,503	13,174
Provision for loan losses	3,539	14,097	339
Bank owned life insurance income	(1,414)	(598)	(106)
Net gain on investment securities	(930)	(729)	(398)
Loss (gain) on debt extinguishment	707	520	(67)
Loans originated for sale	(69,123)	(53,570)	(51,458)
Proceeds from sales of loans	67,421	56,532	49,218
Net gains on sales of loans	(1,047)	(1,005)	(943)
Deferred income tax (benefit) expense	(2,462)	(1,582)	3,835
Increase (decrease) in accrued expenses	3,972	(4,412)	(631)
(Increase) decrease in interest receivable	(1,278)	704	139
Excess tax benefit from share-based payments	(26)	(51)	(85)
Increase (decrease) in other assets	6,974	4,623	(1,505)
Other, net	3,652	3,909	3,299
Net cash provided by operating activities	60,311	47,882	31,495
Investing activities:			
Available-for-sale investment securities:			
Purchases	(166,241)	(196,599)	(143,184)
Proceeds from sales	30,734	57,415	108,092
Proceeds from principal payments, calls and prepayments	127,824	126,401	79,830
Held-to-maturity investment securities:			
Purchases	—	—	(1,017)
Proceeds from principal payments	2,167	2,261	1,325
Net increase in loans	(148,951)	(77,893)	(76,100)
Net expenditures for premises and equipment	(5,436)	(9,429)	(7,105)
Proceeds from sales of other real estate owned	240	971	219
Investment in bank owned life insurance	(35,000)	—	—
Proceeds from bank owned life insurance	—	—	6,322
Business combinations, net of cash received	(244)	97,277	17,081
(Investment in) return of limited partnership and tax credit funds	(3,451)	(1,514)	374
Net cash used in investing activities	(198,358)	(1,110)	(14,163)
Financing activities:			
Net increase in non-interest-bearing deposits	16,482	99,341	18,367
Net decrease in interest-bearing deposits	(42,655)	(125,360)	(26,713)
Net increase (decrease) in short-term borrowings	145,221	72,109	(29,373)
Proceeds from long-term borrowings	55,000	—	5,269
Payments on long-term borrowings	(24,361)	(72,446)	(10,288)
Cash dividends paid on common shares	(11,173)	(10,065)	(6,767)
Purchase of treasury stock under share repurchase program	(4,965)	—	—
Repurchase of common shares in connection with employee incentive and director compensation plans to be held as treasury stock	(515)	(741)	(520)

Proceeds from issuance of common shares	18	—	40,242
Excess tax benefit from share-based payments	26	51	85
Net cash provided by (used in) financing activities	133,078	(37,111)	(9,698)
Net (decrease) increase in cash and cash equivalents	(4,969)	9,661	7,634
Cash and cash equivalents at beginning of period	71,115	61,454	53,820
Cash and cash equivalents at end of period	$66,146	$71,115	$61,454
Supplemental cash flow information:			
Interest paid	$11,773	$11,541	$10,766
Income taxes paid	$11,890	$672	$6,726

See Notes to the Consolidated Financial Statements

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PEOPLES BANCORP INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
Peoples Bancorp Inc. is a financial holding company that offers a full range of financial services and products, including commercial and retail banking, insurance, brokerage and trust services, through its principal operating subsidiary, Peoples Bank. Services are provided through 80 financial service locations, including 71 full-service bank branches and 78 automated teller machines in Ohio, West Virginia and Kentucky, as well as internet-based and mobile banking.
Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Peoples Bancorp Inc. and 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.) conform to generally accepted accounting principles in the United States of America ("US GAAP") and to general practices within the banking 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 differ from those estimates. Certain items in prior financial statements have been reclassified to conform to the current presentation, which had no impact on net income, comprehensive income or loss, net cash provided by operating activities or stockholders' equity.
The following is a summary of significant accounting policies followed in the preparation of the financial statements:
Consolidation: Peoples' Consolidated Financial Statements include subsidiaries in which Peoples has a controlling financial interest, principally defined as owning a voting interest greater than 50%. In addition, entities not controlled by voting interest or in which the equity investors do not bear the residual economic risks, but for which Peoples is the primary beneficiary are also consolidated.
The Consolidated Financial Statements include the accounts of Peoples and its consolidated subsidiaries, Peoples Bank and Peoples Investment Company, along with their wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.
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. Included in interest-bearing deposits in other banks were $1.0 million and $5.0 million in funds at December 31, 2016 and 2015, respectively, which were being used as collateral and not available for withdrawal.
Investment Securities: Investment securities are recorded initially at cost, which includes premiums and discounts if purchased at other than par or face value. Peoples amortizes premiums and accretes discounts as an adjustment to interest income on a level yield basis. The cost of investment securities sold, and any resulting gain or loss, is based on the specific identification method and recognized as of the trade date.
Management determines the appropriate classification of investment securities at the time of purchase.
Held-to-maturity securities are those securities that Peoples has the positive intent and ability to hold to maturity and are recorded at amortized cost. Available-for-sale securities are those securities that would be available to be sold in the future in response to Peoples' liquidity needs, changes in market interest rates, and asset-liability management strategies, among other considerations. Available-for-sale securities are reported at fair value, with unrealized holding gains and losses reported in stockholders' equity as a separate component of other accumulated comprehensive income or loss, net of applicable deferred income taxes.
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").
Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers, and (3) the structure of the

security.
An impairment loss is recognized in earnings only when (1) Peoples intends to sell the debt security, (2) it is more likely than not that Peoples will be required to sell the security before recovery of its amortized cost basis, or (3) Peoples does not expect to recover the entire amortized cost basis of the security. In situations where Peoples intends to sell or

when it is more likely than not that Peoples will be required to sell the security, the entire impairment loss must be recognized in earnings. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in stockholders' equity as a component of accumulated comprehensive income or loss, net of applicable deferred taxes.

Fair Value Measurements: 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 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.

Securities Sold Under Agreements to Repurchase: Peoples enters into sales of securities under agreements to repurchase (“Repurchase Agreements”) with customers and other financial service companies, which are considered financings. As such, these obligations are recorded as a liability on the Consolidated Balance Sheets and disclosed in Note 8 and Note 9, as appropriate. Securities pledged as collateral under Repurchase Agreements are included in investment securities on the Consolidated Balance Sheets and are disclosed in Note 3. The fair value of the collateral pledged to a third party is continually monitored and additional collateral is pledged or returned, as deemed appropriate.

Loans: Loans originated that Peoples has the positive intent and ability to hold for the foreseeable future or to maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. The foreseeable future is based upon current market conditions and business strategies, as well as balance sheet management and liquidity. As the conditions change, so may management's view of the foreseeable future. Net deferred loan origination costs were $5.4 million and $3.3 million at December 31, 2016 and 2015, respectively.

A loan is considered impaired when information and events indicate it is probable that collection of all contractual principal and interest payments is doubtful. Impairment is evaluated collectively for smaller-balance loans of a similar nature, primarily consumer and residential real estate loans, and on an individual loan basis for all loans to borrowers with an aggregate unpaid principal balance in excess of $1 million on an annual basis for possible credit deterioration. This loan review process provides Peoples with opportunities to identify potential problem loans and take proactive actions to assure repayment of the loan or minimize Peoples' risk of loss, such as reviewing the relationship more frequently based upon the loan quality rating and aggregate debt outstanding. Upon detection of the reduced ability of a borrower to meet cash flow obligations, the loan is reviewed for possible downgrade or placement on nonaccrual status. Loan relationships whose aggregate debt to Peoples is equal to or less than $1 million are reviewed on an event driven basis. Peoples also completes evaluation procedures for a selection of larger loan relationships on a quarterly basis. Triggers for review include knowledge of adverse events affecting the business, receipt of financial statements indicating deteriorating credit quality and other events. Peoples typically places any loan deemed to be impaired on nonaccrual status and allocates a specific portion of the allowance for loan losses, if necessary, to reduce the net carrying value of the loan to its estimated net realizable value. Impaired loans, or portions thereof, are charged off when deemed uncollectable. Upon detection of the reduced ability of a borrower to meet cash flow obligations, consumer and residential real estate loans typically are charged down to the net realizable value, with the residual balance placed on nonaccrual status.

Loans acquired in a business combination that have evidence of deterioration of credit quality, commonly referred to as "purchase credit impaired" loans, since origination and for which it is probable, at acquisition, that Peoples will be unable to collect all contractually required payments receivable are initially recorded at fair value (the present value of the amounts expected to be collected) with no valuation allowance. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan is recognized as interest income on a level-yield method over the life of the loan. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition are not recognized. Over the life of these acquired loans, management continues to monitor each acquired purchased credit impaired loan portfolio for changes in credit quality. Increases in expected cash flows subsequent to acquisition are recognized prospectively over their remaining life as a yield adjustment on the loans. Subsequent decreases in expected cash flows 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. These purchase credit impaired loans are considered to be accruing and performing even though collection of contractual payments on loans may be in doubt, as income continues to be accreted as long as expected cash flows can be reasonably estimated.

Loans acquired in a business combination that are not impaired are recorded at fair value, and the difference between the acquisition date fair value and the contractual amounts due at the acquisition date represents the discounts (or premiums) to a loan's cost basis and are accreted (or amortized) to interest income over the loan's remaining life using the level yield method. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses for these loans is similar to originated loans; however, Peoples records a provision for loan losses only when the required allowance exceeds the remaining discount.

Loans Held-for-Sale: Loans originated and intended to be sold in the secondary market, generally one-to-four family residential loans, are carried at the lower of cost or estimated fair value determined on an aggregate basis. Gains and losses on sales of loans held for sale are included in mortgage banking income.

Loans originated with the intent to be held in our portfolio are subsequently transferred to held for sale when a decision is made to sell these loans. At the time of a loan's transfer to the held for sale classification, the loan is recorded at the lower of cost or its fair value. Any reduction in the loan's value is reflected as a write-down of the recorded investment resulting in a new cost basis, with a corresponding charge against the allowance for loan losses. If the fair value of a loan classified as held-for-sale in subsequent periods is less than its cost basis, the carrying value of the loan is adjusted accordingly, with the corresponding loss recognized in earnings.

Peoples enters into interest rate lock commitments with borrowers and best efforts commitments with investors on mortgage loans originated for sale into the secondary markets to manage the inherent interest rate and pricing risk associated with selling loans. The interest rate lock commitments generally terminate once the loan is funded, the lock period expires or the borrower decides not to contract for the loan. The best efforts commitments generally terminate once the loan is sold, the commitment period expires or the borrower decides not to contract for the loan. These commitments are considered derivatives which are generally accounted for by recognizing their estimated fair value on the Consolidated Balance Sheets as either a freestanding asset or a freestanding liability. The valuation of such commitments does not consider expected cash flows related to the servicing of the future loan. Management has determined these derivatives do not have a material effect on Peoples' financial position, results of operations or cash flows.

Allowance for Loan Losses: The allowance for loan losses is a valuation reserve established through provisions for loan losses charged against income. The allowance for loan losses is maintained at a level that management deems sufficient to absorb probable losses inherent in the loan portfolio. Loans deemed to be uncollectable are charged against the allowance for loan losses, while recoveries of previously charged-off amounts are credited to the allowance for loan losses.

The allowance for loan losses is comprised of specific valuation allowances for loans evaluated individually for impairment and general allocations for pools of homogeneous loans with similar risk characteristics and trends. Peoples' homogenous loan pools include similarly risk-graded commercial and industrial loans, similarly risk-graded commercial real estate loans, real estate construction loans (both commercial and residential), residential real estate loans, consumer home equity loans and other consumer loans. Management's evaluation of the appropriateness of the allowance for loan losses and the related provision for loan losses is based upon a quarterly analysis of the portfolio. While portions of the allowance for loan losses may be allocated to specific loans, the entire allowance for loan losses is available for any loan charged off by management.

The allowance for loan losses related to specific loans is based on management's estimate of potential losses on impaired loans as determined by (1) the present value of expected future cash flows, (2) the fair value of collateral if the loan is determined to be collateral dependent, or (3) the loan's observable market price. The general allocations to specific loan pools are based on the historical loss rates for specific loan types and the internal risk grade, if applicable, adjusted for both internal and external qualitative risk factors. The calculation of historical loss rates for pools of similar loans with similar characteristics is based upon the proportion of actual charge-offs experienced to the total population of loans in the pool. The historical loss rates are periodically updated based on actual charge-off experience. The qualitative factors considered by management include, among other factors, (1) changes in local and national economic conditions, (2) changes in asset quality, (3) changes in loan portfolio volume, (4) the composition and concentrations of credit, (5) the impact of competition on loan structuring and pricing, (6) the impact of interest rate changes on portfolio risk, and (7) effectiveness of Peoples' loan policies, procedures and internal controls. The total allowance established for each homogenous loan pool represents the product of the historical loss rate and the total dollar amount of the loans in the pool.

Peoples categorizes loans involving commercial borrowers into risk categories based upon an established grading matrix. This system is used to manage the risk within its commercial lending activities, evaluate changes in the overall credit quality of the loan portfolio and evaluate the appropriateness of the allowance for loan losses. Loan grades are assigned at the time a new loan or lending commitment is extended by Peoples and may be changed at any time when circumstances warrant. Loan relationships whose aggregate credit exposure to Peoples is equal to or less than $1 million are reviewed on an event driven basis. Triggers for review include knowledge of adverse events affecting the borrower's business, receipt of financial statements indicating deteriorating credit quality or other similar events. Adversely classified loans are generally reviewed on a quarterly basis.

The primary factors considered when assigning a risk grade to a loan include (1) reliability and sustainability of the primary source of repayment, (2) past, present and projected financial condition of the borrower, and (3) current economic and industry conditions. Other factors that could influence the risk grade assigned include the type and quality of collateral and the strength of guarantors. The primary source of repayment for commercial real estate loans and commercial and industrial loans is normally the operating cash flow of the business available to repay debt. Management's analysis of operating cash flow for commercial real estate loans secured by non-owner occupied properties takes into account factors such as rent rolls and vacancy statistics. Management's analysis of operating cash flow for commercial real estate loans secured by owner occupied properties and all commercial and industrial loans considers the profitability, liquidity and leverage of the business. The evaluation of construction loans includes consideration of the borrower's ability to complete construction within the established budget.

The primary factors considered when classifying consumer loans include the loan's past due status and declaration of bankruptcy by the borrower(s). The classification of residential real estate and home equity lines of credit also takes into account the current value of the underlying collateral.

Troubled Debt Restructuring: The restructuring of a loan is considered a troubled debt restructuring ("TDR") if both (1) the borrower is experiencing financial difficulties and (2) the creditor has granted a concession. Loans acquired that are restructured after acquisition are not considered TDRs if the loans evidenced credit deterioration as of the acquisition date and are accounted for in pools of purchased credit impaired loans.

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 (1) the borrower is currently in payment default on any of the borrower's debt, (2) a payment default is probable in the foreseeable future without the modification, (3) the borrower has declared or is in the process of declaring bankruptcy, and (4) 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 loans with similar risk characteristics, the significance of the modification relative to the unpaid principal loan balance or collateral value underlying the loan, 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 (1) a reduction in the interest rate for the remaining life of the loan, (2) an extension of the maturity date at an interest rate lower than the current market rate for a new loan with similar risk, (3) a temporary period of interest-only payments, and (4) a reduction in the contractual payment amount for either a short period or the remaining term of the loan. All TDRs are considered impaired loans and are evaluated individually to determine if a write-down is required and if they should be on accrual or nonaccrual status.

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 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.

Investments in Affordable Housing Limited Partnerships: Investments in affordable housing consist of investments in limited partnerships that operate qualified affordable housing projects or that invest in other limited partnerships formed to operate affordable housing projects. These investments are considered variable interest entities for which Peoples is not the primary beneficiary. Peoples generally utilizes the effective yield method to account for these investments with the tax credits, net of the amortization of the investment, reflected in the Consolidated Statements of Income as a reduction of income tax expense. The unamortized amount of the investments is recorded in other assets and totaled $5.0 million and $3,000 at December 31, 2016 and 2015, respectively.

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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 costs to sell the property. Peoples had OREO totaling $0.7 million at both December 31, 2016 and December 31, 2015.

Business Combinations: Business combinations are accounted for using the acquisition method of accounting. Under this accounting method, the acquired company's net assets are recorded at fair value on the date of acquisition, and the results of operations of the acquired company are combined with Peoples' from the acquisition date forward. Costs related to the acquisition are expensed as incurred. The purchase price paid over the fair value of the net assets acquired (including intangible assets with finite lives) is recorded as goodwill.

Goodwill and Other Intangible Assets: Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired in the business combination. Goodwill is not amortized but is tested for impairment when indicators of impairment exist, or at least annually on October 1. Based upon the most recently completed goodwill impairment test, Peoples concluded the recorded value of goodwill was not impaired as of December 31, 2016, based upon the estimated fair value of Peoples' single reporting unit.

Peoples' other intangible assets consist of customer relationship and core deposit intangible assets representing the net present value of future economic benefit to be earned from acquired customer relationships with definite useful lives. These intangible assets are amortized on an accelerated basis over their estimated lives ranging from 7 to 10 years.

Servicing Rights: Servicing rights ("SRs") represent the right to service loans sold to third-party investors. SRs are recognized separately as a servicing asset or liability whenever Peoples undertakes an obligation to service financial assets. SRs are reported in other intangible assets on the Consolidated Balance Sheets. Serviced loans are not included in the Consolidated Balance Sheets. Loan servicing income included in mortgage banking income includes servicing fees received from the third-party investors and certain charges collected from the borrowers.

Peoples initially records SRs 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 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.

Trust Assets Under Management: Peoples manages certain assets held in a fiduciary or agency capacity for customers. These assets under management, other than cash on deposit at Peoples, are not included in the Consolidated Balance Sheets since they are not assets of Peoples.

Revenue Recognition: Peoples recognizes revenues as it is earned based on contractual terms, or as services are provided and collectability is reasonably assured. Peoples' principal source of revenue is interest income, which is recognized on an accrual basis primarily according to formulas in written contracts, such as loan agreements or securities contracts.

Interest Income Recognition: Interest income on loans and investment securities is recognized by methods that result in level rates of return on principal amounts outstanding, including yield adjustments resulting from the amortization of loan costs and premiums on investment securities, and accretion of loan fees and discounts on investment securities. Since mortgage-backed securities comprise a sizable portion of Peoples' investment portfolio, a significant increase in principal payments on those securities can impact interest income due to the corresponding acceleration of premium amortization or discount accretion.

Peoples discontinues the accrual of interest on a loan when conditions cause management to believe collection of all or any portion of the loan's contractual interest is doubtful. Such conditions may include the borrower being 90 days or more past due on any contractual payments, or current information regarding the borrower's financial condition and

repayment ability. All unpaid accrued interest deemed uncollectable is reversed, which reduces Peoples' net interest income. Interest received on nonaccrual loans is included in income only if principal recovery is reasonably assured.
Other Income Recognition: Service charges on deposits include cost recovery fees associated with services provided, such as overdraft and non-sufficient funds. Trust and investment income consists of revenue from fiduciary activities, which include fees for services such as asset management, recordkeeping, retirement services and estate management, and investment commissions and fees related to the sale of investments. Income from these activities is recognized at the time the related services are performed.

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Insurance income consists of commissions and fees from the sales of insurance policies and related insurance services. Insurance income is recognized when it is earned and can be reasonably estimated. Performance-based commissions from insurance companies are recognized when received and no contingencies remain.

Income Taxes: Peoples and its subsidiaries file a consolidated federal income tax return. Deferred income tax assets and liabilities are provided for temporary differences between the tax basis of an asset or liability and its reported amount in the Consolidated Financial Statements at the statutory federal tax rate. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent upon the generation of a sufficient level of future taxable income and recoverable taxes paid in prior years. The components of accumulated other comprehensive income or loss included in the Consolidated Statements of Stockholders' Equity have been computed based upon a 35% federal tax rate.

A tax position is initially recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. Penalties and interest incurred under the applicable tax law are classified as income tax expense. The amount of Peoples' valuation allowance and uncertain income tax positions and unrecognized benefits are disclosed in Note 12.

Advertising Costs: Advertising costs are generally expensed as incurred.

Earnings per Share: Basic and diluted earnings per common share (“EPS”) are calculated using the two-class method since Peoples has issued some share-based payment awards considered participating securities because they entitle holders the rights to dividends during the vesting term. The two-class method is an earnings allocation formula that determines net income per share for each class of common stock and participating security according to dividends declared and participation rights in undistributed earnings. Basic earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing net earnings allocated to common shareholders by the weighted-average number of common shares outstanding adjusted to include the effect of potentially dilutive common shares. Potentially dilutive common shares include incremental common shares issuable upon exercise of outstanding stock options, stock appreciation rights and non-vested restricted common shares using the treasury stock method.

Operating Segments: Peoples' business activities are currently confined to one reporting unit and reportable segment, which is community banking. As a community banking entity, Peoples offers its customers a full range of products including a complete line of banking, insurance, investment and trust solutions.

Stock-Based Compensation: Compensation costs for stock options, restricted stock awards and stock appreciation rights are measured at the fair value of these awards on their grant date. Compensation expense is recognized over the required service period, generally the vesting period for stock options and stock appreciation rights and the restriction period for restricted stock awards. For all awards, only the expense for the portion of the awards expected to vest is recognized. For service-based awards, compensation expense for awards granted to employees who are eligible for retirement is recognized to the date the employee is first eligible to retire.

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

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

•Principal versus agent considerations,
•Collectibility, sales tax and non-cash consideration, practical expedients for contract modifications and completed contracts,
•Identification of performance obligations, and
•Licensing implementation guidance.
This accounting guidance can be implemented using either a full retrospective method or a modified retrospective approach. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018 for Peoples). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. Peoples will adopt this new accounting guidance in 2018, as

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required, and anticipates implementing the 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. Peoples is currently evaluating revenue streams and contracts to determine the impact of the new guidance. Based on Peoples' evaluation to date, it does not expect the adoption of this guidance to have a significant impact on Peoples' financial condition or quarterly or annual results of operations; however, the review is ongoing. Peoples will continue to evaluate the impact of the guidance, including any additional guidance issued, during the completion of this internal assessment.

In November 2016, the FASB issued ASU 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force). The amendments in this update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update do not provide a definition of restricted cash or restricted cash equivalents. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for Peoples). The adoption of the new accounting guidance is not expected to have a material effect on Peoples' statement of cash flow.

In August 2016, the FASB issued ASU 2016-15 - Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This new accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020, for Peoples). The adoption of the new accounting guidance is not expected to have a material effect on Peoples' statement of cash flow.

In March 2016, the FASB issued ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The objective of the simplification initiative is to identify, evaluate, and improve areas of US GAAP for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to users of financial statements. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value are to be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the accounting guidance is adopted. For public entities, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Peoples will adopt this new accounting guidance as required, and it is not expected to have a material impact on Peoples' results of operations.

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

In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The amendment was issued to improve the financial reporting of leasing activities and provide a faithful representation of leasing transactions and improve understanding and comparability of a lessee's financial statements. Under the new accounting guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The ASU will require both finance and operating leases to be recognized on the balance sheet. The ASU will affect all companies and organizations that lease real estate. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 (effective January 1, 2019, for Peoples). As of December 31, 2016, Peoples' leasing exposure was limited to operating leases as disclosed in Note 5. Peoples will adopt this new accounting guidance as required, but it is not expected to have a material impact on Peoples' consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendment is intended to enhance the reporting model for financial instruments to provide users of financial statements with more useful information. The new ASU

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requires equity investments to be measured at fair value with changes in fair value recognized in net income. However, a reporting organization may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment (if any), from observable price changes in orderly transactions for similar investments of the same issuer. The ASU is effective for fiscal years beginning after December 15, 2019 (effective January 1, 2020, for Peoples). Peoples is currently evaluating the impact of adopting the new accounting guidance on Peoples' consolidated financial statements which may result in an impact to the income statement on a quarterly and annual basis, as market rates fluctuate. Peoples will adopt this accounting guidance as required.

Note 2. Fair Value of Financial Instruments

Assets measured at fair value on a recurring basis comprised the following at December 31:

		Fair Value Measurements at Reporting Date Using		
(Dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Obligations of:				
U.S. government sponsored agencies	$1,000	$—	$ 1,000	$ —
States and political subdivisions	117,230	—	117,230	—
Residential mortgage-backed securities	626,567	—	626,567	—
Commercial mortgage-backed securities	19,291	—	19,291	—
Bank-issued trust preferred securities	4,899	—	4,899	—
Equity securities	8,953	8,734	219	—
Total available-for-sale securities	$777,940	$8,734	$ 769,206	$ —
2015				
Obligations of:				
U.S. government sponsored agencies	$2,966	$—	$ 2,966	$ —
States and political subdivisions	114,726	—	114,726	—
Residential mortgage-backed securities	632,293	—	632,293	—
Commercial mortgage-backed securities	23,845	—	23,845	—
Bank-issued trust preferred securities	4,635	—	4,635	—
Equity securities	6,236	6,024	212	—
Total available-for-sale securities	$784,701	$6,024	$ 778,677	$ —

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Held-to-maturity securities reported at fair value comprised the following at December 31:

		Fair Value at Reporting Date Using		
(Dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Obligations of:				
States and political subdivisions	$4,041	$ —	$ 4,041	$ —
Residential mortgage-backed securities	33,762	—	33,762	—
Commercial mortgage-backed securities	5,424	—	5,424	—
Total held-to-maturity securities	$43,227	$ —	$ 43,227	$ —
2015				
Obligations of:				
States and political subdivisions	$4,221	$ —	$ 4,221	$ —
Residential mortgage-backed securities	35,196	—	35,196	—
Commercial mortgage-backed securities	6,436	—	6,436	—
Total held-to-maturity securities	$45,853	$ —	$ 45,853	$ —

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

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

Impaired Loans: Impaired loans are measured and reported at fair value when the amounts to be received are less than the carrying value of the loans. One of the allowable methods for determining the amount of impairment is estimating fair value using the fair value of the collateral for collateral-dependent loans. Management’s determination of the fair value for these loans uses a market approach representing the estimated net proceeds to be received from the sale of the collateral based on observable market prices or market value provided by independent, licensed or certified appraisers (Level 3 inputs). At December 31, 2016, impaired loans with an aggregate outstanding principal balance of $41.9 million were measured and reported at a fair value of $34.7 million. For the year ended December 31, 2016, Peoples recognized gains of $0.2 million on impaired loans through the allowance for loan losses.

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The following table presents the fair values of financial assets and liabilities carried on Peoples' Consolidated Balance Sheets, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis at December 31:

(Dollars in thousands)	2016 Carrying Amount	Fair Value	2015 Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$66,146	$66,146	$71,115	$71,115
Investment securities	859,455	859,538	868,830	868,955
Loans (1)	2,210,529	2,152,544	2,057,614	2,018,482
Financial liabilities:				
Deposits	$2,509,722	$2,512,647	$2,535,944	$2,540,131
Short-term borrowings	305,607	305,607	160,386	160,386
Long-term borrowings	145,155	145,106	113,670	117,299
Cash flow hedges (2)	1,779	1,779	—	—

(1) Includes loans held for sale.
(2) For additional information, see Note 14, Financial Instruments with Off-Balance Sheet Risk.

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

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

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

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

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

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

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Note 3. Investment Securities

Available-for-sale
The following table summarizes Peoples' available-for-sale investment securities at December 31:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
Obligations of:				
U.S. government sponsored agencies	$1,000	$ —	$—	$1,000
States and political subdivisions	115,657	1,836	(263)	117,230
Residential mortgage-backed securities	633,802	3,758	(10,993)	626,567
Commercial mortgage-backed securities	19,337	41	(87)	19,291
Bank-issued trust preferred securities	5,169	91	(361)	4,899
Equity securities	2,052	6,969	(68)	8,953
Total available-for-sale securities	$777,017	$ 12,695	$(11,772)	$777,940
2015				
Obligations of:				
U.S. government sponsored agencies	$2,908	$ 58	$—	$2,966
States and political subdivisions	111,283	3,487	(44)	114,726
Residential mortgage-backed securities	635,504	4,905	(8,116)	632,293
Commercial mortgage-backed securities	23,770	119	(44)	23,845
Bank-issued trust preferred securities	5,146	—	(511)	4,635
Equity securities	1,693	4,627	(84)	6,236
Total available-for-sale securities	$780,304	$ 13,196	$(8,799)	$784,701

At both December 31, 2016 and 2015, Peoples' investment in equity securities was comprised entirely of common stocks issued by various unrelated bank holding companies. At December 31, 2016, there were no securities of a single issuer that exceeded 10% of stockholders' equity.
The gross gains and gross losses realized by Peoples from sales of available-for-sale securities for the years ended December 31 were as follows:

(Dollars in thousands)	2016	2015	2014
Gross gains realized	$933	$795	$1,136
Gross losses realized	3	66	738
Net gain realized	$930	$729	$398

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

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The following table presents a summary of available-for-sale investment securities that had an unrealized loss at December 31:

(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
2016								
Obligations of:								
States and political subdivisions	$23,501	$ 263	28	$—	$ —	—	$23,501	$ 263
Residential mortgage-backed securities	427,088	8,495	108	46,631	2,498	22	473,719	10,993
Commercial mortgage-backed securities	7,770	87	4	—	—	—	7,770	87
Bank-issued trust preferred securities	—	—	—	2,637	361	3	2,637	361
Equity securities	263	3	1	110	65	1	373	68
Total	$458,622	$ 8,848	141	$49,378	$ 2,924	26	$508,000	$ 11,772
2015								
Obligations of:								
States and political subdivisions	$7,662	$ 38	8	$213	$ 6	1	$7,875	$ 44
Residential mortgage-backed securities	303,549	3,902	76	102,090	4,214	33	405,639	8,116
Commercial mortgage-backed securities	6,682	44	3	—	—	—	6,682	44
Bank-issued trust preferred securities	2,129	19	1	2,506	492	3	4,635	511
Equity securities	438	15	2	106	69	1	544	84
Total	$320,460	$ 4,018	90	$104,915	$ 4,781	38	$425,375	$ 8,799

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

At December 31, 2016, approximately 99% of the fair value of mortgage-backed securities that had been at an unrealized loss position for twelve months or more were issued by U.S. government sponsored agencies. The remaining 1%, or two positions, consisted of privately issued mortgage-backed securities with all of the underlying mortgages originated prior to 2004. Both of these two positions had a fair value of less than 90% of their book value, with an aggregate book and fair value of $0.7 million and $0.5 million, respectively. Management has analyzed the underlying credit quality of these securities and concluded the unrealized losses were primarily attributable to the floating rate nature of these investments and the low number of loans remaining in these securities.

Furthermore, the unrealized losses with respect to the three bank-issued trust preferred securities that had been in an unrealized loss position for twelve months or more at December 31, 2016 were primarily attributable to the floating nature of those investments, the current interest rate environment and spreads within that sector.

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The table below presents the amortized cost, fair value and total weighted-average yield of available-for-sale securities by contractual maturity at December 31, 2016. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
U.S. government sponsored agencies	$1,000	$—	$—	$—	$1,000
States and political subdivisions	435	14,354	28,903	71,965	115,657
Residential mortgage-backed securities	2	14,225	33,180	586,395	633,802
Commercial mortgage-backed securities	—	3,246	14,267	1,824	19,337
Bank-issued trust preferred securities	—	—	—	5,169	5,169
Equity securities	—	—	—	—	2,052
Total available-for-sale securities	$1,437	$31,825	$76,350	$665,353	$777,017
Fair value					
Obligations of:					
U.S. government sponsored agencies	$1,000	$—	$—	$—	$1,000
States and political subdivisions	438	14,484	29,250	73,058	117,230
Residential mortgage-backed securities	2	14,020	33,389	579,156	626,567
Commercial mortgage-backed securities	—	3,287	14,185	1,819	19,291
Bank-issued trust preferred securities	—	—	—	4,899	4,899
Equity securities	—	—	—	—	8,953
Total available-for-sale securities	$1,440	$31,791	$76,824	$658,932	$777,940
Total weighted-average yield	2.23 %	4.11 %	3.57 %	3.29 %	3.36 %

Held-to-Maturity

The following table summarizes Peoples' held-to-maturity investment securities at December 31:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
2016				
Obligations of:				
States and political subdivisions	$ 3,820	$ 221	$ —	$4,041
Residential mortgage-backed securities	33,858	432	(528)	33,762
Commercial mortgage-backed securities	5,466	—	(42)	5,424
Total held-to-maturity securities	$ 43,144	$ 653	$ (570)	$43,227
2015				
Obligations of:				
States and political subdivisions	$ 3,831	$ 394	$ (4)	$4,221
Residential mortgage-backed securities	35,367	363	(534)	35,196
Commercial mortgage-backed securities	6,530	—	(94)	6,436
Total held-to-maturity securities	$ 45,728	$ 757	$ (632)	$45,853

There were no gross gains or gross losses realized by Peoples from sales of held-to-maturity securities for the years ended December 31, 2016, 2015 and 2014.

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The following table presents a summary of held-to-maturity investment securities that had an unrealized loss at December 31:

(Dollars in thousands)	Less than 12 Months Fair Value	Unrealized Loss	No. of Securities	12 Months or More Fair Value	Unrealized Loss	No. of Securities	Total Fair Value	Unrealized Loss
2016								
Obligations of:								
Residential mortgage-backed securities	$12,139	$ 476	3	$963	$ 52	1	$13,102	$ 528
Commercial mortgage-backed securities	5,424	42	1	—	—	—	5,424	42
Total	$17,563	$ 518	4	$963	$ 52	1	$18,526	$ 570
2015								
Obligations of:								
States and political subdivisions	$—	$ —	—	$319	$ 4	1	$319	$ 4
Residential mortgage-backed securities	3,706	89	2	10,040	445	2	13,746	534
Commercial mortgage-backed securities	540	4	1	5,895	90	1	6,435	94
Total	$4,246	$ 93	3	$16,254	$ 539	4	$20,500	$ 632

The table below presents the amortized cost, fair value and total weighted-average yield of held-to-maturity securities by contractual maturity at December 31, 2016. The weighted-average yields are based on the amortized cost. In some cases, the issuers may have the right to call or prepay obligations without call or prepayment penalties prior to the contractual maturity date. Rates are calculated on a fully tax-equivalent basis using a 35% federal income tax rate.

(Dollars in thousands)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Total
Amortized cost					
Obligations of:					
States and political subdivisions	$ —	$318	$978	$2,524	$3,820
Residential mortgage-backed securities	—	—	4,623	29,235	33,858
Commercial mortgage-backed securities	—	—	—	5,466	5,466
Total held-to-maturity securities	$ —	$318	$5,601	$37,225	$43,144
Fair value					
Obligations of:					
States and political subdivisions	$ —	$320	$1,058	$2,663	$4,041
Residential mortgage-backed securities	—	—	4,643	29,119	33,762
Commercial mortgage-backed securities	—	—	—	5,424	5,424
Total held-to-maturity securities	$ —	$320	$5,701	$37,206	$43,227
Total weighted-average yield	— %	6.16 %	3.03 %	3.66 %	3.60 %

Other Securities

Peoples' other investment securities on the Consolidated Balance Sheets consist largely of shares of the FHLB and the FRB.

Pledged Securities

Peoples had pledged available-for-sale investment securities with a carrying value of $517.9 million and $495.5 million at December 31, 2016 and 2015, respectively, and held-to-maturity investment securities with a carrying value of $20.0 million and $21.4 million at December 31, 2016 and 2015, respectively, to secure public and trust department deposits and repurchase agreements in accordance with federal and state requirements. Peoples also pledged available-for-sale investment securities with carrying values of $9.2 million and $11.1 million at December 31, 2016 and 2015, respectively, and held-to-maturity securities with carrying values of $22.2 million and $23.3 million at December 31, 2016 and 2015, respectively, to secure additional borrowing capacity at the FHLB and the FRB.

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Note 4. Loans

Peoples' loan portfolio has consisted of various types of loans originated primarily as a result of lending opportunities within Peoples' primary market areas of northeastern, central, southwestern and southeastern Ohio, west central West Virginia, and northeastern Kentucky. Acquired loans consist of loans purchased in 2012 or thereafter in a business combination. The major classifications of loan balances, excluding loans held for sale, were as follows at December 31:

(Dollars in thousands)	2016	2015
Originated loans:		
Commercial real estate, construction	$84,626	$63,785
Commercial real estate, other	531,557	471,184
Commercial real estate	616,183	534,969
Commercial and industrial	378,131	288,130
Residential real estate	307,490	288,783
Home equity lines of credit	85,617	74,176
Consumer, indirect	252,024	165,320
Consumer, other	67,579	61,813
Consumer	319,603	227,133
Deposit account overdrafts	1,080	1,448
Total originated loans	$1,708,104	$1,414,639
Acquired loans:		
Commercial real estate, construction	$10,100	$12,114
Commercial real estate, other	204,466	265,092
Commercial real estate	214,566	277,206
Commercial and industrial	44,208	63,589
Residential real estate	228,435	276,772
Home equity lines of credit	25,875	32,253
Consumer, indirect	808	1,776
Consumer, other	2,940	6,205
Consumer	3,748	7,981
Total acquired loans	$516,832	$657,801
Total loans	$2,224,936	$2,072,440

Peoples has acquired various loans through business combinations for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable that all contractually required payments would not be collected, commonly referred to as "purchased credit impaired" loans. The carrying amounts of these loans included in the loan balances above are summarized as follows at December 31:

(Dollars in thousands)	2016	2015
Commercial real estate	$11,476	$16,893
Commercial and industrial	1,573	3,040
Residential real estate	23,306	27,155
Consumer	76	193
Total outstanding balance	$36,431	$47,281
Net carrying amount	$26,524	$35,064

Changes in the accretable yield for acquired purchased credit impaired loans during the year ended December 31, 2016 were as follows:

(Dollars in thousands)	Accretable Yield

Balance, December 31, 2015	$ 7,042
Additions:	
Reclassification from nonaccretable to accretable	2,014
Accretion	(1,924)
Balance, December 31, 2016	$ 7,132

Peoples completed semi-annual re-estimations of cash flows on purchase credit impaired loans in February and August of 2016. The above reclassification from nonaccretable to accretable was related to the re-estimation of cash flows on the purchase credit impaired loan portfolios, coupled with the loans performing better than expected. The majority of the reclassification related to prepayment speeds decreasing in the residential loan portfolio, resulting in higher total expected cash flows. In 2017, Peoples will complete the re-estimation of cash flows on purchase credit impaired loans on an as needed basis and, in any event, at least annually in August.

Cash flows expected to be collected on purchase credit impaired loans are estimated by incorporating several key assumptions similar to those used in 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 amount of principal expected to be collected. In reforecasting future estimated cash flows, credit loss expectations are adjusted as necessary.

Peoples has pledged 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 $542.5 million and $554.8 million at December 31, 2016 and 2015, respectively. Peoples also had pledged commercial loans to secure borrowings with the FRB. The outstanding balances of these loans totaled $152.0 million and $195.5 million at December 31, 2016 and 2015, respectively.

Related Party Loans

In the normal course of its business, Peoples Bank has granted loans to certain directors and officers of Peoples Bancorp Inc., including their affiliates, families and entities in which they are principal owners. At December 31, 2016, no related party loan was past due 90 or more days, renegotiated or on nonaccrual status. Activity in related party loans is presented in the table below. Other changes primarily consist of changes in related party status and new directors elected during the year.

(Dollars in thousands)	
Balance, December 31, 2015	$19,221
New loans and disbursements	5,702
Repayments	(7,330)
Other changes	—
Balance, December 31, 2016	$17,593

Nonaccrual and Past Due Loans

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

The recorded investments in loans on nonaccrual status and accruing loans delinquent for 90 days or more were as follows at December 31:

	Nonaccrual Loans		Accruing Loans 90+ Days Past Due	
(Dollars in thousands)	2016	2015	2016	2015
Originated loans:				
Commercial real estate, construction	$826	$921	$—	$—
Commercial real estate, other	9,934	7,041	—	—
Commercial real estate	10,760	7,962	—	—
Commercial and industrial	1,712	480	—	680
Residential real estate	3,778	3,057	183	169
Home equity lines of credit	383	321	—	—

Consumer, indirect	130	34	10	—
Consumer, other	11	58	—	1
Consumer	141	92	10	1
Total originated loans	$16,774	$11,912	$193	$850
Acquired loans:				
Commercial real estate, other	$1,609	$469	$1,506	$2,425
Commercial and industrial	390	247	387	1,306
Residential real estate	2,317	798	1,672	1,353
Home equity lines of credit	231	98	—	35
Consumer, indirect	—	—	13	—
Consumer, other	4	7	—	—
Consumer	4	7	13	—
Total acquired loans	$4,551	$1,619	$3,578	$5,119
Total loans	$21,325	$13,531	$3,771	$5,969

The following table presents the aging of the recorded investment in past due loans at December 31:

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

(Dollars in thousands)	Loans Past Due 30 - 59 days	60 - 89 days	90 + Days	Total	Current Loans	Total Loans
2015						
Originated loans:						

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

Credit Quality Indicators

As discussed in Note 1, 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 category would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the loan if required, for any weakness that may exist.

“Watch” (grade 5): Loans in this risk category are the equivalent of the regulatory “Other Assets Especially Mentioned” classification. 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 the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the loan or in Peoples' credit position.

“Substandard” (grade 6): Loans in this risk category are inadequately protected by the borrower's current financial condition and payment capability, or by 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 category have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, classification of these loans as an estimate loss is deferred until their more exact status may be determined.

“Loss” (grade 8): Loans in this risk category are considered to be non-collectible and of such little value that their continuance as bankable assets is not warranted. This does not mean each such 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 risk category.

Consumer loans and other smaller-balance loans are evaluated and categorized as "substandard", "doubtful" or "loss" based upon the regulatory definition of these classes and consistent with regulatory requirements. All other loans not evaluated individually, nor meeting the regulatory conditions to be categorized as described above, would be considered as being "not rated".

The following table summarizes the risk category of Peoples' loan portfolio based upon the most recent analysis performed at December 31:

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

(Dollars in thousands)	Pass Rated (Grades 1 - 4)	Watch (Grade 5)	Substandard (Grade 6)	Doubtful (Grade 7)	Not Rated	Total Loans
2015						
Originated loans:						
Commercial real estate, construction	$62,225	$—	$ 913	$ —	$647	$63,785
Commercial real estate, other	434,868	18,710	17,595	—	11	471,184
Commercial real estate	497,093	18,710	18,508	—	658	534,969
Commercial and industrial	259,183	23,601	5,344	—	2	288,130
Residential real estate	21,903	1,168	12,282	187	253,243	288,783
Home equity lines of credit	785	—	175	—	73,216	74,176
Consumer, indirect	114	—	—	—	165,206	165,320
Consumer, other	94	—	3	—	61,716	61,813
Consumer	208	—	3	—	226,922	227,133
Deposit account overdrafts	—	—	—	—	1,448	1,448
Total originated loans	$779,172	$43,479	$ 36,312	$ 187	$555,489	$1,414,639
Acquired loans:						

Commercial real estate, construction	$12,114	$—	$ —	$ —	$—	$12,114
Commercial real estate, other	233,630	13,866	17,521	75	—	265,092
Commercial real estate	245,744	13,866	17,521	75	—	277,206
Commercial and industrial	56,077	3,078	4,238	196	—	63,589
Residential real estate	18,027	1,409	1,786	—	255,550	276,772
Home equity lines of credit	316	—	—	—	31,937	32,253
Consumer, indirect	126	—	—	—	1,650	1,776
Consumer, other	130	—	—	—	6,075	6,205
Consumer	256	—	—	—	7,725	7,981
Total acquired loans	$320,420	$18,353	$ 23,545	$ 271	$295,212	$657,801
Total loans	$1,099,592	$61,832	$ 59,857	$ 458	$850,701	$2,072,440

Impaired Loans

The following tables summarize loans classified as impaired at December 31:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment With Allowance	Recorded Investment Without Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
2016							
Commercial real estate, construction	$894	$—	$ 866	$ 866	$ —	$ 913	$ 3
Commercial real estate, other	20,029	7,474	12,227	19,701	803	18,710	700
Commercial real estate	20,923	7,474	13,093	20,567	803	19,623	703
Commercial and industrial	7,289	2,732	1,003	3,735	585	3,386	125
Residential real estate	27,703	138	27,393	27,531	24	27,455	1,419
Home equity lines of credit	908	—	908	908	—	717	44
Consumer, indirect	220	—	224	224	—	136	16
Consumer, other	130	—	130	130	—	138	13
Consumer	350	—	354	354	—	274	29
Total	$57,173	$10,344	$ 42,751	$ 53,095	$ 1,412	$ 51,455	$ 2,320
2015							
Commercial real estate, construction	$957	$—	$ 957	957	$ —	$ 227	$ 3
Commercial real estate, other	23,430	6,396	12,772	19,168	1,363	13,070	815
Commercial real estate	24,387	6,396	13,729	20,125	1,363	13,297	818
Commercial and industrial	5,670	1,224	4,130	5,354	351	4,049	246
Residential real estate	31,304	370	28,834	29,204	106	26,785	1,354
Home equity lines of credit	425	—	419	419	—	325	18
Consumer, indirect	118	—	103	103	—	84	—
Consumer, other	265	—	195	195	—	210	28
Consumer	383	—	298	298	—	294	28
Total	$62,169	$7,990	$ 47,410	$ 55,400	$ 1,820	$ 44,750	$ 2,464

At December 31, 2016, Peoples' impaired loans shown in the table above included loans that were classified as troubled debt restructurings ("TDRs").

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

Peoples considers all aspects of the modification to loan terms to determine whether or not a concession has been granted to the borrower. Key factors considered by Peoples include the borrower's ability to access funds at a market rate for loans with similar risk characteristics, the significance of the modification relative to the unpaid principal loan balance or collateral value underlying the loan, 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 debt with similar risk, (iii) a temporary period of interest-only payments, and (iv) a reduction in the contractual payment amount for either a short period or the remaining term of the loan.

The following table summarizes the loans that were modified as TDRs during the years ended December 31, 2016 and 2015.

(Dollars in thousands)	Number of Contracts	Recorded Investment (1) Pre-Modification	Post-Modification	Remaining Recorded Investment
2016				
Originated loans:				
Commercial real estate, other	3	$109	$ 109	$ 107
Commercial and industrial	7	828	836	750
Residential real estate	8	266	266	266
Home equity lines of credit	5	81	81	81
Consumer, indirect	14	164	164	164
Consumer, other	3	24	24	23
Consumer	17	188	188	187
Total	40	$1,472	$ 1,480	$ 1,391
Acquired loans:				
Commercial real estate, construction	2	$237	$ 237	$ 237
Residential real estate	14	1,080	1,082	1,076
Home equity lines of credit	4	260	260	250
Consumer, indirect	2	7	7	7
Consumer, other	3	15	15	15
Consumer	5	22	22	22
Total	25	$1,599	$ 1,601	$ 1,585
2015				
Originated loans:				
Commercial real estate, other	5	$900	$ 900	$ 881
Commercial and industrial	4	834	834	834
Residential real estate	4	207	207	115
Home equity lines of credit	11	402	402	389
Consumer, indirect	5	51	51	50
Consumer, other	7	44	44	44
Consumer	12	95	95	94
Total	36	$2,438	$ 2,438	$ 2,313
Acquired loans:				
Residential real estate	4	$246	$ 246	$ 246
Home equity lines of credit	1	8	8	7
Total	5	$254	$ 254	$ 253

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

The following table presents those loans modified in a TDR during the year that subsequently defaulted (i.e., 90 days or more past due following a modification) during the years ended December 31, 2016 and 2015:

(Dollars in thousands)	2016 Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses	2015 Number of Contracts	Recorded Investment (1)	Impact on the Allowance for Loan Losses
Acquired loans:						
Residential real estate	—	$ —	$ —	1	$ 151	$ —
Total	—	$ —	$ —	1	$ 151	$ —

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

Peoples had no commitments to lend additional funds to the related borrowers whose loan terms have been modified in a TDR.

Allowance for Loan Losses

Changes in the allowance for loan losses in the periods ended December 31, were as follows:

(Dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Residential Real Estate	Home Equity Lines of Credit	Consumer	Deposit Account Overdrafts	Total
Balance, January 1, 2016	$ 7,076	$ 5,382	$ 1,257	$ 732	$ 1,971	$ 121	$ 16,539
Charge-offs	(24)	(1,017)	(588)	(73)	(2,655)	(774)	(5,131)
Recoveries	1,209	306	278	56	1,285	175	3,309
Net recoveries (charge-offs)	1,185	(711)	(310)	(17)	(1,370)	(599)	(1,822)
(Recovery of) provision for loan losses	(1,089)	1,682	35	(27)	2,229	649	3,479
Balance, December 31, 2016	$ 7,172	$ 6,353	$ 982	$ 688	$ 2,830	$ 171	$ 18,196
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 803	$ 585	$ 24	$ —	$ —	$ —	$ 1,412
Loans collectively evaluated for impairment	6,369	5,768	958	688	2,830	171	16,784
Balance, December 31, 2016	$ 7,172	$ 6,353	$ 982	$ 688	$ 2,830	$ 171	$ 18,196
Balance, January 1, 2015	$ 9,825	$ 4,036	$ 1,627	$ 694	$ 1,587	$ 112	$ 17,881
Charge-offs	(242)	(13,576)	(628)	(125)	(1,353)	(774)	(16,698)
Recoveries	104	98	315	119	755	171	1,562
Net charge-offs	(138)	(13,478)	(313)	(6)	(598)	(603)	(15,136)
(Recovery of) provision for loan losses	(2,611)	14,824	(57)	44	982	612	13,794
Balance, December 31, 2015	$ 7,076	$ 5,382	$ 1,257	$ 732	$ 1,971	$ 121	$ 16,539
Period-end amount allocated to:							
Loans individually evaluated for impairment	$ 1,363	$ 351	$ 106	$ —	$ —	$ —	$ 1,820
Loans collectively evaluated for impairment	5,713	5,031	1,151	732	1,971	121	14,719
Balance, December 31, 2015	$ 7,076	$ 5,382	$ 1,257	$ 732	$ 1,971	$ 121	$ 16,539

The increase in the total allowance for loan losses in 2016, was primarily due to total loan growth of 7%, or $152.5 million, with growth of 8% in commercial loan balances and 7% in consumer loan balances. Indirect lending experienced the largest growth across all loan categories for the year, increasing by $85.7 million, or 51%.

Commercial and industrial loan growth was $70.6 million, or 20%, for 2016.

Historical loss rates are calculated using charge-offs and recoveries within each portfolio over the past five years. The large provision for commercial and industrial loans during 2015 was primarily related to a specific allowance for one relationship which was charged off in 2015. The reduction in the allowance for originated residential real estate was driven by net recoveries in recent years reducing the historical loss rates. The changes in the home equity lines of credit and consumer categories of the allowance for originated loan losses and the related provision for originated loan losses recorded during 2015 were driven by net charge-off activity and increases in the size of the respective loan portfolios.

Allowance for Acquired Loan Losses

Acquired loans are recorded at their fair value as of the acquisition date with no valuation allowance, and monitored for changes in credit quality and subsequent increases or decreases in expected cash flows. Decreases in expected cash flows of purchase 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. Management reforecasts the estimated cash flows expected to be collected on purchase credit impaired loans semi-annually. 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.

The following table presents activity in the allowance for loan losses for acquired loans as of December 31:

(Dollars in thousands)	2016	2015
Purchase credit impaired loans:		
Balance, January 1	$240	$—
Charge-offs	(67)	(63)
Recoveries	—	—
Net (charge-offs) recoveries	(67)	(63)
Provision for loan losses	60	303
Balance, December 31	$233	$240

As of December 31, 2016 and 2015, the expected cash flows for purchase credit impaired loans had decreased from those estimated as of the respective acquisition dates, resulting in Peoples recording a provision for loan losses with respect to those acquired loans.

Note 5. Bank Premises and Equipment

The major categories of bank premises and equipment and accumulated depreciation at December 31 are summarized as follows:

(Dollars in thousands)	2016	2015
Land	$12,085	$11,976
Building and premises	61,451	58,607
Furniture, fixtures and equipment	26,078	25,487
Total bank premises and equipment	99,614	96,070
Accumulated depreciation	(45,998)	(42,583)
Net book value	$53,616	$53,487

Peoples depreciates its building and premises and furniture, fixtures and equipment over estimated useful lives generally ranging from 5 to 40 years and 2 to 10 years, respectively. Depreciation expense was $5.1 million, $4.6 million and $3.0 million, in 2016, 2015 and 2014, respectively.

Leases

Peoples leases certain banking facilities and equipment under various agreements with original terms providing for fixed monthly payments over periods generally ranging from two to ten years. Certain leases contain renewal options and rent escalation clauses calling for rent increases over the term of the lease. All leases which contain a rent escalation clause are accounted for on a straight-line basis. Rent expense on the leased properties and equipment was $1,073,000, $988,000, and $951,000 in 2016, 2015 and 2014, respectively.

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Peoples Insurance Agency, LLC ("Peoples Insurance") previously leased a property from certain of its managers; however, in 2014, this lease expired and was not renewed. Payments related to this lease totaled $64,000 in 2014. The terms of the lease were substantially the same as those offered for comparable transactions with non-related parties at the time the lease transaction was consummated.

The future minimum payments under noncancellable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2016:

(Dollars in thousands)	Payments
2017	$ 745
2018	731
2019	431
2020	217
2021	207
Thereafter	354
Total future operating lease payments	$ 2,685

Note 6. Goodwill and Other Intangible Assets

The following table details changes in the recorded amount of goodwill for the years ended December 31:

(Dollars in thousands)	2016	2015
Goodwill, beginning of year	$132,631	$98,562
Acquired goodwill	—	34,069
Goodwill, end of year	$132,631	$132,631

Peoples performed the required goodwill impairment test and concluded there was no impairment in the recorded value of goodwill in 2016, based upon the estimated fair value of the single reporting unit. During the annual goodwill impairment test, Peoples assessed qualitative factors, including relevant events and circumstances, to determine that it was more likely than not that the fair value of the reporting unit exceeded the carrying value.

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Other intangible assets

Other intangible assets were comprised of the following at December 31:

(Dollars in thousands)	Core Deposits	Customer Relationships	Total
2016			
Gross intangibles	$16,150	$ 4,859	$21,009
Acquired intangibles	—	514	514
Accumulated amortization	(7,594)	(2,847)	(10,441)
Total acquired intangibles	$8,556	$ 2,526	$11,082
Servicing rights			2,305
Total other intangibles			$13,387
2015			
Gross intangibles	$7,013	$ 8,858	$15,871
Acquired intangibles	8,623	1,695	10,318
Accumulated amortization	(4,396)	(7,194)	(11,590)
Total acquired intangibles	$11,240	$ 3,359	$14,599
Servicing rights			2,387
Total other intangibles			$16,986

The following table details estimated aggregate future amortization expense of core deposit and customer relationship intangible assets at December 31, 2016:

(Dollars in thousands)	Core Deposits	Customer Relationships	Total
2017	$ 2,688	$ 722	$3,410
2018	2,175	606	2,781
2019	1,658	482	2,140
2020	1,138	352	1,490
2021	648	217	865
Thereafter	249	147	396
Total	$ 8,556	$ 2,526	$11,082

For further information regarding Peoples' acquisitions, refer to Note 17.

The following is an analysis of activity of servicing rights for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Balance, beginning of year	$2,387	$2,238	$2,295
Amortization	(762)	(662)	(597)
Servicing rights originated	680	566	497
Servicing rights acquired	—	245	43
Balance, end of year	$2,305	$2,387	$2,238

No valuation allowances were required at December 31, 2016, 2015 and 2014 for Peoples’ servicing rights since the fair value equaled or exceeded the book value.

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Note 7. Deposits

Peoples' deposit balances were comprised of the following at December 31:

(Dollars in thousands)	2016	2015
Retail certificates of deposit:		
$100,000 or more	$173,499	$189,583
Less than $100,000	211,362	259,409
Retail certificates of deposit	384,861	448,992
Savings accounts	436,344	414,375
Money market deposit accounts	407,754	394,119
Governmental deposit accounts	251,671	276,639
Interest-bearing transaction accounts	278,975	250,023
Brokered certificates of deposits	15,696	33,857
Total interest-bearing deposits	1,775,301	1,818,005
Non-interest-bearing deposits	734,421	717,939
Total deposits	$2,509,722	$2,535,944

The contractual maturities of certificates of deposits for each of the next five years and thereafter are as follows:

(Dollars in thousands)	Retail	Brokered	Total
2017	$194,394	$—	$194,394
2018	76,308	1,147	77,455
2019	44,022	14,549	58,571
2020	30,282	—	30,282
2021	39,743	—	39,743
Thereafter	112	—	112
Total deposits	$384,861	$15,696	$400,557

Deposits from related parties approximated $42.0 million and $43.0 million at December 31, 2016 and 2015, respectively.

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Note 8. Short-Term Borrowings

Peoples utilizes various short-term borrowings as sources of funds, which are summarized as follows at December 31:

(Dollars in thousands)	Retail Repurchase Agreements	FHLB Advances	Other Short-Term Borrowings
2016			
Ending balance	$ 74,607	$ 231,000	$ —
Average balance	72,886	86,260	23
Highest month-end balance	81,353	231,000	—
Interest expense	123	384	—
Weighted-average interest rate:			
End of year	0.17 %	0.64 %	— %
During the year	0.17 %	0.44 %	1.11 %
2015			
Ending balance	$ 84,386	$ 76,000	$ —
Average balance	83,574	16,863	—
Highest month-end balance	92,711	76,000	—
Interest expense	140	42	—
Weighted-average interest rate:			
End of year	0.17 %	0.35 %	— %
During the year	0.17 %	0.25 %	— %
2014			
Ending balance	$ 73,277	$ 15,000	$ —
Average balance	59,324	36,678	38
Highest month-end balance	76,459	108,000	—
Interest expense	99	47	—
Weighted-average interest rate:			
End of year	0.17 %	0.14 %	— %
During the year	0.17 %	0.13 %	0.75 %

Peoples' retail repurchase agreements consist of overnight agreements with Peoples' commercial customers and serve as a cash management tool.

The FHLB advances consist of overnight borrowings and other advances with an original maturity of one year or less. These advances, along with the long-term advances disclosed in Note 9, are collateralized by residential mortgage loans and investment securities. Peoples' borrowing capacity with the FHLB is based on the amount of collateral pledged and the amount of FHLB common stock owned.

Other short-term borrowings consist of federal funds purchased and advances from the Federal Reserve Discount Window. Federal funds purchased are short-term borrowings from correspondent banks that typically mature within one to ninety days. Peoples had available federal funds of $5 million from certain of its correspondent banks at December 31, 2016. Interest on federal funds purchased is set daily by the correspondent bank based on prevailing market rates. The Federal Reserve Discount Window provides credit facilities to financial institutions, which are designed to ensure adequate liquidity by providing a source of short-term funds. Discount Window advances are typically overnight and must be secured by collateral acceptable to the lending Federal Reserve Bank.

Peoples had a $15 million revolving credit loan which was to bear interest at a fixed per annum rate equal to 3% plus the one-month LIBOR rate, to be reset monthly. This revolving credit loan was subject to the same covenants as detailed in Note 9 for the term loan. At December 31, 2015, this revolving credit loan had no outstanding principal balance and Peoples terminated the revolving credit loan on March 2, 2016. This revolving credit loan was replaced on March 4, 2016, when Peoples secured a revolving line of credit in the maximum aggregate principal amount of $15 million. Additional information regarding the revolving line of credit can be found in Note 9.

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Note 9. Long-Term Borrowings

Long-term borrowings consisted of the following at December 31:

	2016			2015		
(Dollars in thousands)	Balance	Weighted-Average Rate		Balance	Weighted-Average Rate	
FHLB putable non-amortizing, fixed-rate advances	$70,000	2.49	%	$50,000	3.32	%
FHLB amortizing, fixed-rate advances	28,282	2.01	%	16,934	2.69	%
Callable national market repurchase agreements	40,000	3.63	%	40,000	3.63	%
Junior subordinated debt securities	6,924	2.45	%	6,736	1.83	%
Unamortized debt issuance cost	(51)	—	%	—	—	%
Long-term borrowings	$145,155	2.71	%	$113,670	3.25	%

The putable, non-amortizing, fixed-rate FHLB advances have original maturities ranging from two to eleven years that may be repaid prior to maturity, subject to termination fees. The FHLB has the option, at its sole discretion, to terminate each advance after the initial fixed rate period ranging from three months to five years, requiring full repayment of the advance by Peoples, prior to the stated maturity. If the advance is terminated prior to maturity, the FHLB will offer Peoples replacement funding at the then-prevailing rate on an advance product then-offered by the FHLB, subject to normal FHLB credit and collateral requirements. These advances require monthly interest payments, with no repayment of principal until the earlier of either an option to terminate exercised by the FHLB or the stated maturity.

The amortizing, fixed-rate FHLB advances have a fixed rate for the term of each advance, with maturities ranging from two to fifteen years. These advances require monthly principal and interest payments, with some having a constant prepayment rate requiring an additional principal payment annually. These advances are not eligible for optional prepayment prior to maturity. As discussed in Note 8, long-term FHLB advances are collateralized by assets owned by Peoples.

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

Peoples restructured $20 million of long-term FHLB advances that had a weighted-average rate of 2.97%, resulting in a $700,000 loss. Peoples replaced these borrowings with a long-term FHLB advance, which has an interest rate of 2.17% and matures in 2026.

Peoples borrowed an additional $35 million of long-term FHLB amortizing advances, which had interest rates ranging from 1.08% to 1.40%, and mature between 2019 and 2031.

Peoples entered into five forward starting interest rate swaps to obtain short-term borrowings at fixed rates, with interest rates ranging from 1.49% to 1.83%, which become effective in 2018 and mature between 2022 and 2026. These swaps locked in funding rates for $40 million in FHLB advances that mature in 2018, which have interest rates ranging from 3.57% to 3.92%.

Additional information regarding Peoples' interest rate swaps can be found in Note 14.

Peoples' callable national market repurchase agreements consist of agreements with unrelated financial service companies and have original maturities ranging from five to ten years. In general, these agreements may not be terminated by Peoples prior to maturity without incurring additional costs. The callable national market repurchase agreements contain call option features, in which the buyer has the right, at its discretion, to terminate the repurchase agreement after an initial period ranging from three months to five years. After the initial call period, the buyer has a one-time option to terminate the repurchase agreement. If the buyer exercises its option, Peoples would be required to repay the repurchase agreement in whole at the quarterly date. Peoples is required to make quarterly interest payments.

On March 4, 2016, Peoples entered into a Credit Agreement (the "RJB Credit Agreement"), with Raymond James Bank, N.A. ("Raymond James Bank") which provides Peoples with a revolving line of credit in the maximum aggregate principal amount of $15 million (the "RJB Loan Commitment") for the purpose of: (i) to the extent that any amounts remained outstanding, paying off the then outstanding $15 million revolving credit loan of Peoples; (ii) making acquisitions; (iii)

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making stock repurchases; (iv) working capital needs; and (v) other general corporate purposes. On March 4, 2016, Peoples paid fees of $70,600, representing 0.47% of the RJB Loan Commitment.

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

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

(a) neither Peoples nor any of its subsidiaries may create, incur or suffer to exist additional indebtedness with an aggregate principal amount which exceeds $10 million at any time outstanding, subject to specific negotiated carve-outs;

(b) neither Peoples nor any of its subsidiaries may be a party to certain material transactions (such as mergers or consolidations with third parties, liquidations or dissolutions, sales of assets, acquisitions, investments and sale/leaseback transactions), subject to transactions in the ordinary course of the banking business of Peoples Bank and new investments in an aggregate amount not exceeding $10 million being permitted as well as specific negotiated carve-outs;

(c) neither Peoples nor any of its subsidiaries may voluntarily prepay, defease, purchase, redeem, retire or otherwise acquire any subordinated indebtedness issued by them; subject to specific negotiated carve-outs and the consent of Raymond James Bank; and

(d) neither Peoples nor any of its subsidiaries may make any Restricted Payments (as defined in the RJB Credit Agreement), except that, to the extent legally permissible, (i) any subsidiary may declare and pay dividends to Peoples or a wholly-owned subsidiary of Peoples and (ii) Peoples may declare and pay dividends on its common shares provided that no event of default exists before or after giving effect to the dividend and Peoples is in compliance (on a pro forma basis) with the financial covenants specified in the RJB Credit Agreement, after giving effect to the dividend.

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

(i) Peoples (on a consolidated basis) and Peoples Bank must be “well capitalized” at all times, as defined and determined by the applicable governmental authority having jurisdiction over Peoples or Peoples Bank;

(ii) Peoples (on a consolidated basis) and Peoples Bank must maintain a Total risk-based capital ratio (as defined by the applicable governmental authority having regulatory authority over Peoples or Peoples Bank) of at least 12.50% as of the last day of any fiscal quarter;

(iii) Peoples Bank must maintain a ratio of “Non-Performing Assets” to “Tangible Primary Capital” of not more than 20% as of the last day of any fiscal quarter;

(iv) Peoples Bank must maintain a ratio of “Loan Loss Reserves” to “Non-Performing Loans” of not less than 70% at all times; and

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

As of December 31, 2016, Peoples was in compliance with the applicable covenants imposed by the RJB Credit Agreement.

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On March 6, 2015, Peoples completed its acquisition of NB&T Financial Group, Inc. ("NB&T"), which included the assumption of Fixed/Floating Rate Junior Subordinated Debt Securities due 2037 (the "junior subordinated debt securities") at an acquisition-date fair value of $6.6 million held in a wholly-owned statutory trust whose common securities were wholly-owned by NB&T. The sole assets of the statutory trust are the junior subordinated debt securities and related payments. The junior subordinated debt securities and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee of the obligations of the statutory trust under the Capital Securities held by third-party investors. Distributions on the Capital Securities are payable at the annual rate of 1.50% over the 3-month LIBOR. Distributions on the Capital Securities are included in interest expense in the Consolidated Financial Statements. These securities are considered Tier I capital (with certain limitations applicable) under current regulatory guidelines. The junior subordinated debt securities are subject to mandatory redemption, in whole or in part, upon repayment of the Capital Securities at maturity or their earlier redemption at the liquidation amount. Subject to prior approval of the Federal Reserve, the Capital Securities are redeemable prior to the maturity date of September 6, 2037, and are redeemable at par. Since September 6, 2012, the Capital Securities have been redeemable at par, subject to such approval. Distributions on the Capital Securities can be deferred from time to time for a period not to exceed 20 consecutive semi-annual periods.

At December 31, 2016, the aggregate minimum annual retirements of long-term borrowings in future periods were as follows:

(Dollars in thousands)	Balance	Weighted-Average Rate	
2017	$5,545	1.76	%
2018	64,971	3.54	%
2019	13,508	1.27	%
2020	10,564	2.03	%
2021	6,979	1.47	%
Thereafter	43,588	2.4	%
Long-term borrowings	$145,155	2.71	%

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Note 10. Stockholders' Equity

The following table details the activity in Peoples' common stock and treasury stock during the years ended December 31:

	Common Stock	Treasury Stock
Shares at December 31, 2013	11,352,036	600,794
Changes related to stock-based compensation awards:		
Grant of restricted common shares	101,926	—
Release of restricted common shares	—	18,031
Cancellation of restricted common shares	(6,062)	—
Exercise of stock options for common shares	—	(2,792)
Reissuance of treasury stock of common stock awards	—	(12,030)
Grant of common shares	100	—
Changes related to deferred compensation plan for Boards of Directors:		
Purchase of treasury stock	—	4,236
Reissuance of treasury stock		(9,390)
Common shares issued under dividend reinvestment plan	17,230	—
Common shares issued under compensation plan for Board of Directors	—	(8,603)
Issuance of common shares related to acquisitions:		
Midwest Bancshares, Inc.	256,282	—
Ohio Heritage Bancorp, Inc.	1,364,735	—
North Akron Savings Bank	665,570	—
Common shares issued to institutional investors in private placement	1,847,826	—
Shares at December 31, 2014	15,599,643	590,246
Changes related to stock-based compensation awards:		
Grant of restricted common shares	131,011	—
Release of restricted common shares	—	25,205
Cancellation of restricted common shares	(28,219)	—
Grant of common shares	2,810	(100)
Changes related to deferred compensation plan for Boards of Directors:		
Purchase of treasury stock	—	7,654
Reissuance of treasury stock	—	(9,642)
Common shares issued under dividend reinvestment plan	18,257	—
Common shares issued under compensation plan for Board of Directors	—	(10,231)
Common shares issued under employee stock purchase plan	—	(16,446)
Issuance of common shares related to acquisition of NB&T Financial Group, Inc.	3,207,698	—
Shares at December 31, 2015	18,931,200	586,686

	Common Stock	Treasury Stock
Changes related to stock-based compensation awards:		

Grant of restricted common shares	—	(56,000)
Grant of common shares		(350)
Release of restricted common shares	—	17,220
Cancellation of restricted common shares	(11,820)	1,000
Exercise of stock options for common shares	—	(1,775)
Changes related to deferred compensation plan for Boards of Directors:		
Purchase of treasury stock	—	8,396
Reissuance of treasury stock	—	(12,012)
Common shares purchased under repurchase program	—	279,770
Common shares issued under dividend reinvestment plan	19,711	—
Common shares issued under compensation plan for Board of Directors	—	(11,450)
Common shares issued under employee stock purchase plan	—	(15,727)
Shares at December 31, 2016	18,939,091	795,758

On November 3, 2015, Peoples announced that its Board of Directors approved and adopted a share repurchase program authorizing Peoples to purchase, from time to time, up to an aggregate of $20 million of its outstanding common shares. No common shares were purchased in 2015. During 2016, Peoples repurchased 279,770 common shares at a cost of $5.0 million under the program.

On March 6, 2015, Peoples completed its acquisition of NB&T, and issued 3,207,698 common shares reflecting $76.0 million of consideration, with the remainder paid in cash.

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

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 December 31, 2016, Peoples had no preferred shares issued or outstanding.

Accumulated Other Comprehensive (Loss) Income

The following details the change in the components of Peoples’ accumulated other comprehensive (loss) income for the years ended December 31:

(Dollars in thousands)	Unrealized (Loss) Gain on Securities	Unrecognized Net Pension and Postretirement Costs	Unrealized Gain on Cash Flow Hedge	Accumulated Other Comprehensive (Loss) Income

Balance, December 31, 2013	$ (9,761)	$ (3,483)	$ —	$ (13,244)
Reclassification adjustments to net income:				
Realized gain on sale of securities, net of tax	(259)	—	—	(259)
Realized loss due to settlement and curtailment, net of tax	—	910	—	910
Other comprehensive income (loss), net of reclassifications and tax	12,562	(1,270)	—	11,292
Balance, December 31, 2014	$ 2,542	$ (3,483)	$ —	$ (1,301)
Reclassification adjustments to net income:				
Realized gain on sale of securities, net of tax	(474)	—	—	(474)
Realized loss due to settlement and curtailment, net of tax	—	298	—	298
Other comprehensive income, net of reclassifications and tax	801	317	—	1,118
Balance, December 31, 2015	$ 2,869	$ (3,228)	$ —	$ (359)
Reclassification adjustments to net income:				
Realized gain on sale of securities, net of tax	(604)		—	(604)
Other comprehensive (loss) income, net of reclassifications and tax	(1,684)	(93)	1,186	(1,777)
Balance, December 31, 2016	$ 581	$ (3,321)	$ 1,186	$ (1,554)

Note 11. Employee Benefit Plans

Peoples sponsors a noncontributory defined benefit pension plan that covers substantially all employees hired before January 1, 2010. The plan provides retirement benefits based on an employee’s years of service and compensation. For employees hired before January 1, 2003, the amount of postretirement benefit is based on the employee’s average monthly compensation pay over the highest five consecutive years out of the employee’s last ten years with Peoples while an eligible employee. For employees hired on or after January 1, 2003, the amount of postretirement benefit is based on 2% of the employee’s annual compensation plus accrued interest. Effective January 1, 2010, the pension plan was closed to new entrants. Effective March 1, 2011, the accrual of pension plan benefits for all participants was frozen. Peoples recognized this freeze as a curtailment as of December 31, 2010 and March 1, 2011, under the terms of the pension plan. Effective July 1, 2013, a participant in the pension plan who is employed by Peoples may elect to receive or to commence receiving such person's retirement benefits as of the later of such person's normal retirement date or the first day of the month first following the date such person makes an election to receive his or her retirement benefits.

Peoples also provides post-retirement health and life insurance benefits to former employees and directors. Only those individuals who retired before January 27, 2012 were eligible for life insurance benefits. As of January 1, 2011, all retirees who desire to participate in the Peoples Bank medical plan do so by electing COBRA, which provides up to 18 months of coverage; retirees over the age of 65 also have the option to participate in a group Medicare supplemental plan. Peoples only pays 100% of the cost for those individuals who retired before January 1, 1993. For all others, the retiree is responsible for most, if not all, of the cost of the health benefits. Peoples’ policy is to fund the cost of the benefits as they arise.

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The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ended December 31, 2016, and a statement of the funded status as of December 31, 2016 and 2015:

	Pension Benefits		Post-retirement Benefits	
(Dollars in thousands)	2016	2015	2016	2015
Change in benefit obligation:				
Obligation at January 1	$11,965	$13,695	$126	$152
Interest cost	438	447	4	4
Plan participants' contributions	—	—	49	65
Actuarial loss (gain)	151	(948)	(7)	(10)
Benefit payments	(427)	(148)	(69)	(85)
Settlements	—	(1,081)	—	—
Obligation at December 31	$12,127	$11,965	$103	$126
Accumulated benefit obligation at December 31	$12,127	$11,965	$—	$—
Change in plan assets:				
Fair value of plan assets at January 1	$7,124	$8,259	$—	$—
Actual return on plan assets	405	(91)	—	—
Employer contributions	480	185	20	20
Plan participants' contributions	—	—	49	65
Benefit payments	(427)	(148)	(69)	(85)
Settlements	—	(1,081)	—	—
Fair value of plan assets at December 31	$7,582	$7,124	$—	$—
Funded status at December 31	$(4,545)	$(4,841)	$(103)	$(126)
Amounts recognized in Consolidated Balance Sheets:				
Accrued benefit liability	(4,545)	(4,841)	(103)	(126)
Net amount recognized	$(4,545)	$(4,841)	$(103)	$(126)
Amounts recognized in Accumulated Other Comprehensive Loss:				
Unrecognized prior service cost	$—	$—	$(1)	$(2)
Unrecognized net loss (gain)	3,368	3,275	(48)	(47)
Total	$3,368	$3,275	$(49)	$(49)
Weighted-average assumptions at year-end:				
Discount rate	3.80%	3.90%	3.80%	3.90%

The estimated costs relating to Peoples' pension benefits that will be amortized from accumulated other comprehensive loss into net periodic cost over the next fiscal year are $97,000.

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Net Periodic Benefit Cost

The following tables detail the components of the net periodic benefit cost for the plans at December 31:

	Pension Benefits			Post-retirement Benefits		
(Dollars in thousands)	2016	2015	2014	2016	2015	2014
Interest cost	$438	$447	$509	$4	$4	$6
Expected return on plan assets	(492)	(493)	(589)	—	—	—
Amortization of net loss (gain)	95	117	137	(6)	(5)	(8)
Settlement of benefit obligation	—	459	1,400	—	—	—
Net periodic benefit cost	$41	$530	$1,457	$(2)	$(1)	$(2)
Weighted-average assumptions:						
Discount rate	3.90 %	3.80 %	3.70 %	3.90%	3.50%	4.30%
Expected return on plan assets	7.50 %	7.50 %	7.50 %	n/a	n/a	n/a
Rate of compensation increase	n/a	n/a	n/a	n/a	n/a	n/a

For measurement purposes, a 5.5% annual rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) was assumed for 2016, grading down to an ultimate rate of 4% in 2064. The health care trend rate assumption does not have a significant effect on the contributory defined benefit postretirement plan; therefore, a one percentage point increase or decrease in the trend rate is not material in the determination of the accumulated postretirement benefit obligation or the ongoing expense.

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

No settlement charges were recorded during 2016, compared to $0.5 million in 2015 and $1.4 million in 2014.

Determination of Expected Long-term Rate of Return

The expected long-term rate of return on the pension plan's total assets is based on the expected return of each category of the pension plan's assets. Peoples' investment strategy for the pension plan's assets continues to allocate 60% to 75% to equity securities. The returns generated by equity securities over the last 10 years have been significantly lower than their long-term historical annual returns due in part to unfavorable economic conditions.

Plan Assets

Peoples' investment strategy, as established by Peoples' Retirement Plan Committee, is to invest assets of the pension plan based upon established target allocations, which include a target range of 60-75% allocation in equity securities, 20-40% in debt securities and 0-15% of other investments. The assets are reallocated periodically to meet the target allocations. The investment policy is reviewed periodically, under the advisement of a certified investment advisor, to determine if the policy should be changed.

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The following table provides the fair values of investments held in Peoples' pension plan at December 31, by major asset category:

(Dollars in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
2016			
Equity securities:			
Mutual funds - equity	$5,241	$ 5,241	$ —
Debt securities:			
Mutual funds - taxable income	2,107	2,107	—
Total fair value of pension assets	$7,348	$ 7,348	$ —
2015			
Equity securities:			
Mutual funds - equity	$4,908	$ 4,908	$ —
Debt securities:			
Mutual funds - taxable income	1,863	1,863	—
Total fair value of pension assets	$6,771	$ 6,771	$ —

Pension plan assets also included cash and cash equivalents of $221,000 and accrued income of $12,000 at December 31, 2016. Cash and cash equivalents were $352,000 and accrued income was $1,000 at December 31, 2015. For further information regarding levels of input used to measure fair value, refer to Note 2.

Equity securities held as investments in Peoples' pension plan did not include any securities of Peoples or related parties in 2016 or 2015.

Cash Flows

Peoples expects to make between $315,000 to $340,000 of contributions to its pension plan in 2017; however, actual contributions are made at the discretion of the Retirement Plan Committee and Peoples' Board of Directors. Estimated future benefit payments, which reflect benefits attributable to estimated future service, for the years ending December 31 are as follows:

(Dollars in thousands)	Pension Benefits	Post-retirement Benefits
2017	$ 1,001	$ 12
2018	897	12
2019	935	12
2020	1,000	11
2021	1,067	10
2022 to 2026	3,325	41
Total	$ 8,225	$ 98

Retirement Savings Plan

Peoples also maintains a retirement savings plan, or 401(k) plan, which covers substantially all employees. The plan provides participants the opportunity to save for retirement on a tax-deferred basis. Beginning January 1, 2011, matching contributions equaled 100% of participants' contributions that did not exceed 3% of the participants' compensation, plus 50% of participants' contributions between 3% and 5% of the participants' compensation. Matching contributions made by Peoples totaled $1,549,000, $1,454,000 and $1,048,000 in 2016, 2015 and 2014, respectively.

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Note 12. Income Taxes

The reported income tax expense and effective tax rate in the Consolidated Statements of Income differs from the amounts computed by applying the statutory corporate tax rate as follows for the years ended December 31:

	2016		2015		2014	
(Dollars in thousands)	Amount	Rate	Amount	Rate	Amount	Rate
Income tax computed at statutory federal tax rate	$15,785	35.0 %	$5,051	34.1 %	$8,462	35.0 %
Differences in rate resulting from:						
Tax-exempt interest income	(1,170)	(2.6)%	(1,109)	(7.5)%	(726)	(3.0)%
Investments in tax credit funds	(164)	(0.4)%	(123)	(0.8)%	(481)	(2.0)%
Bank owned life insurance	(495)	(1.1)%	(204)	(1.4)%	(37)	— %
Other, net	169	0.4 %	260	1.8 %	276	1.0 %
Income tax expense	$14,125	31.3 %	$3,875	26.2 %	$7,494	31.0 %

Peoples' reported income tax expense consisted of the following for the years ended December 31:

(Dollars in thousands)	2016	2015	2014
Current income tax expense	$16,587	$5,457	$3,659
Deferred income tax (benefit) expense	(2,462)	(1,582)	3,835
Income tax expense	$14,125	$3,875	$7,494

The significant components of Peoples' deferred tax assets and liabilities consisted of the following at December 31:

(Dollars in thousands)	2016	2015
Deferred tax assets:		
Allowance for loan losses	$12,578	$12,144
Accrued employee benefits	3,826	3,763
Investments	2,884	2,447
Bank premises and equipment	349	1,060
Other	1,190	2,183
Gross deferred tax assets	$20,827	$21,597
Valuation allowance	1,341	605
Total deferred tax assets	$19,486	$20,992
Deferred tax liabilities:		
Purchase accounting adjustments	$10,845	$11,342
Deferred loan income	3,181	2,260
Available-for-sale securities	312	1,544
Other	1,305	664
Total deferred tax liabilities	$15,643	$15,810
Net deferred tax asset	$3,843	$5,182

The tax loss carryforward related to the NB&T acquisition at December 31, 2015 will be recognized in accordance with 26 U.S. Code §382 limitation of net operating loss carry forward guidance. As of December 31, 2016, Peoples had a net operating loss carryforward of approximately $3.1 million for tax purposes, which will be available to offset future taxable income. If not used, this carryforward will expire in 2035.

The $1.3 million valuation allowance was related to a partnership investment and was recorded for deferred tax assets at December 31, 2016, as it was and remains more likely than not that the $3.8 million of gross deferred tax assets may not be realized in future periods.

The federal income tax expense on securities transactions approximated $326,000 in 2016, $255,000 in 2015 and $139,000 in 2014.

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Income tax benefits are recognized in the Consolidated Financial Statements for a tax position only if it is considered "more likely than not" of being sustained on audit, based solely on the technical merits of the income tax position. If the recognition criteria are met, the amount of income tax benefits to be recognized are measured based on the largest income tax benefit that is more than 50 percent likely to be realized on ultimate resolution of the tax position. The following table provides a reconciliation of uncertain tax positions at December 31:

(Dollars in thousands)	2016	2015
Uncertain tax positions, beginning of year	$417	$240
Gross increase based on tax positions related to current year	113	182
Gross increase for tax position taken during prior years	45	—
Gross decrease for tax positions taken during prior years	—	(2)
Gross decrease due to the statute of limitations	(53)	(3)
Uncertain tax positions, end of year	$522	$417

Peoples' income tax returns are subject to review and examination by federal and state taxing authorities. Peoples is currently open to audit under the applicable statutes of limitations by the Internal Revenue Service for the years ended December 31, 2013 through 2015. The years open to examination by state taxing authorities vary by jurisdiction.

Note 13. Earnings Per Common Share

The calculations of basic and diluted earnings per common share for the years ended December 31 were as follows:

(Dollars in thousands, except per common share data)	2016	2015	2014
Distributed earnings allocated to common shareholders	$ 11,532	$ 10,426	$ 7,095
Undistributed earnings allocated to common shareholders	19,483	404	9,472
Net earnings allocated to common shareholders	$ 31,015	$ 10,830	$ 16,567
Weighted-average common shares outstanding	18,013,693	17,555,140	12,183,352
Effect of potentially dilutive common shares	141,770	132,655	122,872
Total weighted-average diluted common shares outstanding	18,155,463	17,687,795	12,306,224
Earnings per common share:			
Basic	$ 1.72	$ 0.62	$ 1.36
Diluted	$ 1.71	$ 0.61	$ 1.35
Anti-dilutive common shares excluded from calculation:			
Stock options and stock appreciation rights	20,769	46,109	55,184

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Note 14. 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 is determined by interest rates. Peoples’ derivative financial instruments are used to manage differences in the amount, timing, and duration of Peoples' known or expected cash receipts and its known or expected cash payments principally related to certain variable rate borrowings. Peoples also has interest rate derivatives that result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in Peoples' assets or liabilities. Peoples manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions.

Fair Values of Derivative Instruments on the Balance Sheet
The fair value of Peoples' derivative financial instruments was $5.0 million in an asset position and $3.2 million in a liability position at December 31, 2016, and the fair value of Peoples' derivative financial instruments was $3.1 million in an asset position and $3.1 million in a liability position at December 31, 2015.

Cash Flow Hedges of Interest Rate Risk
Peoples' objectives in using interest rate derivatives are to add stability to interest income and expense, and to manage its exposure to interest rate movements. To accomplish these objectives, during 2016, Peoples entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate swaps were designated as cash flow hedges and involved the receipt of variable rate amounts from a counterparty in exchange for Peoples making fixed payments. As of December 31, 2016, Peoples had five interest rate swaps with a notional value of $40 million associated with Peoples' cash outflows for various FHLB advances.

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

Peoples hedged its exposure to the variability in future cash flows for forecasted transactions over a maximum period of 25 months (excluding forecasted transactions related to the payment of variable interest on existing financial instruments). Peoples entered into five interest rate swap contracts whereby Peoples will pay a fixed rate of interest for up to seven years while receiving a floating rate component of interest equal to the three-month LIBOR rate. The floating rate component to be received is intended to offset the rate on the rolling three-month FHLB advances that will be used to fund the transaction.

Amounts reported in AOCI related to derivatives will be reclassified to interest income or expense as interest payments are made or received on Peoples' variable-rate assets or liabilities. During the year ended December 31, 2016, Peoples had no reclassifications to interest expense. During the next twelve months, Peoples estimates that no amount of interest expense will be reclassified.

The amount of accumulated other comprehensive pre-tax income for Peoples' cash flow hedges was $1.8 million for the year ended December 31, 2016. Additionally, Peoples had no reclassifications to earnings for the year ended December 31, 2016.

Non-Designated Hedges

Peoples maintains an interest rate protection program for commercial loan customers, which was established in 2010. Under this program, Peoples provides a 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 $247.3 million and fair value of $3.2 million of equally offsetting

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assets and liabilities at December 31, 2016 and a notional value of $144.4 million and fair value of $3.1 million of equally offsetting assets and liabilities at December 31, 2015. These interest rate swaps did not have a material impact on Peoples' results of operation or financial condition.

Loan Commitments and Standby Letters of Credit

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

The total amounts of loan commitments and standby letters of credit at December 31 are summarized as follows:

(Dollars in thousands)	2016	2015
Home equity lines of credit	$85,024	$84,148
Unadvanced construction loans	119,075	77,479
Other loan commitments	269,669	233,689
Loan commitments	473,768	395,316
Standby letters of credit	$25,651	$22,970

Note 15. Regulatory Matters

The following is a summary of certain regulatory matters affecting Peoples and its subsidiaries:

Federal Reserve Requirements

Peoples Bank is required to maintain a minimum level of reserves, consisting of cash on hand and non-interest-bearing balances with the FRB, based on the amount of deposit liabilities. Average required reserve balances were approximately $17.0 million and $16.3 million in 2016 and 2015, respectively.

Limits on Dividends

The primary source of funds for the dividends paid by Peoples is dividends received from Peoples Bank. The payment of dividends by Peoples Bank is subject to various banking regulations. The most restrictive provision requires regulatory approval if dividends declared in any calendar year exceed the total net profits of that year plus the retained net profits of the preceding two years. At December 31, 2016, Peoples Bank had approximately $10.5 million of net profits available for distribution to Peoples as dividends without regulatory approval.

Capital Requirements

Peoples and Peoples Bank are subject to various regulatory capital guidelines administered by the banking regulatory agencies. Under capital adequacy requirements and the regulatory framework for prompt corrective action, Peoples and Peoples Bank must meet specific capital guidelines that involve quantitative measures of each entity's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Peoples' and Peoples Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Failure to meet future minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a material effect on Peoples' financial results.

Quantitative measures established by regulation to ensure capital adequacy, and in effect at December 31, 2016, required Peoples and Peoples Bank to maintain minimum amounts and ratios of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Peoples and Peoples Bank met all capital adequacy requirements at

December 31, 2016.

As of December 31, 2016, the most recent notifications from the banking regulatory agencies categorized Peoples and Peoples Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well

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capitalized, Peoples and Peoples Bank must maintain minimum Common Equity Tier 1, Tier 1 risk-based, Total risk-based and Tier I leverage ratios as set forth in the table below. There are no conditions or events since these notifications that management believes have changed Peoples or Peoples Bank's category.

Peoples' and Peoples Bank's actual capital amounts and ratios as of December 31 are also presented in the following table:

	2016		2015	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
PEOPLES				
Common Equity Tier 1 (1)				
Actual	$306,506	12.9%	$288,416	13.4%
For capital adequacy	106,801	4.5 %	97,142	4.5 %
To be well capitalized	154,268	6.5 %	140,316	6.5 %
Tier 1 (2)				
Actual	$313,430	13.2%	$295,151	13.7%
For capital adequacy	142,402	6.0 %	129,523	6.0 %
To be well capitalized	189,869	8.0 %	172,697	8.0 %
Total Capital (3)				
Actual	$334,957	14.1%	$313,974	14.5%
For capital adequacy	189,869	8.0 %	172,697	8.0 %
To be well capitalized	237,336	10.0%	215,871	10.0%
Tier 1 Leverage (4)				
Actual	$313,430	9.7 %	$295,151	9.5 %
For capital adequacy	129,803	4.0 %	123,973	4.0 %
To be well capitalized	162,254	5.0 %	154,967	5.0 %
Net Risk-Weighted Assets	$2,373,359		$2,158,713	
PEOPLES BANK				
Common Equity Tier 1 (1)				
Actual	$271,319	11.5%	$257,045	11.9%
For capital adequacy	106,474	4.5 %	96,974	4.5 %
To be well capitalized	153,795	6.5 %	140,074	6.5 %
Tier 1 (2)				
Actual	$291,319	12.3%	$277,045	12.9%
For capital adequacy	141,965	6.0 %	129,299	6.0 %
To be well capitalized	189,287	8.0 %	172,399	8.0 %
Total Capital (3)				
Actual	$309,749	13.1%	$293,823	13.6%
For capital adequacy	189,287	8.0 %	172,399	8.0 %
To be well capitalized	236,608	10.0%	215,499	10.0%
Tier 1 Leverage (4)				
Actual	$291,319	9.0 %	$277,045	9.0 %
For capital adequacy	129,633	4.0 %	123,742	4.0 %
To be well capitalized	162,041	5.0 %	154,677	5.0 %
Net Risk-Weighted Assets	$2,366,082		$2,154,985	

(1) Ratio represents Common Equity Tier 1 capital to net risk-weighted assets
(2) Ratio represents Tier 1 capital to net risk-weighted assets
(3) Ratio represents total capital to net risk-weighted assets

(4) Ratio represents Tier 1 capital to average assets

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Note 16. Stock-Based Compensation

Under the Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan (the “2006 Equity Plan”), Peoples may grant, among other awards, nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights and unrestricted share awards to employees and non-employee directors. The total number of common shares available under the 2006 Equity Plan is 1,081,260. The maximum number of common shares that can be issued for incentive stock options is 800,000 common shares. Prior to 2007, Peoples granted nonqualified and incentive stock options to employees and nonqualified stock options to non-employee directors under the 2006 Equity Plan and predecessor plans. In 2007 and 2008, Peoples granted stock appreciation rights (“SARs”) to be settled in common shares. Since February 2007, Peoples has granted restricted common shares to employees and non-employee directors subject to the terms and conditions prescribed by the 2006 Equity Plan. In general, common shares issued in connection with stock-based awards are issued from treasury shares to the extent available. If no treasury shares are available, common shares are issued from authorized but unissued common shares.

Stock Options

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

The following summarizes the changes to Peoples' outstanding stock options for the year ended December 31, 2016:

	Number of Common Shares Subject to Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	20,310	$ 28.83		
Expired	20,310	28.84		
Outstanding at December 31	—	$ —	—	$ —
Exercisable at December 31	—	$ —	—	$ —

Stock Appreciation Rights

SARs granted to employees have an exercise price equal to the fair market value of Peoples’ common shares on the date of grant and will be settled using common shares of Peoples. Additionally, the SARs granted to employees vested three years after the grant date and are to expire ten years from the date of grant. The most recent grant of SARs occurred in 2008.

The following summarizes the changes to Peoples' outstanding SARs for the year ended December 31, 2016:

	Number of Common Shares Subject to SARs	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1	17,748	$ 25.86		
Exercised	9,902	25.03		
Forfeited	5,508	26.72		
Outstanding at December 31	2,338	$ 27.37	0.5 years	$ 11.905

Exercisable at December 31	2,338	$ 27.37	0.5 years	$ 11.905

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The following table summarizes Peoples' SARs outstanding at December 31, 2016:

Exercise Price	Number of Common Shares Subject to SARs Outstanding & Exercisable	Weighted-Average Remaining Contractual Life
$23.77	803	1.1 years
$29.25	1,535	0.1 years
Total	2,338	0.5 years

Restricted Shares

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

The following summarizes the changes to Peoples' outstanding restricted common shares for the year ended December 31, 2016:

	Time Vesting		Performance Vesting	
	Number of Common Shares	Weighted-Average Grant Date Fair Value	Number of Common Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1	30,734	$ 21.76	158,763	$ 22.86
Awarded	20,500	21.88	35,500	17.86
Released	8,918	21.63	41,028	21.74
Forfeited	2,000	21.92	10,820	22.72
Outstanding at December 31	40,316	$ 21.85	142,415	$ 21.95

The total intrinsic value of restricted common shares released was $1.0 million, $2.0 million and $1.6 million in 2016, 2015 and 2014, respectively.

Stock-Based Compensation

Peoples recognized stock-based compensation expense, which is included as a component of Peoples' salaries and employee benefit costs, based on the estimated fair value of the awards on the grant date. The following summarizes the amount of stock-based compensation expense and related tax benefit recognized at December 31:

(Dollars in thousands)	2016	2015	2014
Total stock-based compensation	$1,332	$1,843	$2,111
Recognized tax benefit	(466)	(645)	(739)
Net expense recognized	$866	$1,198	$1,372

Restricted common shares were the only stock-based compensation awards granted by Peoples in 2016, 2015 and 2014. The fair value of restricted common share awards on the grant date is the market price of Peoples' common shares. Total unrecognized stock-based compensation expense related to unvested awards was $1.5 million at December 31, 2016, which will be recognized over a weighted-average period of 1.6 years. In 2014, the Board of Directors granted 12,030 unrestricted common shares to certain employees that did not already participate in the 2006 Equity Plan, which resulted in an additional $298,000 of stock-based compensation expense being recognized.

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Note 17. Acquisitions

On January 6, 2016, Peoples Bank acquired a small financial advisory book of business in Marietta, Ohio for cash consideration of $0.5 million. This acquisition was accounted for as a business combination under the acquisition method of accounting under US GAAP, and did not materially impact Peoples' financial position, results of operations or cash flows.
On January 31, 2017, Peoples Insurance acquired a third-party insurance administration company with annual net revenue of $0.4 million. This acquisition did not materially impact Peoples' financial position, results of operations or cash flows.
Note 18. Parent Company Only Financial Information

Condensed Balance Sheets	December 31,	
(Dollars in thousands)	2016	2015
Assets:		
Cash and due from other banks	$50	$50
Interest-bearing deposits in subsidiary bank	7,988	4,437
Due from subsidiary bank	3,255	3,875
Available-for-sale investment securities, at fair value (amortized cost of $1,255 at December 31, 2016 and December 31, 2015)	8,109	5,813
Investments in subsidiaries:		
Bank	395,468	385,258
Non-bank	28,730	29,155
Other assets	1,649	1,070
Total assets	$445,249	$429,658
Liabilities:		
Accrued expenses and other liabilities	$2,589	$3,030
Dividends payable	165	103
Mandatorily redeemable capital securities of subsidiary trust	7,234	6,736
Total liabilities	9,988	9,869
Total stockholders' equity	435,261	419,789
Total liabilities and stockholders' equity	$445,249	$429,658

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Condensed Statements of Income	Year Ended December 31,		
(Dollars in thousands)	2016	2015	2014
Income:			
Dividends from subsidiary bank	$20,500	$17,500	$21,000
Dividends from non-bank subsidiary	1,250	2,000	500
Interest and other income	209	206	205
Total income	21,959	19,706	21,705
Expenses:			
Trust preferred securities expense	397	304	—
Intercompany management fees	1,131	3,171	1,546
Other expense	3,154	5,653	4,578
Total expenses	4,682	9,128	6,124
Income before federal income taxes and equity in (excess dividends from) undistributed earnings of subsidiaries	17,277	10,578	15,581
Applicable income tax benefit	(1,718)	(3,139)	(2,102)
Equity in (excess dividends from) undistributed earnings of subsidiaries	12,162	(2,776)	(999)
Net income	$31,157	$10,941	$16,684

Statements of Cash Flows	Year Ended December 31,		
(Dollars in thousands)	2016	2015	2014
Operating activities			
Net income	$31,157	$10,941	$16,684
Adjustment to reconcile net income to cash provided by operations:			
Depreciation, amortization and accretion, net	190	165	—
(Equity in) excess dividends from undistributed earnings of subsidiaries	(12,162)	2,776	999
Other, net	355	(1,903)	1,825
Net cash provided by operating activities	19,540	11,979	19,508
Investing activities			
Investment in subsidiaries	(22,769)	(104,584)	(65,822)
Decrease (increase) in receivable from subsidiary	23,389	(2,860)	(187)
Business combinations, net of cash received	—	83,391	54,386
Net cash provided by (used in) investing activities	620	(24,053)	(11,623)
Financing activities			
Payments on long-term borrowings	—	(14,400)	(4,800)
Purchase of treasury stock	(5,480)	(741)	(520)
Proceeds from issuance of common stock	18	—	40,242
Cash dividends paid	(11,173)	(10,065)	(6,767)
Excess tax benefit for share-based payments	26	51	85
Net cash (used in) provided by financing activities	(16,609)	(25,155)	28,240
Net increase (decrease) in cash and cash equivalents	3,551	(37,229)	36,125
Cash and cash equivalents at the beginning of year	4,487	41,716	5,591
Cash and cash equivalents at the end of year	$8,038	$4,487	$41,716
Supplemental cash flow information:			
Interest paid	$433	$594	$672

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Note 19. Summarized Quarterly Information (Unaudited)

(Dollars in thousands, except per share data)	2016 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total interest income	$28,443	$ 28,921	$ 28,730	$ 29,350
Total interest expense	2,676	2,613	2,607	2,683
Net interest income	25,767	26,308	26,123	26,667
Provision for loan losses	955	727	1,146	711
Net loss on asset disposals and other transactions	(31)	(769)	(224)	(109)
Net gain (loss) on investment securities	96	767	(1)	68
Other income	13,054	12,367	13,538	12,111
Amortization of other intangible assets	1,008	1,007	1,008	1,007
System conversion expenses	—	90	423	746
Other expenses	25,274	25,408	25,411	25,529
Income tax expense	3,654	3,479	3,656	3,336
Net income	$7,995	$ 7,962	$ 7,792	$ 7,408
Earnings per common share - Basic	$0.44	$ 0.44	$ 0.43	$ 0.41
Earnings per common share - Diluted	$0.44	$ 0.44	$ 0.43	$ 0.41
Weighted-average common shares outstanding - Basic	18,071,746	17,980,797	17,993,443	18,009,056
Weighted-average common shares outstanding - Diluted	18,194,990	18,113,812	18,110,710	18,172,030

(Dollars in thousands, except per share data)	2015 (a) First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total interest income	$24,159	$ 27,566	$ 28,178	$ 28,430
Total interest expense	2,740	2,773	2,642	2,566
Net interest income	21,419	24,793	25,536	25,864
Provision for loan losses	350	672	5,837	7,238
Net loss on asset disposals and other transactions	(1,103)	(136)	(51)	(498)
Net gain on investment securities	600	11	62	56
Other income	11,508	11,926	11,906	12,101
Amortization of other intangible assets	673	1,144	1,127	1,133
Acquisition-related expenses	9,043	732	109	838
Other expenses	23,198	26,902	24,876	25,306
Income tax (benefit) expense	(151)	2,231	1,370	425
Net (loss) income	$(689)	$ 4,913	$ 4,134	$ 2,583
(Loss) earnings per common share - Basic	$(0.04)	$ 0.27	$ 0.23	$ 0.14
(Loss) earnings per common share - Diluted	$(0.04)	$ 0.27	$ 0.22	$ 0.14
Weighted-average common shares outstanding - Basic	15,802,334	18,116,090	18,127,131	18,142,997
Weighted-average common shares outstanding - Diluted	15,930,235	18,253,918	18,271,979	18,278,272

(a) Reflects the impact of the acquisition of NB&T beginning March 6, 2015.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning (a) directors of Peoples Bancorp Inc. (“Peoples”), (b) the procedures by which shareholders of Peoples may recommend nominees to Peoples' Board of Directors, (c) the Audit Committee of Peoples' Board of Directors and (d) the Board of Directors' determination that Peoples has an “audit committee financial expert” serving on its Audit Committee required by Items 401, 407(c)(3), 407(d)(4) and 407(d)(5) of SEC Regulation S-K will be included in the sections captioned “PROPOSAL NUMBER 1: ELECTION OF DIRECTORS”, “THE BOARD AND COMMITTEES OF THE BOARD” and “NOMINATING PROCEDURES” of the definitive Proxy Statement of Peoples Bancorp Inc. relating to the Annual Meeting of Shareholders to be held April 27, 2017 (“Peoples' Definitive Proxy Statement”), which sections are incorporated herein by reference. The procedures by which shareholders of Peoples may recommend nominees to Peoples' Board of Directors have not changed materially from those described in Peoples' definitive Proxy Statement for the 2016 Annual Meeting of Shareholders held on April 28, 2016.

The information regarding Peoples' executive officers required by Item 401 of SEC Regulation S-K will be included in the section captioned “EXECUTIVE OFFICERS” of Peoples' Definitive Proxy Statement, which section is incorporated herein by reference.

The information required by Item 405 of SEC Regulation S-K will be included under the caption “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” of Peoples' Definitive Proxy Statement, which section is incorporated herein by reference.

The Board of Directors of Peoples has adopted charters for each of the Audit Committee, the Compensation Committee, the Executive Committee, the Governance and Nominating Committee and the Risk Committee.

In accordance with the requirements of Rule 5610 of the NASDAQ Stock Market Corporate Governance Requirements, the Board of Directors of Peoples has adopted a Code of Ethics covering the directors, officers and employees of Peoples and its subsidiaries, including, without limitation, the principal executive officer, the principal financial officer, the principal accounting officer and the controller of Peoples. Peoples intends to disclose the following events, if they occur, in a Current Report on Form 8-K and on the “Investor Relations" page and the "Corporate Governance” page of Peoples' Internet website at www.peoplesbancorp.com within four business days following their occurrence:

(A) the date and nature of any amendment to a provision of Peoples' Code of Ethics that

(i) applies to the principal executive officer, principal financial officer, principal accounting officer or controller of Peoples, or persons performing similar functions,

(ii) relates to any element of the code of ethics definition set forth in Item 406(b) of SEC Regulation S K, and

(iii) is not a technical, administrative or other non-substantive amendment; and

(B) a description (including the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver) of any waiver, including an implicit waiver, from a provision of the Code of Ethics granted to the principal executive officer, principal financial officer, principal accounting officer or controller of Peoples, or persons performing similar functions, that relates to one or more of the elements of the code of ethics definition set forth in Item 406(b) of SEC Regulation S-K.

In addition, Peoples will disclose any waivers from the provisions of the Code of Ethics granted to a director or executive officer of Peoples in a Current Report on Form 8-K within four business days following their occurrence.

Each of the Code of Ethics, the Audit Committee Charter, the Compensation Committee Charter, the Executive Committee Charter, the Governance and Nominating Committee Charter and the Risk Committee Charter is posted under the “Governance Documents” tab on the “Investor Relations” page and the “Corporate Governance” page of Peoples' Internet website. Interested persons may also obtain copies of the Code of Ethics without charge by writing to Peoples Bancorp Inc., Attention: Corporate Secretary, 138 Putnam Street, P.O. Box 738, Marietta, Ohio 45750-0738.

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ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be included in the sections captioned “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION”, “EXECUTIVE COMPENSATION: COMPENSATION DISCUSSION AND ANALYSIS”, “SUMMARY COMPENSATION TABLE FOR 2016”, “GRANTS OF PLAN-BASED AWARDS FOR 2016”, “OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2016”, “OPTION EXERCISES AND STOCK VESTED FOR 2016”, “PENSION BENEFITS FOR 2016”, “NON-QUALIFIED DEFERRED COMPENSATION FOR 2016”, “OTHER POTENTIAL POST EMPLOYMENT PAYMENTS”, “DIRECTOR COMPENSATION” and “COMPENSATION COMMITTEE REPORT” of Peoples' Definitive Proxy Statement, which sections are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 regarding the security ownership of certain beneficial owners and management will be included in the section captioned “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT” of Peoples' Definitive Proxy Statement, which section is incorporated herein by reference.

Equity Compensation Plan Information

The table below provides information as of December 31, 2016, with respect to compensation plans under which common shares of Peoples are authorized for issuance to directors, officers or employees in exchange for consideration in the form of goods or services. These compensation plans include:

(i) the Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan (the “2006 Plan”);

(ii) the Peoples Bancorp Inc. Third Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries (the “Directors' Deferred Compensation Plan”); and

(iii) the Peoples Bancorp Inc. Employee Stock Purchase Plan (the "ESPP").

All of these compensation plans were approved by the shareholders of Peoples.

Plan Category	(a) Number of common shares to be issued upon exercise of outstanding options, warrants and rights		(b) Weighted-average exercise price of outstanding options, warrants and rights		(c) Number of common shares remaining available for future issuance under equity compensation plans (excluding common shares reflected in column (a))	
Equity compensation plans approved by shareholders	313,394	(1)	$ 27.37	(2)	509,594	(3)
Equity compensation plans not approved by shareholders	—		—		—	
Total	313,394		$ 27.37		509,594	

(1) Includes an aggregate of 16,661 common shares issuable upon exercise of options and stock appreciation rights granted under the 2006 Plan and 241,369 restricted common shares subject to time-based or performance-based vesting restrictions granted under the 2006 Plan, and 55,364 common shares allocated to participants' bookkeeping accounts under the Deferred Compensation Plan.

(2) Represents weighted-average exercise price of outstanding options and stock appreciation rights granted under the 2006 Plan. The weighted-average exercise price does not take into account the common shares allocated to participants' time-based or performance-based restricted common share awards granted under the 2006 Plan or bookkeeping accounts under the Directors' Deferred Compensation Plan.

(3) Includes 241,767 common shares remaining available for future grants under the 2006 Plan at December 31, 2016, as well as 267,827 common shares remaining available for issuance and delivery under the ESPP. No amount is included for potential future allocations to participants' bookkeeping accounts under the Directors' Deferred Compensation Plan since the terms of the Directors' Deferred Compensation Plan do not provide for a specified limit on the number of common shares which may be allocated to participants' bookkeeping accounts.

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Additional information regarding Peoples' stock-based compensation plans can be found in Note 16 of the Notes to the Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be included in the sections captioned “TRANSACTIONS WITH RELATED PERSONS”, “PROPOSAL NUMBER 1: ELECTION OF DIRECTORS”, “THE BOARD AND COMMITTEES OF THE BOARD” and “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION” of Peoples' Definitive Proxy Statement, which sections are incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 will be included in the section captioned “INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM” of Peoples' Definitive Proxy Statement, which section is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements:

The following auditor's reports and consolidated financial statements of Peoples Bancorp Inc. and subsidiaries are filed as required by Item 8 and set forth immediately following "ITEM 9B. OTHER INFORMATION" of the Form 10-K:

(a)(2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a)(3) Exhibits

Exhibits filed or furnished with this Annual Report on Form 10-K are included herewith or incorporated herein by reference. For a list of such exhibits, see “Exhibit Index” beginning at page 132. The Exhibit Index specifically identifies each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

(b) Exhibits

Exhibits filed or furnished with this Annual Report on Form 10-K are included herewith or incorporated herein by reference. For a list of such exhibits, see “Exhibit Index” beginning at page 132.

(c) Financial Statement Schedules

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

		PEOPLES BANCORP INC.
Date:	February 27, 2017	By: /s/ CHARLES W. SULERZYSKI
		Charles W. Sulerzyski
		President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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Signature	Title	Date
/s/ CHARLES W. SULERZYSKI Charles W. Sulerzyski	President, Chief Executive Officer and Director	2/27/2017
/s/ JOHN C. ROGERS John C. Rogers	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	2/27/2017
/s/ TARA M. ABRAHAM* Tara M. Abraham	Director	2/27/2017
/s/ S. CRAIG BEAM* S. Craig Beam	Director	2/27/2017
/s/ GEORGE W. BROUGHTON* George W. Broughton	Director	2/27/2017
/s/ DAVID F. DIERKER*	Director	2/27/2017

David F. Dierker		
/s/ JAMES S. HUGGINS* James S. Huggins	Director	2/27/2017
/s/ BROOKE W. JAMES* Brooke W. James	Director	2/27/2017
/s/ BRENDA F. JONES, M.D.* Brenda F. Jones, M.D.	Director	2/27/2017
/s/ DAVID L. MEAD* David L. Mead	Chairman of the Board and Director	2/27/2017
/s/ SUSAN D. RECTOR* Susan D. Rector	Director	2/27/2017
/s/ TERRY T. SWEET*	Director	2/27/2017

Terry T. Sweet

* The above-named directors of the Registrant sign this Annual Report on Form 10-K by Charles W. Sulerzyski, their attorney-in-fact, pursuant to Powers of Attorney signed by the above-named directors, which Powers of Attorney are filed with this Annual Report on Form 10-K as exhibits, in the capacities indicated and on the 27th day of February, 2017.

By: /s/ CHARLES W. SULERZYSKI
Charles W. Sulerzyski
President and Chief Executive Officer
Attorney-in-Fact

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EXHIBIT INDEX
PEOPLES BANCORP INC. ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Exhibit Number	Description	Exhibit Location
2.1	Agreement and Plan of Merger, dated as of January 21, 2014, between Peoples Bancorp Inc. and Midwest Bancshares, Inc.+	Included as Annex A to the proxy statement/prospectus which forms a part of the Registration Statement of Peoples Bancorp Inc. ("Peoples") on Form S-4 (Registration No. 333-194626)
2.2	Agreement and Plan of Merger, dated as of April 4, 2014, between Peoples Bancorp Inc. and Ohio Heritage Bancorp, Inc.+	Included as Annex A to the proxy statement/prospectus which forms a part of Peoples' Registration Statement on Form S-4 (Registration No. 333-196872)
2.3	Agreement and Plan of Merger, dated as of April 21, 2014, as amended, among Peoples Bancorp Inc., Peoples Bank, National Association and North Akron Savings Bank+	Included as Annex A to the proxy statement/prospectus which forms a part of Peoples' Registration Statement on Form S-4 (Registration No. 333-197736)
2.4	Agreement and Plan of Merger, dated as of August 4, 2014, as amended, between Peoples Bancorp Inc. and NB&T Financial Group, Inc.+	Included as Annex A to the proxy statement/prospectus which forms a part of Peoples' Registration Statement on Form S-4 (Registration No. 333-199152)
3.1(a)	Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on May 3, 1993)	Incorporated herein by reference to Exhibit 3(a) to Peoples' Registration Statement on Form 8-B filed on July 20, 1993 (File No. 0-16772)
3.1(b)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 22, 1994)	Incorporated herein by reference to Exhibit 3(a)(2) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-16772) ("Peoples' 1997 Form 10-K")
3.1(c)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 9, 1996)	Incorporated herein by reference to Exhibit 3(a)(3) to Peoples' 1997 Form 10-K
3.1(d)	Certificate of Amendment to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on April 23, 2003)	Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (File No. 0-16772) ("Peoples' March 31, 2003 Form 10-Q")

3.1(e)	Certificate of Amendment by Shareholders to the Amended Articles of Incorporation of Peoples Bancorp Inc. (as filed with the Ohio Secretary of State on January 22, 2009)	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on January 23, 2009 (File No. 0-16772)
3.1(f)	Certificate of Amendment by Directors to Articles filed with the Secretary of State of the State of Ohio on January 28, 2009, evidencing adoption of amendments by the Board of Directors of Peoples Bancorp Inc. to Article FOURTH of Amended Articles of Incorporation to establish express terms of Fixed Rate Cumulative Perpetual Preferred Shares, Series A, each without par value, of Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on February 2, 2009 (File No. 0-16772)
3.1(g)	Amended Articles of Incorporation of Peoples Bancorp Inc. (reflecting all amendments) [For SEC reporting compliance purposes only – not filed with Ohio Secretary of State]	Incorporated herein by reference to Exhibit 3.1(g) to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (File No. 0-16772) ("Peoples' 2008 Form 10-K")
3.2(a)	Code of Regulations of Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 3(b) to Peoples' Registration Statement on Form 8-B filed July 20, 1993 (File No. 0-16772)

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

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Exhibit Number	Description	Exhibit Location
3.2(b)	Certified Resolutions Regarding Adoption of Amendments to Sections 1.03, 1.04, 1.05, 1.06, 1.08, 1.10, 2.03(C), 2.07, 2.08, 2.10 and 6.02 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 10, 2003	Incorporated herein by reference to Exhibit 3(c) to Peoples' March 31, 2003 Form 10-Q
3.2(c)	Certificate regarding adoption of amendments to Sections 3.01, 3.03, 3.04, 3.05, 3.06, 3.07, 3.08 and 3.11 of the Code of Regulations of Peoples Bancorp Inc. by shareholders on April 8, 2004	Incorporated herein by reference to Exhibit 3(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004 (File No. 0-16772)
3.2(d)	Certificate regarding adoption of amendments to Sections 2.06, 2.07, 3.01 and 3.04 of Peoples Bancorp Inc.'s Code of Regulations by the shareholders on April 13, 2006	Incorporated herein by reference to Exhibit 3.1 to Peoples' Current Report on Form 8-K dated and filed on April 14, 2006 (File No. 0-16772)
3.2(e)	Certificate regarding adoption of an amendment to Section 2.01 of Peoples Bancorp Inc.'s Code of Regulations by shareholders on April 22, 2010	Incorporated herein by reference to Exhibit 3.2(e) to Peoples' Quarterly Report on Form 10-Q/A (Amendment No. 1) for the quarterly period ended June 30, 2010 (File No. 0-16772) ("Peoples' June 30, 2010 Form 10-Q/A")
3.2(f)	Code of Regulations of Peoples Bancorp Inc. (reflecting all amendments) [For SEC reporting compliance purposes only]	Incorporated herein by reference to Exhibit 3.2(f) to Peoples' June 30, 2010 Form 10-Q/A
4.1	Agreement to furnish instruments and agreements defining rights of holders of long-term debt	Filed herewith
4.2(a)	Indenture, dated as of June 25, 2007, between NB&T Financial Group, Inc., as issuer, and Wilmington Trust Company, as trustee, relating to Fixed/Floating Rate Junior Subordinated Debt Securities due 2037	Incorporated herein by reference to Exhibit 4.1(a) to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 (File No. 0-16772) ("Peoples' June 30, 2015 Form 10-Q")
4.2(b)	First Supplemental Indenture, dated June 5, 2015, and made to be effective as of 6:00 p.m., Eastern Standard Time, on March 6, 2015, between Wilmington Trust Company, as trustee, and Peoples Bancorp Inc., as successor to NB&T Financial Group, Inc.	Incorporated herein by reference to Exhibit 4.1(b) to Peoples' June 30, 2015 Form 10-Q

4.3(a)	Amended and Restated Declaration of Trust of NB&T Statutory Trust III, dated and effective as of June 25, 2007 NOTE: Pursuant to the First Supplemental Indenture, dated June 5, 2015, and made to be effective as of 6:00 p.m., Eastern Standard Time, on March 6, 2015, between Wilmington Trust Company, as trustee, and Peoples Bancorp Inc., Peoples Bancorp Inc. succeeded to and was substituted for NB&T Financial Group, Inc. as "Sponsor"	Incorporated herein by reference to Exhibit 4.2(a) to Peoples' June 30, 2015 Form 10-Q
4.3(b)	Notice of Removal of Administrators and Appointment of Replacements, dated June 5, 2015, delivered to Wilmington Trust Company by the Successor Administrators named therein and Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 4.2(b) to Peoples' June 30, 2015 Form 10-Q
4.3(c)	Notice of Removal of Administrator and Appointment of Replacement, dated February 24, 2016, delivered to Wilmington Trust Company by the Continuing Administrators and the Successor Administrator named therein and Peoples Bancorp Inc.	Incorporated herein by reference to Exhibit 4.9 to Peoples' Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (File No. 0-16772) ("Peoples' 2015 Form 10-K")
4.4	Guarantee Agreement, dated as of June 25, 2007, between NB&T Financial Group, Inc. and Wilmington Trust Company, as guarantee trustee, relating to the Capital Securities (as defined therein) NOTE: Pursuant to the First Supplemental Indenture, dated June 5, 2015, and made to be effective as of 6:00 p.m., Eastern Standard Time, on March 6, 2015, between Wilmington Trust Company, as trustee, and Peoples Bancorp Inc., Peoples Bancorp Inc. succeeded to and was substituted for NB&T Financial Group, Inc. as "Guarantor"	Incorporated herein by reference to Exhibit 4.3 to Peoples' June 30, 2015 Form 10-Q
10.1(a)	Peoples Bancorp Inc. Third Amended and Restated Deferred Compensation Plan for Directors of Peoples Bancorp Inc. and Subsidiaries (Amended and Restated Effective June 26, 2014)*	Incorporated herein by reference to Exhibit 10.1(a) to Peoples' 2015 Form 10-K

*Management Compensation Plan or Agreement

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Exhibit Number	Description	Exhibit Location
10.1(b)	Rabbi Trust Agreement, made January 6, 1998, between Peoples Bancorp Inc. and The Peoples Banking and Trust Company (predecessor to Peoples Bank, National Association and now known as Peoples Bank following conversion to state-chartered bank) as Trustee*	Incorporated herein by reference to Exhibit 10.1(c) to Peoples’ Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (File No. 0-16772)
10.2	Peoples Bancorp Inc. Amended and Restated Incentive Award Plan (Amended and Restated Effective December 11, 2008) [Effective for the fiscal year ended December 31, 2009]*	Incorporated herein by reference to Exhibit 10.2 of Peoples’ 2008 Form 10-K
10.3	Summary of Incentive Plan for Executive Officers and other employees of Peoples Bancorp Inc. [Effective for the fiscal year ended December 31, 2010]*	Incorporated herein by reference to Exhibit 10.2(b) to Peoples' Annual Report of Form 10-K for the fiscal year ended December 31, 2009 (File No. 0-16772) ("Peoples' 2009 Form 10-K")
10.4	Summary of Peoples Bancorp Inc. Annual Incentive Program for Executive Officers and other employees of Peoples Bancorp Inc. [Effective beginning with the fiscal year beginning January 1, 2012]*	Incorporated herein by reference to Exhibit 10.2(c) to Peoples' Annual Report of Form 10-K for the fiscal year ended December 31, 2011 (File No. 0-16772) ("Peoples’ 2011 Form 10-K")
10.5	Summary of Peoples Bancorp Inc. Long Term Incentive Program for Executive Officers and other employees of Peoples Bancorp Inc. [Effective beginning with the fiscal year beginning January 1, 2012]*	Incorporated herein by reference to Exhibit 10.2(d) to Peoples’ 2011 Form 10-K
10.6	Summary of Perquisites for Executive Officers of Peoples Bancorp Inc.*	Filed herewith
10.7	Summary of Base Salaries for Executive Officers of Peoples Bancorp Inc.*	Filed herewith
10.8	Summary of Compensation for Directors of Peoples Bancorp Inc.*	Filed herewith
10.9	Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan (approved by shareholders on April 25, 2013; sometimes referred to as "Peoples Bancorp Inc. 2006 Equity Plan")*	Incorporated herein by reference to Exhibit 10.1 Peoples' Quarterly Report on

		Form 10-Q for the quarterly period ended June 30, 2013 (File No. 0-16772) ("Peoples' June 30, 2013 Form 10-Q")
10.10	Form of Peoples Bancorp Inc. 2006 Equity Plan SAR Agreement for employees used and to be used to evidence awards of stock appreciation rights granted to employees of Peoples Bancorp Inc.*	Incorporated herein by reference to Exhibit 10.31 of Peoples' 2006 Form 10-K
10.11	Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan Time-Based Restricted Stock Award Agreement (for Executives) used for grants on and after June 27, 2013*	Incorporated herein by reference to Exhibit 10.2 to Peoples' June 30, 2013 Form 10-Q
10.12	Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan Time-Based Restricted Stock Award Agreement (for Non-Employee Directors) used for grants on and after June 27, 2013*	Incorporated herein by reference to Exhibit 10.3 to Peoples' June 30, 2013 Form 10-Q
10.13	Form of Peoples Bancorp Inc. 2006 Equity Plan Performance-Based Restricted Stock Agreement for employees used to evidence awards of performance-based restricted stock granted to employees of Peoples Bancorp Inc. *	Incorporated herein by reference to Exhibit 10.8 to Peoples' Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011 (File No. 0-16772)
10.14	Form of Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan Performance-Based Restricted Stock Agreement for executives used to evidence awards of performance-based restricted stock granted to executive officers of Peoples Bancorp Inc. (from January 1, 2012 to July 24, 2013)*	Incorporated herein by reference to Exhibit 10.41 to Peoples' 2011 Form 10-K

*Management Compensation Plan or Agreement

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Exhibit Number	Description	Exhibit Location
10.15	Form of Peoples Bancorp Inc. Amended and Restated 2006 Equity Plan Time-Based Restricted Stock Agreement for executive officers used to evidence awards of time-based restricted stock granted to executive officers of Peoples Bancorp Inc. (from January 1, 2012 to June 26, 2013)*	Incorporated herein by reference to Exhibit 10.43 to Peoples’ 2011 Form 10-K
10.16	Peoples Bancorp Inc. Second Amended and Restated 2006 Equity Plan Performance-Based Restricted Stock Award Agreement (for Executives) used to evidence awards of performance-based restricted stock granted to executive officers of Peoples Bancorp Inc. on and after July 25, 2013*	Incorporated herein by reference to Exhibit 10.5 to Peoples' June 30, 2013 Form 10-Q
10.17	Peoples Bancorp Inc. Nonqualified Deferred Compensation Plan (adopted effective July 25, 2013)*	Incorporated herein by reference to Exhibit 10.4 to Peoples' June 30, 2013 Form 10-Q
10.18	Amended and Restated Change in Control Agreement, between Peoples Bancorp Inc. and Carol A. Schneeberger (amended and restated effective December 11, 2008)*	Incorporated herein by reference to Exhibit 10.21 to Peoples’ 2008 Form 10-K
10.19	Change in Control Agreement between Peoples Bancorp Inc. and Daniel K. McGill (adopted September 14, 2009)*	Incorporated herein by reference to Exhibit 10.1 to Peoples’ Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2009 (File No. 0-16722)