PEOPLES BANCORP INC
Form 10-K
February 26, 2016

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, 2015

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 (State or other jurisdiction of incorporation or organization)	31-0987416 (I.R.S. Employer Identification No.)
138 Putnam Street, PO Box 738, Marietta, Ohio (Address of principal executive offices)	45750-0738 (Zip Code)
Registrant's telephone number, including area code:	(740) 373-3155

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 LLC

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, 2015, the aggregate market value of the registrant's Common Shares (the only common equity of the registrant) held by non-affiliates was $414,006,000 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: 18,176,291 common shares, without par value, at February 24, 2016.

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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 28, 2016, 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 was acquired in connection with the acquisition of NB&T Financial Group, Inc. ("NB&T") on March 6, 2015 as described below. 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 will continue to operate under the trade name and federally registered service mark "Peoples Bank". Additionally, Peoples' banking subsidiary will see a reduction in the annual cost associated with regulatory examination fees commencing in 2016. 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 units – 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, 2015, 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 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 March 6, 2015, Peoples completed its acquisition of 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 NB&T Statutory Trust III, a Delaware statutory trust whose common securities were wholly-owned by NB&T (the "Statutory Trust"). 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 with respect to 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. If Peoples elected to defer payments of interest on the junior subordinated debt securities, or an event of default were to occur under the indenture governing the junior subordinated debt securities, Peoples would be prohibited from declaring or paying any dividends on the Peoples common shares, prohibited from redeeming, repurchasing or otherwise acquiring any of the Peoples common shares and prohibited from making any payment to holders of Peoples common shares in the event of Peoples' liquidation.

Effective December 30, 2015, Peoples' banking subsidiary converted from a national banking association 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 will continue to operate under the trade name and federally registered service mark "Peoples Bank". Additionally, Peoples' banking subsidiary will see a reduction in the annual cost associated with regulatory examination fees commencing in 2016.

On January 6, 2016, Peoples acquired a book of business from a financial advisor that was located in Marietta, Ohio. Upon the terms and conditions of the purchase agreement, Peoples acquired certain rights with respect to that book of business in exchange for payments to be made by Peoples to the seller.

Primary Market Area and Customers

Peoples considers its primary market area to consist of the counties where it has a physical presence and neighboring counties, which includes northeastern, central, southwestern and southeastern Ohio, west central West Virginia, and northeastern Kentucky. Peoples currently operates 63 locations in Ohio, 14 locations in West Virginia and 5 locations in Kentucky. This primary market area largely consists of rural or small urban areas with a diverse group of industries and employers. Principal industries in this area include health care, education, agriculture and other social services;

plastics, petrochemical and other manufacturing; oil, gas and coal production; and tourism and other service-related industries. Because of this diversity of industries and employers, Peoples' earnings are not significantly dependent upon any single industry segment.

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Lending Activities

Peoples Bank originates various types of loans, including commercial real estate loans, real estate construction loans, commercial and industrial loans, agriculture, residential real estate loans, home equity lines of credit, and 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 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, 2015, 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 52.5% and 51.6% of total loans at December 31, 2015 and December 31, 2014, 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, 2015, the commercial loan portfolio consisted of 71.8% variable interest rate loans and 28.2% fixed interest rate loans. The primary analytical technique used in determining whether to grant a 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 $5,000,000 on a quarterly basis and exposure greater than $1 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. Loan relationships whose aggregate credit exposure to Peoples Bank 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 events.

Construction Loans

Peoples Bank originates various construction loans to provide temporary financing during the construction phase for commercial and residential properties. At December 31, 2015, outstanding construction loans comprised 3.7% of Peoples Bank's loan portfolio, compared to 2.4% at December 31, 2014. 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 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

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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 27.3% of total loans at December 31, 2015, and 29.6% at December 31, 2014. Peoples Bank also had $2.0 million of residential real estate loans held for sale and was servicing $390.4 million of loans, consisting primarily of one-to-four family residential mortgages, previously sold in the secondary market. Peoples Bank requires evidence of insurance at the time of the loan closing, and additionally, has a blanket insurance policy to cover residential real estate loans that do not include an insurance escrow account.

Peoples Bank originates both fixed-rate and adjustable-rate real estate loans. Typically, Peoples Banks sells its longer-term fixed-rate real estate loans in 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.

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, 2015, outstanding home equity lines of credit comprised 5.1% of Peoples Bank's total loans, compared to 5.0% at December 31, 2014. 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 94.2% and 5.8% of variable interest rate and fixed interest rate loans, respectively. At December 31, 2015, total outstanding principal balances and available credit amounts of the convertible rate home equity lines of credit were $19.0 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, 2015.

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, boats, recreational vehicles and other personal property, as well as unsecured loans and personal lines of credit. At December 31, 2015 and December 31, 2014, consumer loans comprised 11.3% of Peoples Bank's loan portfolio.

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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.

Investment Activities

At December 31, 2015, investment securities comprised 26.7% of Peoples' total assets compared to 27.8% at December 31, 2014. 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 are comprised of common stocks issued by various unrelated banking 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 OPERATION" of this Form 10-K.

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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 OPERATION" 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 OPERATION" 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 OPERATION" 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, 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

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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 plans, brokerage and insurance services. However, some competitors may have greater resources, including 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 incentives 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, 2015, Peoples had 817 full-time equivalent employees compared to 699 at December 31, 2014. The increase in full-time equivalent employees from December 31, 2014 to December 31, 2015 was largely attributable to the acquisition of NB&T completed on March 6, 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 2016 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 a proprietary interest in the internet domain name "pebo.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.

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.

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Subsidiary Bank

Effective December 30, 2015, Peoples Bank converted from a national banking association into an Ohio state-chartered bank which is a member of the Federal Reserve System. Peoples Bank had no disputes with the Office of the Comptroller of the Currency (the "OCC") in relation to the conversion of Peoples Bank to a state-chartered bank. Peoples Bank is now primarily supervised 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.

Peoples' banking subsidiary will see a reduction in the annual cost associated with regulatory examination fees commencing in 2016, as a result of the change from a national banking association to an Ohio state-charted bank which is a member of the Federal Reserve System.

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 LLC ("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 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.

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. The FDIC has proposed changing 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. The proposed changes would revise the financial ratios method so that it would be based on a statistical model estimating the probability of failure of a bank over three years; update the financial measures used in the financial ratios

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method consistent with the statistical model; eliminate risk categories for established small banks; and use 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 may terminate insurance coverage upon a finding that an insured depository institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition enacted or imposed by the institution's regulatory agency.

Dodd-Frank Act

Federal regulators continue to implement provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"). The Dodd-Frank Act created many new restrictions and an expanded framework of regulatory oversight for financial institutions, including depository institutions. Currently, federal regulators are still in the process of drafting the implementing regulations for some portions of the Dodd-Frank Act. Peoples is closely monitoring all relevant sections of the Dodd-Frank Act to ensure continued compliance with these regulatory requirements. The following discussion summarizes significant aspects of the Dodd-Frank Act that are already affecting or may affect Peoples and Peoples Bank:

- the CFPB has been established and empowered to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws;
- the deposit insurance assessment base for federal deposit insurance has been expanded from domestic deposits to average assets minus average tangible equity;
- the prohibition on the payment of interest on commercial demand deposits has been repealed;
- the standard maximum amount of deposit insurance per customer has been permanently increased to $250,000;
- new corporate governance requirements require new compensation practices, including, but not limited to, providing shareholders the opportunity to cast a non-binding vote on executive compensation, requiring compensation committees to consider the independence of compensation advisors and meeting new executive compensation disclosure requirements;
- the Federal Reserve Board has established rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion. Although the cap is not applicable to Peoples Bank, it may have an adverse effect on Peoples Bank as the debit cards issued by Peoples Bank and other smaller banks, which have higher interchange fees, may become less competitive;
- new capital regulations have been adopted as discussed below in the section captioned "Capital Adequacy and Prompt Corrective Action";
- "ability to repay" regulations generally require creditors to make a reasonable, good faith determination (considering at least 8 specified underwriting factors) of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage or temporary loan) and provides a presumption that the creditor making a "qualified mortgage" satisfied the ability-to-repay requirements; and
- the authority of the Federal Reserve Board to examine financial holding companies and their non-bank subsidiaries was expanded.

Some aspects of the Dodd-Frank Act are still subject to rulemaking and will take effect in the coming years, making it difficult to anticipate the full financial impact on Peoples, its subsidiaries, their respective customers or the financial services industry more generally. However, the implementation of certain provisions have already increased compliance costs and the implementation of future provisions will most likely further increase both compliance costs and fees paid to regulators, along with possibly restricting the operations of Peoples and its subsidiaries.

Bank Holding Company Act

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

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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.

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 federal regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements within such categories. The federal regulatory agencies, including the Federal Reserve Board and the 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".

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The federal banking 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 OCC and the FDIC have adopted risk-based capital guidelines for 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 applicable to smaller banking organizations which also implement certain of the provisions of the Dodd-Frank Act (the "Basel III Capital Rules"). 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.

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 starting 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. See 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, 2015, 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 resulted in an overall rating of "Satisfactory".

Dividend Restrictions

Current federal 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. 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 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 Reserve Board, the OCC and the FDIC 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.

Pursuant to the Joint Guidance, the Federal Reserve Board will review, as part of a regular, risk-focused examination process, the incentive compensation arrangements of financial institutions such as Peoples and Peoples Bank. Such reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination and deficiencies will be incorporated into the institution's supervisory ratings, which can affect the institution's ability to complete acquisitions and take other actions. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness, and prompt and effective measures are not being taken to correct the deficiencies.

On February 7, 2011, federal banking regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the "Proposed Joint Rules"). The

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. The Proposed Joint Rules: (1) prohibit covered financial institutions from maintaining incentive-based compensation arrangements that encourage covered persons to expose the institution to inappropriate risk by providing the covered person with "excessive" compensation; (2) prohibit covered financial institutions from establishing or maintaining incentive-based compensation arrangements for covered persons that encourage inappropriate risks that could lead to a material financial loss; (3) require covered financial institutions to maintain policies and procedures appropriate to their size, complexity and use of incentive-based compensation to help ensure compliance with the Proposed Joint Rules; and (4) require covered financial institutions to provide enhanced disclosure to regulators regarding their incentive-based compensation arrangements for covered persons within 90 days following the end of the fiscal year.

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. Such legislation may continue to change banking statutes 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, the nature and extent of future legislative and regulatory changes affecting financial institutions remains very unpredictable.

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 or amendment 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. Economic turmoil in Europe 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 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 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, we may issue equity securities in connection with acquisitions which could dilute the economic and voting interests of our shareholders.

- 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, and secondarily the FDIC. 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

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devote significant time and resources to defending its business and may lead to penalties that materially affect Peoples and its shareholders.

In light of current conditions in the global financial markets and the global economy, 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.

- Recently enacted and further financial regulatory reforms may adversely impact Peoples’ results of operations and financial condition.

On July 21, 2010, the Dodd-Frank Act was signed into law. The Dodd-Frank Act and regulations adopted under it constituted a major change in the financial services industry throughout the United States and have significantly impacted the way in which Peoples and Peoples Bank conduct business. Some provisions of the Dodd-Frank Act remain to be implemented and interpreted by the banking regulators and the SEC, and the full effect of that law is not yet known. Nonetheless, the parts of the law and regulations that have been implemented have already resulted in increased compliance costs and may result in increased fees paid to regulators, as well as restrictions on the operations of Peoples and its subsidiaries, all of which may have a material adverse effect on the results of operations and financial condition of Peoples.

- 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 additional 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 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.

- 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 have increased in recent years 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 continue to 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. In addition, the FDIC has proposed changes to its assessment system for banks with less than $10 billion in assets that have been insured by the FDIC for at least five years. It is uncertain how a final new assessment system might affect Peoples Bank's deposit insurance premiums in the future.

- 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. 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 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

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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 interest rates, which may be beyond Peoples' control, and these 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") may change its requirements for establishing the allowance. Any required increase in the allowance for loan losses would be a capital charge at adoption and the future impact could potentially decrease Peoples' pretax and net income going forward.

- 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.

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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 loan 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

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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 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.

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- 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. 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. 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 which are 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.

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- 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 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. 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.

- 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, 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, Lowell, Maineville, Marietta (5 offices), Mason, McConnelsville, Milford, Mount Orab, Mount Vernon, Munroe Falls, Nelsonville, New Philadelphia, New Vienna, Newark, Norton, Owensville, Pomeroy (2 offices), Sabina, Sardina, Springboro, The Plains, Waynesville, Wellston, Williamsburg, Wilmington (3 offices), Worthington and Zanesville. In West Virginia, Peoples Bank operates offices in Charleston, Huntington (2 offices), 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 and Russell. Of these 78 offices, 17 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 and Lebanon, Ohio, and in Pikeville, Kentucky.

Rent expense on the leased properties totaled $959,000 in 2015, compared to $934,000 in 2014, which excludes intercompany rent expense. The following are the only properties that have a lease term expiring on or before June 2017:

Location	Address	Lease Expiration Date [a]
Jackson Insurance Office	78 Broadway Street Jackson, Ohio	May 2016
Owensville Office	227 West Main Street Owensville, Ohio	June 2016
Lebanon Insurance Office	46 North Broadway Street Lebanon, Ohio	July 2016
The Plains	70 N. Plains Road The Plains, Ohio	December 2016
Pikeville Insurance Office	233 Cassidy Boulevard Suite 2 Pikeville, Kentucky	February 2017
Beachwood Office	24400 Chagrin Blvd Beachwood, Ohio	March 2017
Lancaster Fair Avenue Office	2211 West Fair Ave Lancaster, Ohio	March 2017
Marietta Kroger	40 Acme Street Marietta, Ohio	March 2017

[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.

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, 2015, Peoples had approximately 2,456 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
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
2014			
Fourth Quarter	$26.65	$23.39	$0.15
Third Quarter	28.00	23.00	0.15
Second Quarter	27.36	23.58	0.15
First Quarter	26.10	20.29	0.15

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, 2015:

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, 2015	2,053	(2)(3)	$19.59	(2)(3)	—	—
November 1 - 30, 2015	1,811	(2)	$20.70	(2)	—	$20,000,000
December 1 - 31, 2015	850	(2)	$18.89	(2)	—	$20,000,000
Total	4,714		$19.89		—	

(1) On November 3, 2015, 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 2015. Additional information regarding the share repurchase program can be found in Note 10 of the Notes to the Consolidated Financial Statements included immediately following "ITEM 9B - OTHER INFORMATION" of this Form 10-K.

(2) Information includes 398 common shares, 1,484 common shares, and 200 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 1,655 common shares, 327 common shares, and 650 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, 2010, 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 RETURN AMONG
PEOPLES BANCORP INC., NASDAQ STOCKS (U.S. COMPANIES),
AND NASDAQ BANK STOCKS

	At December 31,					
	2010	2011	2012	2013	2014	2015
Peoples Bancorp Inc.	$ 100.00	$ 96.93	$ 136.61	$ 154.29	$ 182.20	$ 136.03
NASDAQ Stocks (U.S. Companies)	$ 100.00	$ 99.21	$ 116.70	$ 163.58	$ 187.84	$ 201.19
NASDAQ Bank Stocks	$ 100.00	$ 89.47	$ 106.09	$ 150.36	$ 157.75	$ 171.70

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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,				
	2015	2014	2013	2012	2011
Operating Data (a)					
Total interest income	$ 108,333	$ 80,200	$ 67,071	$ 69,470	$ 75,133
Total interest expense	10,721	10,694	11,686	14,995	21,154
Net interest income	97,612	69,506	55,385	54,475	53,979
Provision for (recovery of) loan losses	14,097	339	(4,410)	(4,716)	7,998
Net (loss) gain on investment securities and other transactions	(1,059)	(33)	334	(778)	(443)
Total non-interest income	47,441	40,053	37,220	34,971	32,944
FDIC insurance expense	2,084	1,260	1,036	1,002	1,867
Other expense	112,997	83,749	67,229	62,472	59,464
Preferred dividends (b)	—	—	—	—	1,343
Net income available to common shareholders	$ 10,941	$ 16,684	$ 17,574	$ 20,385	$ 11,212
Balance Sheet Data (a)					
Total investment securities	$ 868,830	$ 713,659	$ 680,526	$ 709,085	$ 669,228
Loans, net of deferred fees and costs	2,072,440	1,620,898	1,196,234	985,172	938,506
Allowance for loan losses	16,779	17,881	17,065	17,811	23,717
Total intangible assets	149,617	109,158	77,603	68,525	64,475
Total assets	3,258,970	2,567,769	2,059,108	1,918,050	1,794,161
Non-interest-bearing deposits	717,939	493,162	409,891	317,071	239,837
Brokered certificates of deposits	33,857	39,691	49,041	55,599	64,054
Other interest-bearing deposits	1,784,148	1,400,221	1,121,826	1,119,633	1,047,189
Short-term borrowings	160,386	88,277	113,590	47,769	51,643
Junior subordinated debentures held by subsidiary trust	6,736	—	—	—	22,600
Other long-term borrowings	106,934	179,083	121,826	128,823	142,312
Total stockholders' equity	419,789	340,118	221,553	221,728	206,657
Tangible assets (c)	3,109,353	2,458,611	1,981,505	1,849,525	1,729,686
Tangible equity (c)	270,172	230,960	143,950	153,203	142,182
Per Common Share Data (a)					
Earnings per common share – basic	$ 0.62	$ 1.36	$ 1.65	$ 1.92	$ 1.07
Earnings per common share – diluted	0.61	1.35	1.63	1.92	1.07
Cash dividends declared per common share	0.60	0.60	0.54	0.45	0.30
Book value per common share (d)	22.81	22.92	20.89	21.02	19.67
Tangible book value per common share (c)(d)	$ 14.68	$ 15.57	$ 13.57	$ 14.52	$ 13.53
Weighted-average number of common shares outstanding – basic	17,555,140	12,183,352	10,581,222	10,527,885	10,482,318
Weighted-average number of common shares outstanding – diluted	17,687,795	12,306,224	10,679,417	10,528,286	10,482,318
Common shares outstanding at end of period	18,404,864	14,836,727	10,605,782	10,547,960	10,507,124

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	At or For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Significant Ratios (a)					
Return on average stockholders' equity	2.69 %	6.16 %	7.92 %	9.52 %	5.72 %
Return on average common stockholders' equity	2.69	6.16	7.92	9.52	5.61
Return on average assets	0.35	0.74	0.91	1.11	0.69
Net interest margin	3.53	3.45	3.23	3.36	3.43
Efficiency ratio (c)(e)	75.50	75.37	71.90	69.55	68.98
Pre-provision net revenue to total average assets (f)	0.96	1.10	1.26	1.41	1.41
Average stockholders' equity to average assets	13.09	12.08	11.48	11.63	12.12
Average loans to average deposits	80.08	79.58	70.79	68.23	69.86
Dividend payout ratio	96.35 %	43.10 %	33.20 %	23.58 %	28.35 %
Asset Quality Ratios (a)					
Nonperforming loans as a percent of total loans (d)(g)	0.94 %	0.69 %	0.60 %	1.43 %	3.26 %
Nonperforming assets as a percent of total assets (d)(g)	0.62	0.47	0.39	0.78	1.83
Nonperforming assets as a percent of total loans and other real estate owned ("OREO") (d)(g)	0.98	0.75	0.67	1.52	3.48
Allowance for loan losses as a percent of originated loans, net of deferred fees and costs (d)(i)	1.19	1.48	1.58	1.86	2.53
Allowance for loan losses as a percent of nonperforming loans (d)(g)(i)	86.05	159.58	237.87	125.34	77.26
Provision for (recovery of) loan losses as a percent of average total loans	0.72	0.02	(0.42)	(0.49)	0.84
Net charge-offs (recoveries) as a percent of average total loans (h)	0.78 %	(0.03)%	(0.35)%	0.12 %	1.16 %
Capital Ratios (a)(c)					
Common Equity Tier 1	13.37 %	N/A	N/A	N/A	N/A
Tier 1	13.68	14.32	12.42	14.06	14.86
Total (Tier 1 and Tier 2)	14.55	15.48	13.78	15.43	16.20
Tier 1 leverage	9.52	9.92	8.52	8.83	9.45
Tangible equity to tangible assets (c)	8.69	9.39	7.26	8.28	8.22

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

(b) Amounts relate to Series A Preferred Shares issued and sold by Peoples in connection with its participation in the TARP Capital Purchase Program.

(c) These amounts represent non-GAAP financial measures since they exclude the balance sheet impact of intangible assets acquired through acquisitions on both total stockholders’ equity and total assets. Additional information regarding the calculation of these measures 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”.

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

(e) Total other expense (less intangible asset amortization) as a percentage of fully tax-equivalent net interest income plus non-interest income (which excludes gains or losses on investment securities, asset disposals and other transactions). Additional information regarding the calculation of these measures 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”.

(f) These amounts represent non-GAAP financial measures since they exclude the provision for loan losses and all gains and losses included in earnings. Additional information regarding the calculation of these measures 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”.

(g) 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.

(h) 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%.

(i) The decrease is 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".

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

(2) Peoples' ability to integrate the NB&T acquisition and any future acquisitions may be unsuccessful, or may be more difficult, time-consuming or costly than expected;

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

(4) 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;

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

(6) 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 and interest rate sensitivity;

(7) 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;

(8) adverse changes in economic conditions and/or activities, including, but not limited to, continued economic uncertainty in the U.S., the European Union, Asia, and other areas, which could decrease sales volumes and increase loan delinquencies and defaults;

(9) legislative or regulatory changes or actions, promulgated and to be promulgated thereunder by the State of Ohio, the Federal Deposit Insurance Corporation, 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 Act;

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

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

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

(13) adverse changes in the conditions and trends in the financial markets, including political developments, which may adversely affect the fair value of securities within Peoples' investment portfolio, the interest rate sensitivity of Peoples' consolidated balance sheet, and the income generated by Peoples' trust and investment activities;

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

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

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

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(17) 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;

(18) 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;

(19) 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;

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

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

(22) 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 results and condition 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 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 will continue to operate under the trade name and federally registered service mark "Peoples Bank." Additionally, Peoples' banking subsidiary will see 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 February 24, 2016, Peoples had repurchased an aggregate of 253,870 common shares with a total cost of $4.5 million, although none of these common shares was purchased in 2015.

On July 24, 2015, Peoples repaid the principal balance of the $12.0 million term loan then outstanding under the Amended Loan Agreement described in Note 9 of the Notes to the Consolidated Financial Statements. There were no early termination fees associated with the repayment. The revolving credit loan commitment available under the

Amended Loan Agreement remains outstanding.

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.

At the close of business on March 6, 2015, Peoples completed the acquisition of NB&T Financial Group, Inc. ("NB&T"). Under the terms of the merger agreement, Peoples paid $7.75 in cash and 0.9319 in Peoples' common shares for each of the 3,442,329 outstanding NB&T common shares for a total consideration of $102.7 million. NB&T merged into Peoples and NB&T's wholly-owned subsidiary, The National Bank and Trust Company, which operated 22 full-service branches in southwest Ohio, merged into Peoples Bank. The acquisition added $384.6 million of loans and $629.5 million of deposits at the acquisition date, after acquisition accounting adjustments.

At the close of business on October 24, 2014, Peoples completed the acquisition of North Akron Savings Bank ("North Akron") and its 4 full-service offices in Akron, Cuyahoga Falls, Munroe and Norton, Ohio. Under the terms of the merger agreement, Peoples paid $7.655 of consideration per share of North Akron common stock, or $20.1 million, of which 80% was paid in Peoples' common shares and the remaining 20% in cash. The acquisition added $111.5 million of loans and $108.1 million of deposits at the acquisition date, after acquisition accounting adjustments.

At the close of business on August 22, 2014, Peoples completed the acquisition of Ohio Heritage Bancorp, Inc. ("Ohio Heritage") and the 6 full-service offices of its subsidiary, Ohio Heritage Bank, in Coshocton, Newark, Heath, Mount Vernon and New Philadelphia, Ohio. Under the terms of the merger agreement, Peoples paid $110.00 of consideration per share of Ohio Heritage common stock, or $37.7 million, of which 85% was paid in Peoples' common shares and the remaining 15% in cash. The acquisition added $175.8 million of loans and $174.9 million of deposits at the acquisition date, after acquisition accounting adjustments.

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.

At the close of business on May 30, 2014, Peoples completed the acquisition of Midwest Bancshares, Inc. ("Midwest") and the 2 full-service offices of its subsidiary, First National Bank of Wellston, in Wellston and Jackson, Ohio. Under the terms of the merger agreement, Peoples paid $65.50 of consideration per share of Midwest common stock, or $12.6 million, of which 50% was paid in cash and the remaining 50% in Peoples' common shares. The acquisition added $58.7 million of loans and $77.9 million of deposits at the acquisition date, after acquisition accounting adjustments.

In 2015, Peoples incurred an aggregate of $11.3 million of acquisition-related expenses, compared to $5.1 million in 2014 and $1.5 million in 2013, which were primarily severance costs, fees for legal services and other professional services, deconversion costs and write-offs associated with assets acquired.

During 2013, Peoples took steps to reduce its investment in bank-owned life insurance ("BOLI") contracts and redeploy the funds in order to enhance long-term shareholder return. Peoples received proceeds of $43.1 million during 2013 as a result of the liquidation of BOLI contracts, while the remaining cash surrender value of approximately $6.6 million was recorded as a receivable at December 31, 2013. Peoples received the remaining cash surrender value in the first quarter of 2014, in accordance with the terms of the BOLI contracts (collectively, the "BOLI Surrender"). The BOLI Surrender caused Peoples to incur a $2.2 million federal income tax liability in 2013 for the gain associated with the BOLI contracts surrendered.

Peoples periodically has taken actions to reduce interest rate exposure within the investment portfolio and the entire balance sheet, which have included the sale of low-yielding investment securities and repayment of high-cost borrowings. These actions included the sale of $68.8 million of investment securities, primarily low or volatile yielding residential mortgage-backed securities, during the first quarter of 2013. Some of the proceeds from these investment sales were reinvested in securities during the first quarter with the remaining reinvested early in the second quarter of 2013.

As described in Note 11 of the Notes to the Consolidated Financial Statements, Peoples incurred settlement charges of $459,000 during 2015 due to the aggregate amount of lump-sum distributions to participants in Peoples' defined benefit pension plan exceeding the threshold for recognizing such charges during the period. Settlement charges of $1.4 million and $270,000 were recognized during 2014 and 2013, respectively.

On September 17, 2012, Peoples introduced its new brand as part of a company-wide brand revitalization. The brand is Peoples' promise, which is a guarantee of satisfaction and quality. Peoples incurred costs throughout 2013 associated with the brand revitalization, including marketing due to advertisements, and depreciation expense for new assets related to the $5 million branch renovation project. In 2014, Peoples acquired Midwest, Ohio Heritage and

North Akron and in 2015 acquired NB&T and has continued the consistent company-wide brand revitalization in the newly-acquired facilities.

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

In December 2015, the Federal Reserve Board raised short-term rates, including the Federal Funds Rate and the Discount Rate, 0.25%, to a range of 0.25% to 0.50% for the Federal Funds Rate and 1.00% for the Discount Rate. The Federal Reserve Board had previously maintained its target Federal Funds Rate at a historically low level of 0% to 0.25% since December 2008 and had maintained the Discount Rate at 0.75% since December 2010. The Federal Reserve Board has indicated the possibility that these short-term rates could again be raised in 2016.

The Federal Reserve ended its program of quantitative easing in the fourth quarter of 2014. Much speculation occurred throughout 2015 as to when the Federal Reserve would begin to raise short-term interest rates. The yield on the 10-year Treasury note began the year with a significant rally, falling from 2.17% to 1.64% during the month of January. The yield peaked half way through 2015 at 2.49%. It fell below 2% again in October and traded in a range between 2.13% and 2.34% during the last two months of the year. Overall, the Treasury yield curve steepened throughout the year with the 30-year bond yield ending 2015 roughly 25 basis points higher than at the beginning of the year.

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.

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

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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, loan quality ratings, value of collateral, 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 the allowance for loan losses will be adequate to cover all losses, but management believes the allowance for loan losses at December 31, 2015 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 26.7% and 27.8% of total assets at December 31, 2015, and December 31, 2014 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 debt security; (2) it is more likely than not that Peoples will be required to sell the debt security before recovery of its amortized cost basis; or (3) Peoples does not expect to recover the entire amortized cost basis of the debt security. In situations where Peoples intends to sell, or when it is more likely than not that Peoples will be required to sell the debt 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, 2015, and concluded no individual securities were other-than-temporarily impaired. Peoples has not recognized an impairment loss in 2015, 2014 or 2013.

Goodwill and Other Intangible Assets

During 2015 and in prior years, Peoples recorded 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 cost of 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 June 30 each year. The goodwill impairment test consists of a two-step process that includes (1) determining if potential goodwill impairment exists and (2) measuring the impairment loss, if any. At June 30, 2015, management's analysis concluded that the estimated fair value of Peoples' single reporting unit exceeded its carrying value. The analysis also included an assessment of events and circumstances considering several key factors such as economic and local market conditions, overall financial performance, changes in management or key personnel, and share price.

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. At December 31, 2015, Peoples completed the interim test for goodwill, and due to potential indicators continued the analysis related to the first step of the goodwill impairment test. Peoples utilized the income approach and market approach analysis in determining that the fair value of the reporting unit exceeded the carrying amount and that the goodwill of the reporting unit was not considered impaired. Therefore, Peoples did not complete the second step of the goodwill impairment test. 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, 2015, 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 that, 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

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deferred tax assets involve differences related to Peoples' allowance for loan losses and accrued employee benefits. At 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 needed at either December 31, 2015 or 2014.

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.

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, 2015 and 2014. 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, 2015, all of Peoples' available-for-sale investment securities were measured using observable market data.

At December 31, 2015, 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 have been 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.

To determine the fair value of its servicing rights ("SRs") each reporting quarter, Peoples provides information representing loan information accompanied by escrow amounts to a third-party valuation firm. The third-party 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 4, 2016, 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 4, 2016, 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.

EXECUTIVE SUMMARY

Net income for the year ended December 31, 2015 was $10.9 million, compared to $16.7 million in 2014 and $17.6 million in 2013, representing earnings per diluted common share of $0.61, $1.35 and $1.63, respectively. The decrease in earnings during 2015 was primarily driven by provision for loan losses of $14.1 million coupled with $11.3 million of acquisition-related costs. The decrease in 2014 from 2013 was primarily driven by acquisition-related costs of $5.1 million and pension settlement charges of $1.4 million. Earnings in 2013 were impacted by additional operating costs associated with various strategic investments to grow revenue and a lower recovery of loan losses.

In 2015, Peoples had a provision for loan losses of $14.1 million related primarily to the charge-off of one large commercial loan relationship coupled with loan growth and downward trends in criticized loans. Peoples recorded net charge-offs of $15.2 million for 2015, compared to net recoveries of $0.5 million and $3.7 million, respectively, for 2014 and 2013, respectively. The provision for or recovery of loan losses represented amounts needed, in management's opinion, to maintain the appropriate level of the allowance for loan losses.

Year-over-year income and expense was largely effected by the acquisitions completed in 2014 and 2015. In 2014, Peoples acquired Midwest on May 30, Ohio Heritage on August 22, and North Akron on October 24, and in 2015, Peoples acquired NB&T on March 6. Due to the timing of the acquisitions, 2015 included a full year impact of the 2014 acquisitions compared to only a partial impact in 2014. In 2015, NB&T income and expenses were included beginning on March 6, 2015.

Net interest income grew 40% to $97.6 million in 2015 compared to $69.5 million in 2014 and $55.4 million in 2013, mostly due to higher loan balances in connection with the recent acquisitions, coupled with organic loan growth. Net interest margin was 3.53% in 2015, higher than the 3.45% in 2014 and 3.23% in 2013. The increase in 2015 was due to accretion income from the completed acquisitions, organic loan growth, change in asset mix and a reduction in funding costs. Accretion income from acquisitions added approximately 17 basis points to net interest margin in 2015 compared to 13 basis points in 2014 and 4 basis points in 2013. The increase in net interest margin in 2014 was mostly due to higher loan balances in connection with acquisitions and organic loan growth. The decrease in net interest margin during 2013 was largely a result of the low interest rate environment, which put downward pressure on asset yields.

Total non-interest income, which excludes gains and losses on investment securities, asset disposals and other transactions, increased 18% in 2015 compared to 2014 and increased 8% comparing 2014 to 2013. During 2015, electronic banking income grew 35%, or $2.3 million, trust and investment income increased 25%, or $1.9 million, service charges on deposit accounts grew 18%, or $1.7 million and bank owned life insurance income increased $0.5 million. 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 increased 35%, or $30.1 million, for the year ended December 31, 2015, due largely to a full year of expenses related to the 2014 acquisitions and approximately nine months of expenses related to the NB&T acquisition. The NB&T acquisition added 22 additional branches which increased net occupancy and equipment, higher salaries and employee benefits, due to additional employees, increased intangible asset amortization and increased electronic banking expense. Acquisition-related expenses included in other expenses during 2015 were $10.7 million, compared to $4.8 million in 2014 and $1.4 million in 2013.

At December 31, 2015, total assets were up 27%, or $691.2 million to $3.26 billion versus $2.57 billion at year-end 2014. The increase was primarily related to the acquisition of $710.5 million in assets during 2015. Excluding the impact of the loans acquired in the NB&T acquisition, loan balances grew 7% or $451.6 million for the year. The allowance for loan losses decreased $1.1 million to $16.8 million, or 1.19% of originated loans, net of deferred fees and costs, compared to $17.9 million and 1.48% at December 31, 2014. Total investment securities grew to $868.8 million, or 26.7% of total assets at December 31, 2015, compared to $713.7 million, or 27.8% of total assets at the prior year-end.

Total liabilities were $2.84 billion at December 31, 2015, up $611.5 million since December 31, 2014. Contributing to this increase were acquired deposits of approximately $629.5 million. Non-interest-bearing deposits comprised 28.7% of total retail deposits at December 31, 2015, versus 26.0% at year-end 2014. At December 31, 2015, total borrowed funds were $274.1 million, up $6.7 million compared to the prior year-end, as Peoples assumed $6.6 million from the NB&T acquisition.

At December 31, 2015, total stockholders' equity was $419.8 million, up $79.7 million from December 31, 2014. The increase in common stock within total stockholders' equity was primarily due to the common shares issued in connection with 2015 acquisition of NB&T which had a value of $76.0 million. Peoples' regulatory capital ratios remained significantly higher than "well capitalized" minimums. Peoples' Tier 1 Capital ratio decreased to 13.68% at December 31, 2015, versus 14.32% at December 31, 2014, while the Total Capital ratio was 14.55% versus 15.48% at December 31, 2014. In addition, Peoples' tangible equity to tangible assets ratio was 8.69% and tangible book value per share was $14.68 at December 31, 2015, versus 9.39% and $15.57 at December 31, 2014, 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:

(Dollars in thousands)	2015 Average Balance	Income/ Expense	Yield/Cost	2014 Average Balance	Income/ Expense	Yield/Cost	2013 Average Balance	Income/ Expense	Yield/Cost
Short-term investments	$50,858	$123	0.24 %	$15,394	$1	0.01 %	$16,154	$94	0.59 %
Other long-term investments	1,261	12	0.95 %	1,913	8	0.42 %	743	2	0.27 %
Investment Securities (1)(2):									
Taxable	727,239	18,235	2.51 %	630,057	17,023	2.70 %	646,884	17,036	2.63 %
Nontaxable	106,518	4,603	4.32 %	59,759	2,785	4.66 %	50,487	2,462	4.87 %
Total investment securities	833,757	22,838	2.74 %	689,816	19,808	2.87 %	697,371	19,498	2.79 %
Loans (2)(3):									
Commercial real estate, construction	64,421	2,730	4.24 %	44,205	1,808	4.09 %	35,494	1,569	4.36 %
Commercial real estate, other	692,773	31,781	4.59 %	494,440	22,724	4.60 %	391,965	18,882	4.75 %
Commercial and industrial	329,030	14,003	4.26 %	250,248	11,079	4.43 %	190,414	7,960	4.12 %
Residential real estate (4)	554,909	24,554	4.42 %	345,398	16,051	4.65 %	253,955	12,089	4.76 %
Home equity lines of credit	99,984	4,575	4.58 %	66,826	2,398	3.59 %	53,350	2,045	3.83 %
Consumer	211,124	9,695	4.59 %	163,691	7,658	4.68 %	121,193	6,143	5.07 %
Total loans	1,952,241	87,338	4.47 %	1,364,808	61,718	4.52 %	1,046,371	48,688	4.62 %
Less: Allowance for loan losses	(19,174)			(17,362)			(17,935)		
Net loans	1,933,067	87,338	4.52 %	1,347,446	61,718	4.58 %	1,028,436	48,688	4.70 %
Total earning assets	2,818,943	110,311	3.91 %	2,054,569	81,535	3.97 %	1,742,704	68,282	3.90 %
Intangible assets	144,013			87,821			72,420		
Other assets	148,897			98,144			117,243		
Total assets	$3,111,853			$2,240,534			$1,932,367		
Deposits:									
Savings accounts	$388,802	$209	0.05 %	$247,419	$135	0.05 %	$200,190	$107	0.05 %
Government deposit accounts	276,367	597	0.22 %	165,622	470	0.28 %	146,955	642	0.44 %
Interest-bearing demand accounts	222,868	178	0.08 %	148,687	124	0.08 %	125,984	101	0.08 %
Money market accounts	384,258	614	0.16 %	293,214	472	0.16 %	259,226	379	0.15 %
Brokered deposits	36,303	1,352	3.72 %	42,598	1,568	3.68 %	51,287	1,871	3.65 %
Retail certificates of deposit	465,861	3,256	0.70 %	383,574	3,337	0.87 %	358,918	3,952	1.10 %
Total interest-bearing deposits	1,774,459	6,206	0.35 %	1,281,114	6,106	0.48 %	1,142,560	7,052	0.62 %
Borrowed Funds:									
Short-term FHLB advances	16,863	42	0.25 %	36,678	47	0.13 %	44,127	55	0.12 %

Retail repurchase agreements	83,574	140	0.17 %	59,362	99	0.17 %	37,167	59	0.16 %
Total short-term borrowings	100,437	182	0.18 %	96,040	146	0.15 %	81,294	114	0.14 %
Long-term FHLB advances	82,184	2,256	2.75 %	80,837	2,299	2.84 %	64,004	2,167	3.39 %
Wholesale repurchase agreements	40,000	1,471	3.68 %	40,000	1,471	3.68 %	40,000	1,471	3.68 %
Other borrowings	13,064	606	4.58 %	17,334	672	3.88 %	22,096	882	3.94 %
Total long-term borrowings	135,248	4,333	3.20 %	138,171	4,442	3.21 %	126,100	4,520	3.57 %
Total borrowed funds	235,685	4,515	1.92 %	234,211	4,588	1.96 %	207,394	4,634	2.23 %
Total interest-bearing liabilities	2,010,144	10,721	0.53 %	1,515,325	10,694	0.71 %	1,349,954	11,686	0.86 %
Non-interest-bearing deposits	663,395			433,798			335,637		
Other liabilities	31,018			20,722			24,865		
Total liabilities	2,704,557			1,969,845			1,710,456		
Total stockholders' equity	407,296			270,689			221,911		
Total liabilities and stockholders' equity	$3,111,853			$2,240,534			$1,932,367		
Interest rate spread		$99,590	3.38 %		$70,841	3.26 %		$56,596	3.04 %
Net interest margin			3.53 %			3.45 %			3.23 %

(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 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 2014 to 2015			Changes from 2013 to 2014		
Increase (decrease) in:	Rate	Volume	Total [1]	Rate	Volume	Total [1]
INTEREST INCOME:						
Short-term investments	$123	$(1)	$122	$(88)	$(5)	$(93)
Other long-term investments	8	(4)	4	2	4	6
Investment Securities (2):						
Taxable	(1,285)	2,497	1,212	437	(449)	(12)
Nontaxable	(216)	2,034	1,818	(113)	436	323
Total investment income	(1,501)	4,531	3,030	324	(13)	311
Loans (2):						
Commercial real estate, construction	67	855	922	(105)	344	239
Commercial real estate, other	(42)	9,099	9,057	(640)	4,482	3,842
Commercial and industrial	(444)	3,368	2,924	596	2,523	3,119
Residential real estate	(802)	9,305	8,503	(293)	4,255	3,962
Home equity lines of credit	777	1,400	2,177	(138)	491	353
Consumer	(143)	2,180	2,037	(508)	2,023	1,515
Total loan income	(587)	26,207	25,620	(1,088)	14,118	13,030
Total interest income	(1,957)	30,733	28,776	(850)	14,104	13,254
INTEREST EXPENSE:						

Deposits:						
Savings accounts	(2)	76	74	2	26	28
Government deposit accounts	(132)	259	127	(246)	74	(172)
Interest-bearing demand accounts	(5)	59	54	4	19	23
Money market accounts	(3)	145	142	40	53	93
Brokered certificates of deposit	18	(234)	(216)	17	(320)	(303)
Retail certificates of deposit	(724)	643	(81)	(871)	257	(614)
Total deposit cost	(848)	948	100	(1,054)	109	(945)
Borrowed funds:						
Short-term borrowings	39	(3)	36	—	32	32
Long-term borrowings	31	(140)	(109)	(405)	327	(78)
Total borrowed funds cost	70	(143)	(73)	(405)	359	(46)
Total interest expense	(778)	805	27	(1,459)	468	(991)
Net interest income	$(1,179)	$29,928	$28,749	$609	$13,636	$14,245

(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)	2015	2014	2013
Net interest income, as reported	97,612	69,506	55,385
Taxable equivalent adjustments	1,978	1,335	1,211
Fully tax-equivalent net interest income	$99,590	$70,841	$56,596

During 2015, Peoples recognized accretion income, net of amortization expense, from acquisitions of $4.8 million, which added approximately 17 basis points to net interest margin, compared to $2.6 million and 13 basis points, and $0.7 million and 4 basis points in 2014 and 2013, respectively. Also during 2015, additional interest income from prepayment fees and interest recovered on nonaccrual loans was $591,000 compared to $240,000 in 2014 and $976,000 in 2013. 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 2015 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 2015, the average monthly principal cashflow was approximately $10.1 million compared to $6.0 million in 2014 and $8.0 million in 2013.

Funding costs have declined since 2013 as Peoples executed a strategy of replacing higher-cost funding with low-cost deposits. In 2015, funding costs decreased 18 basis points, compared to15 basis points in 2014 and 27 basis points in 2013. Additional improvement was due to deploying excess cash on the balance sheet by buying securities in the investment portfolio and paying off a $12.0 million term loan. The continued increase in the balance of low-cost deposits has provided funding for loan growth during these periods.

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 (Recovery of) Loan Losses

The following table details Peoples’ provision for (or recovery of) loan losses recognized for the years ended December 31:

(Dollars in thousands)	2015	2014	2013
Provision for checking account overdrafts	$612	$339	$356
Provision (recovery) of other loan losses	13,485	—	(4,766)
Provision for (recovery of) loan losses	$14,097	$339	$(4,410)
As a percent of average total loans	0.72%	0.02%	(0.42)%

The provision for (or recovery of) 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 2015 was primarily due to the charge-off of one large commercial loan relationship coupled with organic loan growth and downward trends 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. The recovery of loan losses recorded during 2013 was driven mostly by recoveries on commercial real estate loans that had previously incurred charge-offs.

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”.

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)	2015	2014	2013
Net (loss) gain on OREO	$(529)	$(68)	$86
Net (loss) gain on debt extinguishment	(520)	67	—
Net loss on bank premises and equipment	(696)	(430)	(241)
Loss on other assets	(43)	—	—
Net loss on asset disposals and other transactions	$(1,788)	$(431)	$(155)

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. Net losses on bank premises and equipment during 2015, 2014 and 2013 included $575,000, $380,000 and $248,000, respectively, of asset write-offs 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 five primary sources: insurance sales revenues, deposit account service charges, trust and investment activities, electronic banking ("e-banking"), and mortgage 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 32.7% of Peoples' total revenues in 2015, compared to 36.6% in 2014 and 40.2% in 2013. The decline in Peoples' total non-interest income as a percent of total revenue during 2015 and 2014 was primarily due to increased net interest income from recent acquisitions.

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)	2015	2014	2013
Property and casualty insurance commissions	$10,097	$9,981	$9,873
Performance-based commissions	1,625	1,722	804
Life and health insurance commissions	1,756	1,630	1,227
Credit life and A&H insurance commissions	50	38	90
Other fees and charges	255	233	207
Insurance income	$13,783	$13,604	$12,201

Continued increases in life and health insurance commissions over the past three years were the result of acquisitions and increased business. 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)	2015	2014	2013
Overdraft and non-sufficient funds fees	$8,276	$7,177	$7,233
Account maintenance fees	2,126	1,690	1,283
Other fees and charges	443	306	248
Deposit account service charges	$10,845	$9,173	$8,764

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. Peoples typically experiences a lower volume of overdraft and

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non-sufficient funds fees annually in the first quarter attributable to customers receiving income tax refunds, while volumes generally increase in the fourth quarter in connection with the holiday shopping season. 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 rewards 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)	2015	2014	2013
Fiduciary	$6,950	$5,567	$5,103
Brokerage	2,627	2,118	2,019
Trust and investment income	$9,577	$7,685	$7,122

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

(Dollars in thousands)	2015	2014	2013
Trust assets under management	$1,275,253	$1,022,189	$1,000,171
Brokerage assets under management	664,153	590,089	539,384
Total managed assets	$1,939,406	$1,612,278	$1,539,555
Annual average	$1,859,336	$1,576,656	$1,446,291

During 2015, the increase in fiduciary and brokerage revenues and managed assets was impacted by the acquisition of NB&T. Additionally, during 2015, 2014 and 2013, 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 2015, electronic banking income grew $2.3 million, or 35% compared to 2014, due to acquisitions and a continued increase in the volume of debit card transactions. In 2015, Peoples' customers used their debit cards to complete $591 million of transactions, versus $467 million in 2014 and $416 million in 2013.

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 increased 6% in 2015 due to acquisitions and additional market areas, while decreasing 30% in 2014 due to slowed refinancing activity. In 2015, Peoples sold approximately $56.0 million of loans to the secondary market compared to $48.8 million in 2014 and $73.2 million in 2013.

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Non-Interest Expense

Year-over-year expenses were largely effected by the acquisitions completed in 2014 and 2015.

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)	2015	2014	2013
Base salaries and wages	$42,140	$29,265	$24,028
Sales-based and incentive compensation	6,340	7,265	7,110
Employee benefits	6,016	5,880	3,622
Stock-based compensation	1,843	2,111	1,362
Deferred personnel costs	(1,593)	(1,396)	(2,292)
Payroll taxes and other employment costs	4,470	3,468	2,642
Salaries and employee benefit costs	$59,216	$46,593	$36,472
Full-time equivalent employees:			
Actual at end of the period	817	699	546
Average during the period	799	602	531

Base salaries and wages, employee benefits, payroll taxes and other employment costs increased in 2015, 2014 and 2013 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 decreased in 2015, due primarily to corporate goals and incentives not being attained.

The increase in employee benefits as a result of acquisitions was partially offset by a decrease in pension settlement charges which were $0.5 million, $1.4 million and $0.3 million in 2015, 2014 and 2013, 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 2015, Peoples granted restricted shares to non-employee directors, officers and key employees with performance-based vesting periods and time-based vesting periods. Stock-based compensation expense in 2015 was $1.8 million which included $792,000 of expense related to these awards, while the remaining expense recognized was 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 2015, 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 loan originations. Additional information regarding Peoples' loan activity can be found later in this discussion under the caption “Loans”.

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

(Dollars in thousands)	2015	2014	2013
Depreciation	$4,639	$2,986	$2,581
Repairs and maintenance costs	2,908	2,057	1,739
Net rent expense	844	931	925
Property taxes, utilities and other costs	2,816	1,865	1,595
Net occupancy and equipment expense	$11,207	$7,839	$6,840

During 2015, Peoples acquired 22 new offices which resulted in higher depreciation, repairs and maintenance costs, and property taxes, utilities and other costs. In addition, Peoples completed renovations allowing for expanded service areas and efficiencies of operations. During 2014, Peoples acquired 12 new offices which resulted in higher depreciation, repairs and maintenance costs, and property taxes, utilities and other costs. In addition, Peoples completed the renovation of its branch network that began in 2013 and began renovation on newly-acquired branches. Management continues to monitor capital expenditures and explore opportunities to enhance Peoples' operating efficiency.

Professional fees expense represents the cost of accounting, legal and other third-party professional services utilized by Peoples, and increased 29% during 2015. The increase was primarily due to additional costs in relation to increased accounting guidance, yearly audits and executive search fees. Professional fees incurred as a result of acquisition-related activities were $1.7 million in 2015, compared to $2.0 million and $448,000 in 2014 and 2013, respectively.

Peoples' e-banking expense, which is comprised of bankcard, internet and mobile banking costs, increased in 2015, 2014 and 2013 due to additional 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. Additionally, part of the increased e-banking expense in 2014 was due to increased debit card compromises at certain large retail companies.

In 2015, marketing expense, which includes advertising, donation and other public relations costs, increased $0.5 million due primarily to marketing associated with acquired branches and additional community donations in those markets. Marketing expense remained relatively flat in 2014 compared to 2013. Peoples contributed $350,000 in 2015, $300,000 in 2014 and $200,000 in 2013 to Peoples Bancorp Foundation Inc. Peoples formed this private foundation in 2004 to make charitable contributions to organizations within Peoples' primary market area. Future contributions to Peoples Bancorp 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.

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 2015 due to an increase in equity from the issuance of common shares related to acquisitions in 2014 and 2015. In Ohio, 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' intangible asset amortization expense is driven by acquisition-related activity, and increased to $4.1 million in 2015 compared to $1.4 million in 2014. The increase in 2015 relates 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 2015 and 2014 due to the recent acquisitions and new software projects completed.

Peoples' FDIC insurance costs increased during 2015 and 2014 as a 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".

Peoples' efficiency ratio, calculated as non-interest expense less amortization of other intangible assets divided by FTE net interest income plus non-interest income, was 75.50% for 2015, compared to 75.37% for 2014 and 71.90%

for 2013. The increases in 2015 and 2014 were largely a result of one-time costs for acquisitions plus higher salaries and employee benefit costs.

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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 derived from tax-exempt sources. 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 non-interest expense 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 reported in Peoples' Consolidated Financial Statements for the periods presented:

(Dollars in thousands)	2015	2014	2013	2012	2011
Pre-Provision Net Revenue:					
Income before income taxes	$14,816	$24,178	$29,084	$29,910	$17,151
Add: provision for loan losses	14,097	339	—	—	7,998
Add: net loss on debt extinguishment	520	—	—	4,144	—
Add: net loss on loans held-for-sale and OREO	529	95	—	—	926
Add: net loss on securities transactions	—	30	—	—	—
Add: net loss on other assets	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	—	27	86	66	—
Less: net gain on securities transactions	729	428	489	3,548	473
Less: net gain on other assets	—	—	—	—	10
Pre-provision net revenue	$29,972	$24,550	$24,340	$25,972	$25,592
Total average assets	3,111,853	2,240,534	1,932,367	1,841,289	1,811,079
Pre-provision net revenue to total average assets	0.96%	1.10%	1.26%	1.41%	1.41%

During 2015, PPNR was higher while the pre-provision net revenue to total average assets ratio decreased compared to previous years due largely to the increase in net revenue as a result of the completion of the NB&T acquisition and recognition of a full year of revenue for acquisitions completed during 2014 being offset by the increase of average assets which also was reflective of the NB&T acquisition.

Efficiency Ratio

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

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

(Dollars in thousands)	2015	2014	2013	2012	2011
Efficiency ratio:					
Total other expenses	$115,081	$85,009	$68,265	$63,474	$61,331
Less: Amortization of other intangible assets	4,077	1,428	807	509	586
Adjusted total other expenses	111,004	83,581	67,458	62,965	60,745
Total non-interest income	47,441	40,053	37,220	34,971	32,944
Net interest income	97,612	69,506	55,385	54,475	53,979
Add: Fully tax-equivalent adjustment	1,978	1,335	1,211	1,087	1,133
Net interest income on a fully taxable-equivalent basis	99,590	70,841	56,596	55,562	55,112
Adjusted revenue	$147,031	$110,894	$93,816	$90,533	$88,056
Efficiency ratio	75.50%	75.37%	71.90%	69.55%	68.98%

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, 2015, excess cash reserves at the Federal Reserve Bank were $8.7 million, compared to $12.4 million at December 31, 2014. 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 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 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.

In 2014, Peoples' total cash and cash equivalents increased $7.6 million, as cash provided by Peoples' operating activities of $31.5 million was mostly offset by cash used by investing activities of $14.2 million and financing activities of $9.7 million. Cash provided by activities in available-for-sale securities and business combinations of $44.7 million, and $17.1 million, respectively, partially funded loan growth of $76.1 million. Within Peoples' financing activities, the decreases in interest-bearing deposits and short-term borrowings of $56.1 million were tempered by an increase in non-interest bearing deposits of $18.4 million and $40.2 million in proceeds from issuance of common shares.

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)	2015	2014	2013	2012	2011
Available-for-sale securities, at fair value:					
Obligations of:					
U.S. Treasury and government agencies	$—	$1	$20	$26	$32
U.S. government sponsored agencies	2,966	5,950	319	516	13,037
States and political subdivisions	114,726	64,743	50,962	45,668	35,745
Residential mortgage-backed securities	632,293	527,291	510,097	514,096	527,003
Commercial mortgage-backed securities	23,845	27,847	32,304	64,416	37,289
Bank-issued trust preferred securities	4,635	5,645	7,829	10,357	12,211
Equity securities	6,236	5,403	4,577	4,106	3,254
Total fair value	$784,701	$636,880	$606,108	$639,185	$628,571
Total amortized cost	$780,304	$632,967	$621,126	$628,584	$617,128
Net unrealized gain (loss)	$4,397	$3,913	$(15,018)	$10,601	$11,443
Held-to-maturity securities, at amortized cost:					
Obligations of:					
States and political subdivisions	$3,831	$3,841	$3,850	$3,860	$3,525
Residential mortgage-backed securities	35,367	36,945	37,536	33,494	12,776
Commercial mortgage-backed securities	6,530	7,682	7,836	7,921	—
Total amortized cost	$45,728	$48,468	$49,222	$45,275	$16,301
Other investment securities, at cost	$38,401	$28,311	$25,196	$24,625	$24,356
Total investment securities:					
Amortized cost	$826,032	$681,435	$670,348	$673,859	$633,429
Carrying value	$868,830	$713,659	$680,526	$709,085	$669,228

At December 31, 2015, Peoples' investment securities were approximately 26.7% of total assets compared to 27.8% at December 31, 2014, as Peoples continued to focus on reducing the relative size of the investment portfolio. 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 2013, and throughout 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. Since then, Peoples has maintained the size of the held-to-maturity securities portfolio at approximately the same level. The unrealized gain or loss related to held-to-maturity securities does not directly impact 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.

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

(Dollars in thousands)	2015	2014	2013	2012	2011
Residential	$4,201	$14,058	$23,446	$37,267	$58,660
Commercial	—	—	—	—	1,288
Total fair value	$4,201	$14,058	$23,446	$37,267	$59,948
Total amortized cost	$4,331	$13,604	$22,926	$36,395	$59,148
Net unrealized gain	$(130)				